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 FACIL: 50-331 Duane Arnold Energy Center, Iowa Electric Light & Pow      05000331  
 AUTH. NAME      AUTHOR AFFILIATION  
 MCGAUGHY, R. W.      Iowa Electric Light & Power Co.  
 RECIPIENT NAME      RECIPIENT AFFILIATION  
 DENTON, H.      Office of Nuclear Reactor Regulation, Director (post 851125)

SUBJECT: Discusses proposed corporate restructuring plan, per 860618  
 ltr. Forwards proxy statement for annual meeting of  
 shareholders setting forth corporate structure of new  
 entity & schematic representation.

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NOTES:

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	BWR PSB	1 1	BWR RSB	1 1
INTERNAL:	ADM/LFMB	1 0	ELD/HDS2	1 0
	NRR/DHFT/TSCB	1 1	NRR/ORAS	1 0
	<u>REG FILE</u> 04	1 1	RGN3	1 1
EXTERNAL:	EG&G BRUSKE, S	1 1	LPDR 03	1 1
	NRC PDR 02	1 1	NSIC 05	1 1

Iowa Electric Light and Power Company

June 23, 1986  
NG-86-2104

Mr. Harold Denton, Director  
Office of Nuclear Reactor Regulation  
U.S. Nuclear Regulatory Commission  
Washington, DC 20555

Subject: Duane Arnold Energy Center  
Docket No: 50-331  
Op. License No: DPR-49  
Iowa Electric Light and Power Company Holding  
Company

References: 1. Letter, R. McGaughy to H. Denton,  
NG-86-1678, May 20, 1986  
2. Letter, M. Thadani to L. Liu, June 18, 1986

File: A-105, A-107a

Dear Mr. Denton:

This is in response to your staff's letter of June 18, 1986, concerning our proposed corporate restructuring plan. That plan provides for a holding company, IE Industries, Inc., which would own Iowa Electric Light and Power Company (IELP) and, at some later date, also own the non-utility subsidiaries of IELP, the assets of which subsidiaries account for about five percent of IELP's current assets. IELP will continue to be the licensee of the Duane Arnold Energy Center (DAEC) and no transfer of that license will be effected. The NRC staff was advised of this proposed action in a telephone conversation, which was confirmed by letter of May 20, 1986.

We are enclosing for your information the proxy statement for the annual meeting of the shareholders of IELP and prospectus of IE Industries ("Prospectus") which sets forth the corporate structure of the new entity and a schematic representation at page 7. As you will note, ownership of IELP will be changed only to the extent that all of its stock will be held by IE Industries. Upon implementation of the restructuring, former shareholders of IELP will be deemed to own a like number of shares of IE Industries. Accordingly, control of the license for the DAEC, which is now held by IELP and its co-owners and will remain with the same owners, will likewise be unchanged. We nevertheless appreciate the Commission's interest in being kept currently advised of financial resources available to its licensees and the management structure associated with operation of the DAEC.

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Our responses to your staff's questions are as follows:

1. State whether the proposed restructuring might reduce the funds available to IELP to carry out activities under its Operating License. Please discuss the basis for your answer.

Response

In our view, there will be essentially no impact. We base this conclusion on several factors:

- a. The current debt and senior equity securities of IELP will remain at the IELP level. The capacity to issue future securities of those same classes by virtue of mortgageable assets and earning power also remains at the IELP level.
- b. Common equity of IELP at the time of the restructuring will not be changed by the restructuring.
- c. Subsidiaries of IELP will be acquired by purchase by IE Industries, thus there is no diminution of the utility's asset base.

Furthermore, as the Prospectus (p.8) explains:

The utility operations of the Company accounted for approximately 95% of both the assets and revenues and approximately 90% of the net income of the Company and its subsidiaries as of December 31, 1985, and for the year then ended. The Board of Directors and management believe that utility operations will, following the Restructuring and for the foreseeable future, continue to account for the dominant share of the consolidated assets, revenues and net income of Industries.

Accordingly, the restructuring will have essentially no effect on the funds available to IELP to meet its obligations pursuant to Operating License DPR-49.

2. State whether the proposed restructuring might affect management of IELP utility operations. Include in your response a brief discussion of the reporting channels for senior management of the Duane Arnold facility.

Response

The restructuring will have no effect upon the management of IELP's utility operations. No IELP officer or nuclear management positions will be changed by the restructuring. The Senior Vice President, Operations and Production will retain responsibility for nuclear operations and will have no assigned holding company responsibilities. Officer responsibilities at the holding company level will be administrative and financial in nature and will have no direct effect on the management of nuclear operations.

Mr. Harold Denton  
June 23, 1986  
NG-86-2104  
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Mr. Lee Liu, Chairman and Chief Executive of IELP, will also be Chairman and President of IE Industries. We advised the NRC last year of a reorganization of our nuclear operations, consolidating nuclear activities under Mr. Larry D. Root, Senior Vice President, Operations & Production of IELP. Mr. Root has extensive experience in the design and operation of commercial nuclear power facilities. Mr. Root continues to report directly to Mr. Liu. After the restructuring is completed, Mr. Root's responsibilities will remain unchanged; the Manager, Nuclear Division will continue to report to Mr. Root. As noted at pp. 8-9 of the Prospectus, "The Company's [IELP's] business will continue as currently conducted and with the same physical assets and management."

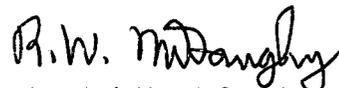
3. State whether IELP, by virtue of the proposed restructuring, has become owned, controlled, or dominated by an alien, a foreign corporation, or a foreign government.

Response

As explained above, on the effective date of the restructuring, IE Industries, Inc. will become the sole holder of IELP stock and the current holders of IELP's common stock will become holders of shares of the common stock of IE Industries on a share-for-share basis. Immediately following restructuring, the shares of IE Industries (an Iowa corporation) will be owned by the holders of IELP common stock in the same proportions in which they currently hold IELP common stock. Foreign-held shares of IELP represent less than one-tenth of one percent of the total outstanding shares. Therefore, the proposed restructuring will have no effect on the likelihood of IELP's becoming owned, controlled, or dominated by foreign interests.

We trust this information is responsive to the Commission's requirements.

Very truly yours,



Richard W. McGaughy  
Manager, Nuclear Division

RWM/SLS/dmb\*

Attachment: IELP Proxy Statement/Prospectus  
April 18, 1986

cc: S. Swails  
L. Liu  
L. Root  
M. Thadani  
NRC Resident Office  
Commitment Control No. 860241



Iowa Electric Light and Power Company

LEE LIU  
CHAIRMAN OF THE BOARD AND PRESIDENT  
CHIEF EXECUTIVE OFFICER

April 18, 1986

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders to be held at the offices of the Company on May 20, 1986, at 2:00 P.M.

The Board of Directors of Iowa Electric Light and Power Company has voted to bring to you, our shareholders, at this Annual Meeting, a proposed restructuring plan for the Company. In order to effect this restructuring, an amendment to the Articles of Incorporation is necessary. We believe the new corporate structure is better suited to meet the future needs of the Company.

The restructuring plan provides for the establishment of a holding company, IE Industries Inc., which would own Iowa Electric Light and Power Company and which would, at a date following the restructuring, also own the non-utility subsidiaries and other equity interests of the Company. The Company believes the adoption of a holding company structure will provide a clearer delineation of utility and non-utility operations and will, in addition, provide greater financial and organizational flexibility to meet the ever changing economic environment in which we operate today. Under the holding company structure, the Company will continue to maintain its high standard of utility service for its electric, gas and steam customers.

After the proposed restructuring, Common Shareholders of Iowa Electric will become the Common Shareholders and owners of IE Industries Inc., the holding company, by receiving one share of IE Industries Inc. for each share of Iowa Electric owned, although an exchange of certificates will not be required. The Board of Directors recommends and expects that IE Industries Inc. will continue the dividend policies and practices now followed by Iowa Electric, since initially the major source of earnings for IE Industries will be from Iowa Electric. The preferred and preference stocks and debt of Iowa Electric will remain with that Company. The restructuring will have no effect on the tax basis of your investment in the Company's Common Stock and it is expected the listing of IE Industries Inc. stock on the New York Stock Exchange will occur at the time of the restructuring.

**YOUR BOARD OF DIRECTORS, FOR THE REASONS SET FORTH ABOVE AND IN THE ACCOMPANYING PROXY STATEMENT/PROSPECTUS, UNANIMOUSLY BELIEVES THE PROPOSED RESTRUCTURING IS IN THE BEST INTERESTS OF IOWA ELECTRIC LIGHT AND POWER COMPANY AND ITS COMMON SHAREHOLDERS. WE URGE YOU TO VOTE "FOR" THIS PROPOSAL.**

In addition to the restructuring proposal, the Company, at the Annual Meeting, will be electing its Board of Directors for the ensuing year and will transact such other business as may come before the meeting.

As a Shareholder, it is in your best interest, as well as helpful to the Board of Directors, that you participate in the affairs of your Company, whether you own a few shares or many shares. ACCORDINGLY, WE HOPE YOU WILL REVIEW THE ENCLOSED MATERIAL CAREFULLY. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE SIGN, DATE AND MAIL YOUR PROXY AS PROMPTLY AS POSSIBLE IN THE ENCLOSED SELF-ADDRESSED ENVELOPE WHICH REQUIRES NO POSTAGE.

Sincerely,

A handwritten signature in black ink, appearing to read 'Lee Liu', written over a white background.

Lee Liu  
Chairman of the Board  
and President

IOWA ELECTRIC LIGHT AND POWER COMPANY

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held May 20, 1986

*To the Common Shareholders of*

IOWA ELECTRIC LIGHT AND POWER COMPANY:

The Annual Meeting of the Shareholders of Iowa Electric Light and Power Company, an Iowa corporation, will be held at the General Offices of the Company, Sixth Floor, ie: Tower, 200 First Street, S.E., in the City of Cedar Rapids, Iowa, on the 20th day of May, 1986, at the hour of 2:00 o'clock in the afternoon (Central Daylight Time) for the following purposes:

1. To elect a board of eleven directors to serve until the next ensuing annual meeting and until their successors are elected and qualified.
2. To approve an amendment to the Articles of Incorporation of the Company to effect the proposed restructuring, as described in the accompanying Proxy Statement, with the result that the Company will become a subsidiary of IE Industries Inc., an Iowa corporation ("Industries"), and the holders of Common Stock of the Company will become the holders of Common Stock of Industries.
3. To transact such other business as may properly come before the meeting or at any adjournment or adjournments thereof.

The Board of Directors, in accordance with the Articles of Incorporation and By-Laws, has fixed the close of business, April 11, 1986, as the record date for the determination of shareholders entitled to notice of and to vote at this meeting and at any and all adjournments thereof.

This Notice, and the Annual Report which was mailed previously, are sent to you by order of the Board of Directors.

J. B. Rehnstrom  
Senior Vice President—Finance  
and Secretary

Cedar Rapids, Iowa  
April 18, 1986

The By-Laws require that the holders of a majority of the shares of stock entitled to vote be represented in person or by proxy at the meeting to constitute a quorum for the transaction of business. Therefore, regardless of the number of shares you hold, it is important that your stock be represented at the meeting.

**PLEASE DATE, SIGN AND MAIL THE PROXY PROMPTLY IN THE ENCLOSED SELF-ADDRESSED ENVELOPE WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES. THE PROMPT RETURN OF YOUR PROXY WILL SAVE THE EXPENSE INVOLVED IN FURTHER COMMUNICATION.**

**THIS DOCUMENT IS BOTH A PROXY STATEMENT FOR THE ANNUAL MEETING OF  
SHAREHOLDERS OF IOWA ELECTRIC LIGHT AND POWER  
COMPANY AND A PROSPECTUS OF  
IE INDUSTRIES INC.**

**IOWA ELECTRIC LIGHT AND POWER COMPANY**

**ie: Tower  
200 First Street, S.E.  
Cedar Rapids, Iowa 52401  
(319) 398-4411**

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**IE INDUSTRIES INC.**

**ie: Tower  
200 First Street, S.E.  
Cedar Rapids, Iowa 52401  
(319) 398-4411**

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Under a restructuring plan described herein (the "Restructuring"); Iowa Electric Light and Power Company (the "Company") will become a subsidiary of IE Industries Inc. ("Industries"), and the holders of the issued and outstanding shares of Common Stock of the Company ("Company Common Stock") will become the holders of the issued and outstanding shares of Common Stock of Industries ("Industries Common Stock"). It is currently contemplated that all of the Company's subsidiaries ultimately will become subsidiaries of Industries.

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**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND  
EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE  
ACCURACY OR ADEQUACY OF THIS PROXY STATEMENT AND PROSPECTUS.  
ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

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**The date of this Proxy Statement/Prospectus is April 18, 1986**

## AVAILABLE INFORMATION

Industries has filed with the Securities and Exchange Commission (the "SEC") a Registration Statement under the Securities Act of 1933, as amended, covering the shares of Industries Common Stock to be issued in the Restructuring. This Proxy Statement/Prospectus does not contain all of the information set forth in the Registration Statement, certain parts of which are omitted in accordance with the rules and regulations of the SEC. Such Registration Statement and the exhibits thereto may be inspected and copied, at prescribed rates, at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the SEC at the following locations: Jacob K. Javits Federal Building, 26 Federal Plaza, New York, New York 10007; Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Illinois 60604; and 5757 Wilshire Boulevard, Los Angeles, California 90036. Copies of such materials can also be obtained from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington D.C. 20549 at prescribed rates.

The Company is subject to the information requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, files reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information filed by the Company with the SEC may be inspected and copied, at prescribed rates, at the public reference facilities maintained by the SEC at the addresses set forth above and at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

## INFORMATION INCORPORATED BY REFERENCE

The following Company documents are hereby incorporated by reference:

1. The Company's Annual Report on Form 10-K for the year ended December 31, 1985.
2. All documents subsequently filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 prior to the date of the Annual Meeting.

**These documents are available without charge upon written or oral request to Mr. J. B. Rebnstrom, Senior Vice President—Finance and Secretary, Iowa Electric Light and Power Company, P. O. Box 351, Cedar Rapids, Iowa 52406, (319) 398-4446. In order to ensure timely delivery of the documents, a request should be made by May 13, 1986.**

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**No person has been authorized to give any information or to make any representation not contained in this Proxy Statement/Prospectus. If given or made, such information or representation must not be relied upon as having been authorized by either the Company or Industries. This Proxy Statement/Prospectus does not constitute an offer to sell or a solicitation of an offer to buy shares of Industries Common Stock by any person in any jurisdiction or in any circumstance in which such offer would be unlawful. Neither the delivery of this Proxy Statement/Prospectus nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Company or Industries since the date of this Proxy Statement/Prospectus or that the information contained herein is correct as of any time subsequent to its date.**

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## PROXY STATEMENT/PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Proxy Statement/Prospectus and in the exhibits hereto.

### Annual Meeting of Shareholders

#### Time, Date and Place

**of Meeting** ..... 2:00 o'clock P.M. (Central Daylight Time), May 20, 1986, the General Offices of the Company, Sixth Floor, ie: Tower, 200 First Street, S.E., Cedar Rapids, Iowa 52406.

**Record Date** ..... April 11, 1986

**Purposes** ..... (1) To elect a board of eleven directors of the Company to serve until the next ensuing annual meeting and/or until their successors are duly elected and qualified.

(2) To act upon a proposed Amendment to the Articles of Incorporation of the Company resulting in the formation of a holding company, Industries, which, by a cancellation and substitution of stock, will own all of the outstanding shares of Company Common Stock.

(3) To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

### Election of Directors of the Company

The Board of Directors of the Company consists of eleven directors. At the meeting to be held on May 20, 1986, the directors are to be elected to serve until the next ensuing annual meeting and/or until their successors are duly elected and qualified. If the proposed Amendment to the Articles of Incorporation of the Company is approved, the members of the Board of Directors of Industries and their terms shall be identical to those in effect for the Company on the effective date of the Amendment.

### Formation of Holding Company

**Holding Company** ..... IE Industries Inc., an Iowa corporation ("Industries"), was formed by the Company for the purpose of engaging in the Restructuring and is not presently engaged in any other business. Its principal executive offices are located at the offices of ie: Tower, 200 First Street, S.E., Cedar Rapids, Iowa 52406; (319) 398-4411.

**The Company** ..... Iowa Electric Light and Power Company, an Iowa corporation (the "Company"), is a public utility engaged primarily in the generation, transmission, distribution and sale of electric energy and in the purchase, distribution and sale of natural gas. Its principal executive offices are located at ie: Tower, 200 First Street, S.E., Cedar Rapids, Iowa 52406; (319) 398-4411.

- The Restructuring** . . . . . Pursuant to the Restructuring, if the proposed Amendment to the Articles of Incorporation of the Company is approved by the holders of the shares of Company Common Stock, Industries will become the sole holder of Company Common Stock and the current holders of Company Common Stock will become the holders of Industries Common Stock on a share for share basis.
- Vote Required** . . . . . Approval of the proposed Amendment to the Articles of Incorporation of the Company will require the affirmative vote of the holders of a majority of the outstanding shares of Company Common Stock. Directors, executive officers and their affiliates hold approximately 0.5% of the outstanding shares of Company Common Stock.
- Dissenters' Rights** . . . . . Holders of Company Common Stock are not entitled to any appraisal or dissenters' rights in connection with the consummation of the Restructuring. See caption "No Dissenters' Rights."
- Tax Consequences** . . . . . The Company has requested a ruling from the Internal Revenue Service that, for federal income tax purposes, the Restructuring will not result in any gain or loss for the holders of Company Common Stock. See caption "Federal Income Tax Consequences."
- Regulatory Requirements** . . . . . No federal or state regulatory requirements or approvals must be complied with or obtained in connection with the Restructuring.

### Selected Consolidated Financial Information

The following table sets forth certain financial information concerning the Company which is derived from audited financial information.

	(in thousands, except per share data)				
	Year Ended December 31				
	1985	1984	1983	1982	1981
<b>Income Statement Data:</b>					
Operating Revenues.....	\$453,262	\$468,228	\$444,713	\$402,847	\$345,590
Net Income .....	23,201	34,432	27,898	27,036	24,095
Net Income Available for Common Stock .....	19,056	30,023	23,289	22,247	19,128
Earnings Per Average Common Share .....	1.47	2.41	2.14	2.15	1.94
Dividends Declared Per Common Share .....	1.91	1.855	1.795	1.735	1.675

	December 31				
	1985	1984	1983	1982	1981
	<b>Capitalization:</b>				
Total Assets .....	\$845,555	\$826,407	\$794,905	\$745,320	\$730,935
Long Term Debt .....	251,396	220,252	233,108	236,965	240,021
Preferred Stock .....	18,320	18,320	18,320	18,320	18,320
Preference Stock .....	33,063	36,156	39,250	42,344	44,438
Common Stock Equity .....	233,633	230,179	214,725	185,785	176,396
Book Value Per Common Share .....	17.73	18.16	17.75	17.69	17.45

#### Pro Forma Data

No pro forma per share data of Industries and subsidiaries following the consummation of the Restructuring are included herein because such data would reflect no change from the per share data of the Company immediately prior to the Restructuring. See "Financial Statements and Accounting Treatment" for the pro forma capitalization of Industries.

#### Market Value of Company Common Stock

The last reported sale price of Company Common Stock on the New York Stock Exchange on February 3, 1986, the date preceding public announcement of the proposed Restructuring, was \$21.50 per share. The last reported sale price of Company Common Stock on the New York Stock Exchange on April 10, 1986, was \$23.125 per share.

# PROXY STATEMENT/PROSPECTUS

## INTRODUCTION

### **Proxy Cards for Record Owners of Common Stock**

This Proxy Statement/Prospectus and the accompanying proxy card are being mailed on April 18, 1986, to each holder of record of Company Common Stock at the close of business April 11, 1986. Proxies in the form enclosed are solicited by the Board of Directors of the Company for use at the Annual Meeting of Shareholders to be held at the principal office of the Company on the Sixth Floor of the ie: Tower, 200 First Street, S.E., in the City of Cedar Rapids, Iowa, on May 20, 1986, at the hour of 2:00 o'clock in the afternoon (Central Daylight Time).

A person giving a proxy may revoke it at any time before it is voted. Any shareholder attending the meeting may, on request, vote his own shares even though he has previously sent in a proxy. Unless revoked, the shares of Common Stock represented by proxies will be voted on all matters to be acted upon at the meeting in accordance with the instructions indicated thereon. If no instructions are indicated on the proxy, it will be voted for the election of the nominees for director named herein and for the proposed Amendment to the Articles of Incorporation of the Company.

All shares of Company Common Stock held for the account of participants in the Company's Dividend Reinvestment and Stock Purchase Plan are held of record by The First National Bank of Chicago and will be voted by the Bank in the same manner as such participants vote their shares held of record.

### **Direction Cards for Participants in the Company's Employee Stock Purchase Plan and Employees' Stock Ownership Plan**

The First National Bank of Chicago is the record owner of all shares of Company Common Stock held for the account of participants in the Company's Employee Stock Purchase Plan. In order to obtain directions as to the voting of such shares, the Bank will forward this same proxy statement, along with a yellow-colored direction card, to each participant in the Purchase Plan. The Bank will vote the shares held for the account of each participant in the Purchase Plan in accordance with the participant's instructions as indicated on the direction card. Similarly, Robert J. Kucharski (Vice President and Treasurer of the Company), as Trustee under the Company's Employees' Stock Ownership Plan, is the record owner of all shares of Company Common Stock held for the account of participants in the Ownership Plan. In order to obtain directions as to the voting of such shares, the Trustee will forward this same proxy statement and a green-colored direction card to each participant in the Ownership Plan. The Trustee will vote the shares held for the account of each participant in the Ownership Plan in accordance with the instructions indicated on the direction card. Thus, if an employee of the Company participates in the Purchase Plan and in the Ownership Plan and is also a record owner of shares of Company Common Stock, such employee will receive a white proxy card, a yellow direction card from the Bank and a green direction card from the Trustee. The yellow and green direction cards must be executed and returned if the shares held pursuant to the respective plans are to be voted; because the participants in such plans are not the record owners of such shares, such shares may not be voted in person by the participants at the Annual Meeting.

### **Cost of Solicitation**

The cost of soliciting proxies for the Annual Meeting (including the costs incurred in connection with soliciting voting directions from participants in the Company's Employee Stock Purchase Plan and Employees' Stock Ownership Plan) will be borne by the Company. Solicitation will be made primarily by mail. However, officers, directors or regular employees of the Company may solicit proxies personally or by telephone or telegraph without special compensation for such service. The Company has retained D. F. King & Co., Inc. to assist it in the solicitation of proxies, for whose services the Company will pay approximately \$13,500 plus out-of-pocket costs and expenses.

The Company will reimburse brokers and other persons holding stock in their names, or in the names of nominees, for their expenses in sending proxy material to the beneficial owners of stock held of record by such brokers or other persons.

### Pnrposes of Meeting

As of this date the only known business to be presented at the Annual Meeting is (1) the election of eleven directors of the Company to serve until the next annual meeting and/or until their successors are duly elected and qualified and (2) the proposed Amendment to the Articles of Incorporation of the Company. The Board of Directors of the Company does not know, as of the date of mailing this Proxy Statement, of any other business to be brought before the meeting. However, the enclosed proxy authorizes the proxy holders named therein to vote on all other matters that may properly come before the meeting and it is the intention of the proxy holders to take such action in connection therewith as shall be in accordance with their best judgment.

### Stock Entitled to Vote

On April 11, 1986, the Company had outstanding 13,359,201 shares of Common Stock. All voting rights are vested in the Company Common Stock except that the holders of Preferred Stock shall have voting rights when voting on mergers, consolidations or the sale of substantially all of the property of the Company or when dividends are in arrears on the Preferred Stock.

There being no condition now existing entitling the holders of Preferred Stock to vote, only the holders of Company Common Stock are entitled to vote at the Annual Meeting.

Each shareholder entitled to vote upon the subjects to be acted upon at the Annual Meeting and at any and all adjournments thereof is entitled to one vote, in person or by proxy, for each share of Company Common Stock registered in his name at the close of business on April 11, 1986.

Shares cannot be voted at the meeting unless the owner is present in person or represented by proxy.

### PROPOSAL NUMBER I—NOMINATION AND ELECTION OF DIRECTORS

Eleven directors will be elected by the holders of Company Common Stock at the Annual Meeting to serve until the next ensuing annual meeting and/or until their respective successors shall have been duly elected and qualified. All of the nominees have previously been elected as directors by the holders of Company Common Stock except Dr. Salomon Levy who was appointed a director November 6, 1985, and all are at present serving as members of the Board of Directors. In the event that any nominee should become unavailable for election, which is not now contemplated, the Board of Directors reserves discretionary authority to designate a substitute nominee. Proxies will be voted for the election of such other nominee or nominees as may be so designated by the Board of Directors.

The nominees, according to information they have supplied, owned beneficially as of February 28, 1986, the number of shares of Company Common Stock shown in the following table which also contains additional information about each nominee.

<u>Name of Nominee and Principal Occupation or Employment</u>	<u>Age</u>	<u>Director Since</u>	<u>Amount and Nature of Beneficial Ownership(1)</u>
Henrietta D. Arnold, Civic and Cultural Affairs, Cedar Rapids, Iowa	64	1983	60,858(2)
Walter E. Brown, President, Kiowa Corporation (Valve and Zinc Die Casting), Marshalltown, Iowa	70	1979	1,357
William O. Gray, Attorney at Law, Cedar Rapids, Iowa	71	1977	1,194

<u>Name of Nominee and Principal Occupation or Employment</u>	<u>Age</u>	<u>Director Since</u>	<u>Amount and Nature of Beneficial Ownership(1)</u>
Dr. Salomon Levy, President, S. Levy, Incorporated (Engineering/Management Consulting), Campbell, California (3)	59	1985	100
Lee Liu, Chairman of the Board, President and Chief Executive Officer of the Company (4)	53	1981	1,512(5)
Dr. Leo L. Nussbaum, President Emeritus, Coe College Cedar Rapids, Iowa, St. Petersburg, Florida(6)	67	1982	600
David Q. Reed, Attorney and Counselor at Law, Kansas City, Missouri	54	1967	3,802
J.B. Rehnstrom, Senior Vice President— Finance and Secretary of the Company(7)	56	1985	3,546(5)
Henry Royer, Chairman of the Board and President, The Merchants National Bank of Cedar Rapids, Cedar Rapids, Iowa(8)	54	1984	458
Richard E. Scherling, Retired Merchant, Cedar Rapids, Iowa	64	1979	1,124
Dr. James A. Van Allen, Carver Professor of Physics, Emeritus University of Iowa, Iowa City, Iowa	71	1970	4,983

- (1) Includes ownership of shares by spouse even though beneficial ownership of such shares may be disclaimed.
- (2) Mrs. Arnold shares voting and investment power with respect to 46,083 shares of Company Common Stock held in certain trusts. Under such trusts and certain additional trusts she also has sole voting and investment power with respect to 8,589 additional shares.
- (3) Prior to resigning from General Electric Company in 1977 to form S. Levy, Incorporated (engineering/management consulting firm), Dr. Levy had been general manager, Boiling Water Reactor Operations for that company. Dr. Levy had been with General Electric since 1954.
- (4) Mr. Liu has been employed by the Company since 1957 and was elected President in August 1982, and Chairman of the Board and President in May 1983. Prior to August 1982, he was Executive Vice President and Senior Vice President—Engineering and Operations.
- (5) Includes shares held pursuant to the Company's Employees' Stock Ownership Plan.
- (6) Dr. Nussbaum was President of Coe College from 1970 until his retirement in August 1982.
- (7) Mr. Rehnstrom has been employed by the Company since 1959. He has served in a number of accounting and financial positions and was named Senior Vice President—Finance and Secretary in 1978.
- (8) Prior to joining The Merchants National Bank of Cedar Rapids in 1983, Mr. Royer had been Executive Vice President since 1981 and Senior Vice President since 1979 of The First National Bank of Duluth, Duluth, Minnesota.

As of February 28, 1986, Mrs. Arnold owned 52 shares of the Company's 4.80% Cumulative Preferred Stock. According to information which has been supplied to the Company, no other nominee owned shares of such class of securities as of such date.

As of February 28, 1986, all nominees and officers as a group, according to information they have supplied, beneficially owned the number of outstanding shares of the classes of equity securities listed below. Neither all nominees and officers as a group nor any individual nominee owned in excess of 0.5% of any class of the Company's equity securities as of February 28, 1986.

<u>Title of Class</u>	<u>Number of Shares(1)</u>
Common Stock .....	93,250(2)
4.80% Cumulative Preferred Stock .....	163

- (1) Includes ownership of shares by spouse even though beneficial ownership of such shares may be disclaimed.
- (2) Includes shares held for the accounts of officers pursuant to the Company's Employees' Stock Ownership Plan.

Certain directors of the Company are directors of other publicly held corporations or banks. Mr. Royer is a director of Banks of Iowa, Inc., a bank holding company; Dr. Van Allen is a director of the First National Bank of Iowa City, Iowa; and Mr. Brown is a director of Security Savings Bank, Marshalltown, Iowa. Mr. Liu is a director of The Merchants National Bank of Cedar Rapids and Mr. Rehnstrom is a director of PB Bancorp of Cedar Rapids, Inc., a bank holding company.

#### **Other Transactions**

Silliman, Gray & Stapleton, a partnership of which Mr. William O. Gray, a nominee for re-election as a director of the Company, is a partner, performed legal services for the Company during the last two years and will render services during 1986 as well.

S. Levy, Incorporated, an engineering/management consulting firm of which Dr. Salomon Levy, a nominee for re-election as a director of the Company, is President, performed consulting services for the Company in 1985, 1984 and 1983 for which it was paid \$424,194, \$354,771 and \$235,050, respectively. The Company has a service contract with S. Levy, Incorporated pursuant to which it supplied these services and under which it will provide services in 1986.

#### **Functioning of the Board of Directors and Committees**

The Company's Board of Directors has an Executive Committee, an Audit Committee and a Nominating Committee. It does not have a Compensation Committee.

Current members of the Executive Committee are Lee Liu, William O. Gray, Richard E. Scherling and Dr. James A. Van Allen. The committee met seven times during 1985. It is empowered with all of the authority vested in the Board of Directors and may act when the Board is not in session. One of its enumerated functions is to fix the compensation of the general officers of the Company, which function would be performed by a compensation committee were there one.

Current members of the Audit Committee of the Board of Directors are Henry Royer, Richard E. Scherling and Dr. James A. Van Allen. The committee met two times during 1985. The principal functions of the committee are to review the Company's internal audit activities, including reviews of internal control procedures; to recommend to the Board an independent public accounting firm to be the Company's auditors; and to approve the audit arrangements and audit results. Both the internal and independent auditors have direct and independent access to the Audit Committee.

Current members of the Nominating Committee of the Board of Directors are Lee Liu, William O. Gray and Walter E. Brown. The committee met two times during 1985. Its principal function is to review and recommend to the Board of Directors nominees to serve on the Board. While there are no formal procedures, the committee considers nominees brought to its attention by other members of the Board, members of management and shareholders.

The Board of Directors of the Company met six times during 1985. In addition, as stated above, the various committees of the Board met an aggregate of eleven times. Of the directors being nominated for re-election, David Q. Reed attended less than 75% of such meetings.

#### Compensation of Executive Officers and Directors

The following table sets forth cash compensation for 1985 for services in all capacities to the Company and subsidiaries by (a) each of the five most highly compensated executive officers of the Company whose aggregate cash compensation exceeded \$60,000 and (b) all executive officers as a group:

<u>Name of Individual or Number in Group</u>	<u>Capacities in Which Served</u>	<u>Cash Compensation(1)</u>
Lee Liu	Chairman of the Board and President	\$182,483
J.B. Rehnstrom	Senior Vice President— Finance and Secretary	112,833
Dr. Samuel J. Tuthill	Senior Vice President— Technical Services	95,011
Larry D. Root	Senior Vice President— Operations and Production	92,160
Robert J. Kucharski	Vice President and Treasurer	88,544
All Executive Officers as a Group (9 in number)		886,459

- (1) Amounts in this column include pro rata allocations to the account of the respective officers under the Company's Employees' Stock Ownership Plan (the "Ownership Plan") for the year 1985, the five percent discount on any shares purchased by them through the Company's Employee Stock Purchase Plan (the "Purchase Plan") and the imputed value of the personal use of a company car. All full-time employees who have completed three full years of continuous employment with the Company or any of its subsidiaries become participants in the Ownership Plan. The Company in its discretion may make annual contributions to the Ownership Plan in an amount up to 1/2 of 1 percent of eligible participants' payroll. The contribution is made in or used to acquire shares of Company Common Stock which are allocated to each participant's account in proportion to each participant's salary, up to a maximum salary of \$100,000. The Purchase Plan is available to all full-time employees after they have completed one year of continuous employment with the Company or any of its subsidiaries. This plan allows employees to purchase Company Common Stock through payroll deductions at a price of 95 percent of its fair market value on the date of purchase.

*Pension Plan:* The Company and its railway subsidiary have a non-contributory Retirement Plan covering employees who have at least one year of accredited service. Directors who are not officers do not participate in the plan. Maximum annual benefits payable at age 65 to participants who retire at age 65 are illustrated in the following table:

Average of Highest Annual Base Salary (Remuneration) for 5 Consecutive Years of the last 10	Estimated Maximum Annual Retirement Benefits Service Years			
	10	20	30	40
\$ 50,000 .....	\$ 6,200	\$12,300	\$18,500	\$25,500
75,000 .....	9,900	19,800	29,700	40,500
100,000 .....	13,700	27,300	40,900	55,500
125,000 .....	17,400	34,800	52,200	70,500
150,000 .....	21,100	42,300	63,400	85,500

With respect to individuals named in the table under "Compensation of Executive Officers and Directors," the remuneration for retirement plan purposes would be substantially the same as that shown as "Cash Compensation" excluding amounts paid as Director fees and allocations under the Ownership Plan. As of December 31, 1985, the officers shown had accredited years of service for the Retirement Plan as follows: Lee Liu, 28 years; J.B. Rehnstrom, 26 years; Larry D. Root, 15 years; Dr. Samuel J. Tuthill, 8 years and Robert J. Kucharski, 11 years. The benefits shown are not subject to offset for Social Security or other benefits.

*Supplemental Retirement Plan:* The Company has a non-qualified supplemental retirement plan for officers of the Company. The plan provides for payment of supplemental retirement benefits equal to 75 percent of the officer's base salary during the 12-month period in which he retires, reduced by benefits receivable under the Company's Retirement Plan, for a period not to exceed 15 years following the date of retirement. In the event of the death of the officer following retirement, similar payments reduced by the joint and survivor annuity of the Retirement Plan, will be made to his designated beneficiary (surviving spouse or dependent children), if any, for a period not to exceed ten years from the date of the officer's retirement. Thus, if an officer died ten years after retirement no payment to the beneficiary would be made. Death benefits are provided on the same basis to a designated beneficiary for a period not to exceed ten years from date of death should the officer die prior to retirement. Under certain circumstances, an officer who takes early retirement will be entitled to reduced benefits under the supplemental retirement plan. The plan also provides for full benefits in the event an officer becomes disabled under the terms of the Retirement Plan. Effective in February 1986, in connection with an early retirement program, the Company amended the non-qualified supplemental retirement plan insofar as it related to certain officers of the Company. Pursuant to such amendment, James M. Davidson, who was Senior Vice President of the Company until his retirement on March 1, 1986 at age 56, will receive retirement benefits under the plan equal to 75% of his base salary during the twelve month period prior to his retirement, reduced by benefits receivable under the Company's Retirement Plan, and further reduced by an actuarial reduction for retirement prior to age 62, offset by a credit for his 26 years of accredited service. The Company has purchased life insurance on the participants, sufficient in amount to fund actuarially all of its future liabilities under the plan and the Company is the owner and beneficiary of all such life insurance. The plan has been designed so that if the assumptions made as to mortality experience, policy dividends, tax credits and other factors are realized, the Company will fully recover all of its premium payments over the life of the plan.

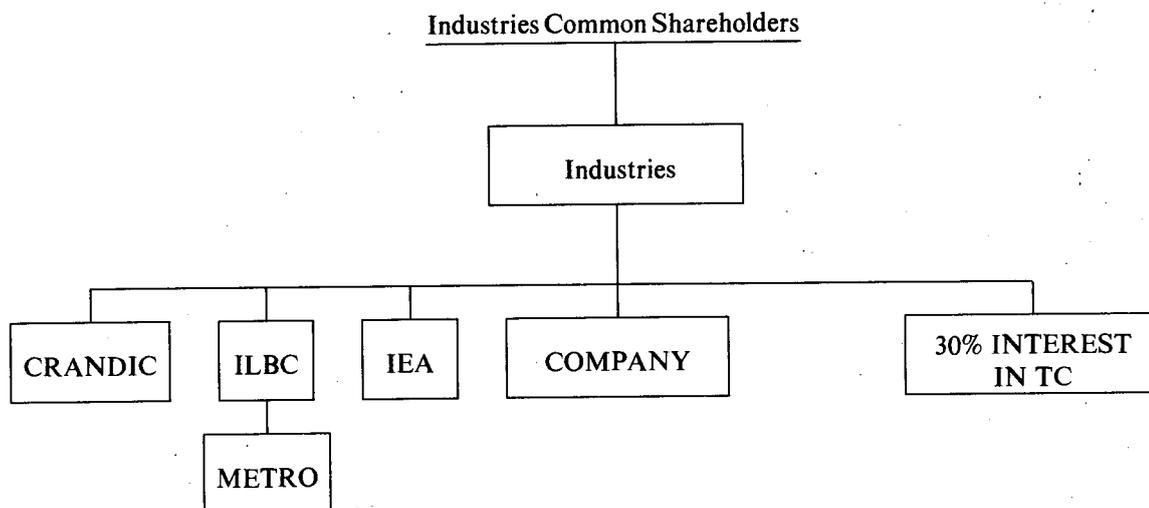
*Compensation of Directors:* Directors receive fees of \$4,500 per year and \$400 per meeting attended, including committee meetings. Directors who are officers do not receive any fees for attendance at meetings of committees of which they are members.

**MANAGEMENT AND THE BOARD OF DIRECTORS OF THE COMPANY RECOMMEND A VOTE "FOR" THE NOMINEES SET FORTH IN PROPOSAL I.**

**PROPOSAL 2—AMENDMENT OF THE ARTICLES OF INCORPORATION  
OF THE COMPANY  
TO EFFECT CORPORATE RESTRUCTURING**

**General**

The Board of Directors of the Company has recommended restructuring the corporate framework under which the operations of the Company and its subsidiaries are currently conducted. As explained below in more detail, after the Restructuring, Industries will own all the Company Common Stock. As an additional step, it is currently contemplated that the Company will ultimately transfer by sale to Industries all of the outstanding shares of capital stock of Cedar Rapids and Iowa City Railway Company (“CRANDIC”), Iowa Land and Building Company (“ILBC”) (and the outstanding shares of Metro Development Company (“Metro”), a wholly owned subsidiary of ILBC) and Industrial Energy Applications, Inc. (“IEA”), as well as the Company’s 30% interest in the capital stock of Teleconnect Company (“TC”). After the Restructuring and assuming the contemplated transfers of these shares take place, the reorganized corporate structure will be as set forth in the following chart.



Industries has been formed under Iowa law as a subsidiary of the Company with the purpose of engaging directly or indirectly in businesses in addition to the Company’s utility operations. Industries will issue approximately 13,000,000 shares of its authorized Common Stock to the Company in exchange for \$150,000, and a portion of such \$150,000 will be used by Industries to purchase 1,000 shares of Company Common Stock in the open market. Just prior to the Effective Date (as hereinafter defined) of the Restructuring, the Company will be issued additional Industries Common Stock to assure that the Company owns one share of Industries Common Stock for each share of Company Common Stock then outstanding (minus the 1,000 shares owned by Industries).

Subject to shareholder approval of the Amendment to the Articles of Incorporation, the Company has declared a contingent distribution of Industries Common Stock to all holders of Company Common Stock of record on the Effective Date except Industries, on the basis of one share of Industries Common Stock for each share of Company Common Stock. **THE COMPANY WILL NOT DISTRIBUTE CERTIFICATES REPRESENTING SHARES OF INDUSTRIES COMMON STOCK. INSTEAD, ON THE EFFECTIVE DATE, EACH CERTIFICATE REPRESENTING SHARES OF COMPANY COMMON STOCK WILL BE DEEMED TO REPRESENT A LIKE NUMBER OF SHARES OF INDUSTRIES COMMON STOCK.** Shares of Company Common Stock credited to the account of participants in the Company’s Dividend Reinvestment and Stock Purchase Plan, the Purchase Plan and the Ownership Plan will, on the Effective Date, represent an equal number of shares of Industries Common Stock without any further action by the participant.

To accomplish the Restructuring, it is proposed that the Articles of Incorporation of the Company be amended (see Exhibit A) (i) to cancel all of the outstanding Company Common Stock except for the 1,000 shares of Company Common Stock held by Industries and (ii) to split such 1,000 shares into that number of shares of Company Common Stock outstanding at the close of business on the day preceding the Effective Date. As a consequence, on the Effective Date, Industries will hold all of the outstanding shares of Company Common Stock and the common shareholders of the Company will hold only shares of Industries Common Stock.

The Restructuring will not involve the transfer of property into or out of any of the companies involved, except as noted above. The number of issued and outstanding shares of Industries Common Stock following the Restructuring will be the same as that of the Company immediately prior to the Restructuring minus the 1,000 shares held by Industries. On the Effective Date, the shares of Industries Common Stock will be owned by the holders of Company Common Stock in the same proportions in which they hold Company Common Stock.

The Company's Preferred and Preference Stock and its First Mortgage Bonds will remain obligations of the Company. (The contemplated transfer of CRANDIC described above must be made in compliance with the requirements of the Indenture of Trust pursuant to which the First Mortgage Bonds have been issued.)

#### **Effective Date of the Restructuring**

If approved, the Restructuring will become effective upon filing of the proposed Amendment to the Articles of Incorporation of the Company with the Secretary of State of Iowa (the "Effective Date"). It is expected that the Effective Date will be on or about June 30, 1986 if the following conditions are met: (i) an Internal Revenue Service ruling is received with respect to certain federal tax consequences and (ii) no other material adverse conditions or consequences exist (see "Abandonment and Termination").

#### **Reasons for the Restructuring**

The Board of Directors and the management of the Company believe that the proposed Restructuring is in the best interests of its customers, employees and investors and will contribute to the long-range financial strength of the present enterprise. The Company believes that a holding company structure, as adopted by a number of other utilities, will provide financial and organizational flexibility. It will also reflect the fact that the Company and certain of its subsidiaries are in different businesses having different requirements and risks.

The utility operations of the Company accounted for approximately 95% of both the assets and revenues and approximately 90% of the net income of the Company and its subsidiaries as of December 31, 1985, and for the year then ended. The Board of Directors and management believe that utility operations will, following the Restructuring and for the foreseeable future, continue to account for the dominant share of the consolidated assets, revenues and net income of Industries. Nevertheless, it is anticipated that separating the utility and utility-related business of the Company from the other subsidiaries will permit those and future subsidiaries to finance their activities and market their products and services more effectively. There are, however, no existing agreements, understandings, or specific plans with respect to new activities of Industries or future subsidiaries following the Restructuring.

The Restructuring provides for a holding company that will not be an operating utility. Under current law, neither Industries nor any of its securities would be subject to the public utility jurisdiction of either the Iowa State Commerce Commission ("ISCC") or the Federal Energy Regulatory Commission ("FERC"). Additionally, Industries is expected to be exempt from the jurisdiction of the SEC under the Public Utility Holding Company Act of 1935 (the "Holding Company Act") except as described herein. As an operating utility, the Company would continue to be subject to the jurisdiction of both the ISCC and the FERC as well as of the Minnesota Public Utilities Commission. The Company's business will continue as currently

conducted with the same physical assets and management. The Board of Directors and management of the Company believe that the proposed Restructuring will not have an adverse effect on the Company, its continuing security holders or its customers.

#### **Contemplated Transfer of Stock of Certain Subsidiaries to Industries**

The Company currently contemplates the ultimate transfer to Industries of the capital stock of CRANDIC, ILBC (and of Metro), IEA and the Company's 30% interest in the outstanding capital stock of TC after the Restructuring. It is currently intended that Industries would acquire such capital stock by purchase and not by dividend.

#### **New York Stock Exchange Listing**

Industries will apply to list its Common Stock on the New York Stock Exchange in substitution for Company Common Stock. It is expected that the listing of Industries Common Stock will occur on or soon after the Effective Date. At the time of the listing of Industries Common Stock, Company Common Stock will be delisted from trading on the New York Stock Exchange.

#### **Federal Income Tax Consequences**

The Company has requested favorable rulings from the Internal Revenue Service that:

1. will allow the Restructuring to be treated as a tax-free transaction to both the shareholders and the Company in terms of not recognizing a gain or loss on the proposed transaction and allowing Industries Common Stock to have the same basis and holding period as Company Common Stock; and
2. will allow Industries to become the common parent for consolidated federal income tax purposes of the group of companies which currently files a consolidated federal income tax return with the Company as common parent.

#### **Articles of Incorporation of Industries**

The Articles of Incorporation of Industries are substantially the same as the present Articles of Incorporation, as amended, of the Company. The Articles of Incorporation of Industries are attached as Exhibit B.

#### **Description of Industries Stock**

The authorized capital stock of Industries consists of 24,000,000 shares of Common Stock, no par value, and 1,000,000 shares of Cumulative Preferred Stock, no par value.

All shares of Industries Common Stock will participate equally with respect to dividends and rank equally upon liquidation. The holder of each share of Common Stock is entitled to one vote. The holders of Industries Common Stock will not have preemptive or subscription rights. All shares of Industries Common Stock are entitled to dividends when and as declared by the Board of Directors of Industries. Upon issuance of the Industries Common Stock to the Company, the shares will be fully paid and nonassessable.

The Cumulative Preferred Stock will be available for acquisitions and raising additional equity if and when the Board of Industries deems it advisable. There are no plans to issue Cumulative Preferred Stock in the foreseeable future.

Transfer agents for Industries Common Stock will be The First National Bank of Chicago and The Merchants National Bank of Cedar Rapids. Registrars will be The First National Bank of Chicago and Peoples Bank and Trust Company (Cedar Rapids).

**Dividend Policy of Industries**

Holders of Industries Common Stock will be entitled to dividends as may be determined from time to time by the Industries Board of Directors. Future dividends will depend upon future earnings, the financial condition of Industries and its subsidiaries (particularly the Company) and other factors, but management expects to recommend to the Industries Board of Directors that dividends commence at the dividend rate currently paid on Company Common Stock and that the Industries dividends be paid on the same quarterly schedule now followed by the Company. The Articles of Incorporation of Industries do not limit the dividends that may be paid on Industries Common Stock. At least initially, however, virtually all of Industries' cash available for dividends will consist of dividends paid to it by the Company (which dividends are currently subject to the limitations set forth in the Indenture of Mortgage and Deed of Trust dated as of August 1, 1940, as amended).

**Management**

The members of the Board of Directors of the Company at the time of the Effective Date will also serve as the Board of Directors of Industries until the annual meeting of the shareholders of Industries in May 1987. See "Nomination and Election of Directors."

It is expected that the following persons, each of whom holds and will continue to hold executive positions with the Company, will hold the offices of Industries indicated below:

- Lee Liu ..... Chairman of the Board and President
- J.B. Rehnstrom ..... Secretary
- Robert J. Kucharski ..... Treasurer

Initially, Industries will not have full-time officers and employees of its own, and directors and officers of Industries will not receive any additional compensation for serving in such capacities. To the extent, however, that the activities of Industries expand, the directors and officers of Industries may receive additional compensation in connection with such increased activity and Industries may employ additional salaried officers. Industries and the Company each expect, from time to time, to render to the other certain services and to make available the use of certain facilities and equipment. The corporation receiving such services or using such facilities and equipment will reimburse the other corporation for the cost thereof.

**Dividend Reinvestment and Stock Purchase Plan**

The Company's Dividend Reinvestment and Stock Purchase Plan (the "Dividend Reinvestment Plan") will be assumed and continued by Industries on the Effective Date, so that Industries common shareholders may reinvest dividends in shares of Industries Common Stock. Shareholders then participating in the Dividend Reinvestment Plan will automatically become participants in the Dividend Reinvestment and Stock Purchase Plan of Industries.

**Employee Stock Plans**

The Company's Purchase Plan and the Ownership Plan (collectively, the "Employee Stock Plans") will be amended on the Effective Date to provide for the issuance or purchase of Industries Common Stock in lieu of Company Common Stock. The Employee Stock Plans, as well as other employee benefit plans of the Company, may be further amended, if and when appropriate, to permit employees of Industries and its subsidiaries to be covered thereby and to effect any other changes necessary as a result of the Restructuring.

By approving the proposed Amendment to the Articles of Incorporation of the Company to effect the Restructuring, the shareholders of the Company will be deemed to have approved the actions to be taken in connection therewith and with the Employee Stock Plans and any plan amendments necessary to accomplish such actions.

## Governmental Regulation

Industries has been advised by counsel that upon the consummation of the Restructuring, Industries will qualify for an exemption from regulation by the SEC under the Holding Company Act on the basis that Industries and the Company are organized in the same state and their businesses are conducted primarily in that state. Approval by the SEC under the Holding Company Act would be required, however, if Industries proposed the acquisition of additional utility subsidiaries. There also may be limits on the extent to which Industries could diversify beyond energy-related fields without affecting its exempt status. Industries has no present intention of becoming a registered holding company subject to regulation under the Holding Company Act. In addition, it is possible that a regulatory agency may attempt to assert jurisdiction over Industries or the Restructuring or that legislation may be proposed to attempt to regulate Industries.

The Company will continue, after the Restructuring, to be subject to the supervision and regulation of the ISCC and FERC, as well as of the Minnesota Public Utilities Commission.

## Financial Statements and Accounting Treatment

The Company's 1985 Annual Report to Shareholders contains Balance Sheets and Statements of Capitalization of the Company as of December 31, 1985 and 1984, and Statements of Income, Statements of Sources of Funds Used for Construction, Statements of Paid-in Surplus and Statements of Retained Earnings for each of the years in the three-year period ended December 31, 1985, notes to financial statements and the related report of Arthur Andersen & Co., independent certified public accountants. See "Experts."

The following table sets forth pro forma condensed balance sheets and statements of income of both the Company and Industries, at December 31, 1985, assuming the effectiveness of the Restructuring and the ultimate transfer by purchase of the shares of CRANDIC, ILBC (including the shares of Metro), IEA and TC by Industries from the Company as of that date.

	<u>Company As Reported</u>	<u>Company Pro Forma(1)</u>	<u>Adjustments and Eliminations(2)</u>	<u>Industries Pro Forma</u>
	(in thousands)			
<b>Condensed Balance Sheets</b>				
<b>Assets:</b>				
Utility plant—net . . . . .	\$661,372	\$661,372	\$	\$661,372
Investments . . . . .	39,555	1,619	37,936	39,555
Current assets . . . . .	88,370	126,156	(37,806)	88,350
Deferred debits . . . . .	56,258	56,258		56,258
<b>Total Assets . . . . .</b>	<u>\$845,555</u>	<u>\$845,405</u>	<u>\$ 130</u>	<u>\$845,535</u>
<b>Capitalization and Liabilities:</b>				
<b>Capitalization—</b>				
Common stock and additional paid in capital . .	\$171,472	\$171,472	\$ 62,141	\$233,613
Retained earnings . . . . .	62,161	62,011	(62,011)	
Preferred and preference stock . . . . .	51,383	51,383	(51,383)	
Minority interest (preferred and preference stock of Company) . . . . .			51,383	51,383
Long-term debt . . . . .	251,396	251,396		251,396
<b>Total Capitalization . . . . .</b>	<u>536,412</u>	<u>536,262</u>	<u>130</u>	<u>536,392</u>
Current liabilities . . . . .	117,857	117,857		117,857
Other long-term liabilities . . . . .	40,387	40,387		40,387
Deferred credits . . . . .	150,899	150,899		150,899
<b>Total Capitalization and Liabilities . . . . .</b>	<u>\$845,555</u>	<u>\$845,405</u>	<u>\$ 130</u>	<u>\$845,535</u>

	<u>Company As Reported</u>	<u>Company Pro Forma(1)</u>	<u>Adjustments and Eliminations(2)</u>	<u>Industries Pro Forma</u>
	(in thousands)			
<b>Condensed Statements of Income</b>				
Operating revenues .....	\$453,262	\$453,262	\$	\$453,262
Operating expenses .....	412,211	412,211		412,211
Operating income .....	41,051	41,051		41,051
Other income (expenses) .....	(17,850)	(20,021)	(1,974)	(21,995)
Net income .....	23,201	21,030	(1,974)	19,056
Preferred and preference stock dividend requirements .....	4,145	4,145	(4,145)	
Net income after dividends on preferred and preference stock .....	<u>\$ 19,056</u>	<u>\$ 16,885</u>	<u>\$ 2,171</u>	<u>\$ 19,056</u>

- (1) To reflect investment in Industries, the Restructuring and the sale of subsidiaries to Industries.  
(2) To reflect transactions of Industries, reclassification of minority interests and elimination of investment in Company and intercompany accounts.

#### **Abandonment and Termination**

The proposed Restructuring is contingent upon the approval by shareholders of the Company (see "Vote Required") of an Amendment to the Articles of Incorporation of the Company cancelling all issued and outstanding Company Common Stock except the 1,000 shares held by Industries and splitting such 1,000 shares held by Industries into an amount equal to that number of shares of Company Common Stock outstanding at the close of business on the day preceding the Effective Date. In the event that shareholders of the Company do not approve the Amendment of the Articles of Incorporation of the Company, the contingent distribution of one share of Industries Common Stock for each share of Company Common Stock will not take place and the Company will dissolve Industries. Therefore, if the Amendment to the Articles of Incorporation of the Company is not approved by the required vote, no aspect of the Restructuring will occur, the Company will continue to operate as it has in the past, and the holders of Company Common Stock will continue to hold the same number of shares of Company Common Stock as they held immediately prior to the Annual Meeting.

The Company may abandon or terminate the Restructuring before or after approval of the Amendment by the shareholders of the Company if, in the judgment of the Board of Directors of the Company, consummation of the Restructuring is deemed inadvisable for any reason.

#### **No Exchange of Certificates Required**

**IT WILL NOT BE NECESSARY FOR SHAREHOLDERS TO EXCHANGE THEIR PRESENT CERTIFICATES REPRESENTING SHARES OF COMPANY COMMON STOCK FOR CERTIFICATES REPRESENTING SHARES OF INDUSTRIES COMMON STOCK.** On the Effective Date, certificates representing shares of Company Common Stock will be deemed for all purposes to represent an equal number of shares of Industries Common Stock. When currently outstanding certificates for Company Common Stock are presented for transfer after the Effective Date, new certificates bearing the name of Industries will be issued. Nevertheless, holders of Company Common Stock who wish to do so may, after the Effective Date, submit their certificates to The First National Bank of Chicago or The Merchants National Bank of Cedar Rapids, as transfer agents, and receive a new certificate or certificates for an equal number of shares of Industries Common Stock. If any certificate is to be reissued in a name other than that in which the certificate surrendered is registered, the person requesting such exchange must pay any transfer or other taxes incident thereto. Shares of Company Common Stock credited to the account of a participant in the Dividend Reinvestment Plan or the Employee Stock Plans will, on the Effective Date, represent an equal number of shares of Industries Common Stock without any further action by the participant.

### **No Dissenters' Rights**

If the Amendment of the Articles of Incorporation of the Company to effect the Restructuring is approved, each shareholder of the Company will be bound by such approval. Under Iowa law, shareholders of the Company are not entitled to, and will not receive, dissenters' or appraisal rights in connection with this transaction.

### **Vote Required**

The proposed Amendment of the Articles of Incorporation of the Company to effect the Restructuring requires the approval of the holders of a majority of the outstanding shares of Company Common Stock entitled to vote thereon.

### **Experts**

The financial statements and schedules included in the Company's Annual Report on Form 10-K for the year ended December 31, 1985, incorporated by reference in this proxy statement and prospectus have been examined by Arthur Andersen & Co., independent public accountants, as indicated in their report with respect thereto, and are incorporated herein by reference in reliance upon the authority of said firm as experts in giving said report. Reference is made to said report in which the opinion is qualified with respect to the effect of such adjustments, if any, as might have been required to the 1985, 1984 and 1983 financial statements had the outcome of the appeal of the Company's 1983 electric rate case and any related refund obligation been known, to the 1985 and 1984 financial statements had a determination of the ultimate recovery of the coal contract termination costs been known and to the 1985 financial statements had a determination of the ultimate recovery of costs associated with the cancelled generation construction projects been known.

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**MANAGEMENT AND THE BOARD OF DIRECTORS OF THE COMPANY RECOMMEND A VOTE "FOR" APPROVAL OF THE AMENDMENT TO EFFECT THE RESTRUCTURING.**

### **LEGAL MATTERS**

Chapman and Cutler, Chicago, Illinois, and Bradley & Riley, P.C., Cedar Rapids, Iowa, will pass upon certain legal matters in connection with the Restructuring, including the validity of the issuance of the Industries Common Stock.

### **INDEPENDENT PUBLIC ACCOUNTANTS**

The Audit Committee recommended and the Board of Directors authorized the engagement of Arthur Andersen & Co. as auditors for the Company and, if the proposed Amendment to the Articles of Incorporation of the Company is approved and the Restructuring is consummated, for Industries, for 1986. They have served as the Company's auditors for 1985 and for many prior years. A representative of Arthur Andersen & Co. will be in attendance at the Annual Meeting and will be available to respond to appropriate questions.

### **SHAREHOLDER PROPOSALS FOR 1987 ANNUAL MEETING**

Shareholders' proposals for the 1987 Annual Meeting of the Company or, if the Restructuring is consummated, Industries, must be received at the principal office of the Company or Industries, as the case may be, no later than December 18, 1986, for inclusion in the 1987 proxy statement and form of proxy.

A copy of the Annual Report of the Company, including financial statements for the fiscal year ended December 31, 1985, will be mailed to shareholders prior to the mailing of this Proxy Statement.

By Order of the Board of Directors

**J. B. REHNSTROM**  
*Senior Vice President—Finance  
and Secretary*

Cedar Rapids, Iowa  
April 18, 1986

**EXHIBIT A**

**Proposed Amendment to the Articles of Incorporation**

**of**

**Iowa Electric Light and Power Company**

**RESOLVED FURTHER** that the Company's Restated Articles of Incorporation be amended as follows:

ARTICLE IV shall have added new Section 7: All of the issued and outstanding shares of Common Stock of the Corporation, except for those shares held by IE Industries Inc., shall be cancelled; and the shares of Common Stock of the Corporation held by IE Industries Inc. shall be split into and become an equal number of shares of Common Stock of the Corporation that was outstanding at the close of business on the day preceding the effectiveness of this Amendment; all without affecting the authorized Capital Stock of the Corporation as described in this Article.

**EXHIBIT B**  
**ARTICLES OF INCORPORATION**  
**OF**  
**IE INDUSTRIES INC.**

The undersigned, acting as incorporators of a corporation under Chapter 496A of the Code of Iowa, as amended from time to time, adopt the following Articles of Incorporation for such corporation:

**FIRST:** The name of this corporation shall be:

**IE Industries Inc.**

**SECOND:** The name of the initial registered agent of the corporation is J.B. Rehnstrom and the address of the registered office is 200 First Street, S.E., Cedar Rapids, Linn County, Iowa, 52401.

**THIRD:** The corporation is organized for the purpose of transacting any or all lawful business for which corporations may be incorporated under Chapter 496A of the Code of Iowa.

**FOURTH:** The aggregate number of shares that the corporation shall have authority to issue is 25,000,000 consisting of 24,000,000 shares of Common Stock, no par value, and 1,000,000 shares of Cumulative Preferred Stock, no par value, cumulative as to dividends, to be issued in series. Each issued and outstanding share of Common Stock will entitle the holder to one vote unless provided otherwise by statute.

Section 1. Subject to the provisions of this Fourth Article and the laws of the State of Iowa, the Board of Directors shall have full power to issue, to sell at prices to be fixed by the Board of Directors, or to exchange for property or outstanding stock of the corporation any shares of any class of stock of the corporation authorized to be issued at such times as may be fixed by the Board of Directors of the corporation.

Section 2. The Board of Directors is authorized to provide for the authorized number and issuance of shares of Cumulative Preferred Stock in series and to fix before issuance the designation, preferences, privileges, and voting powers of the shares of each series and the restrictions or qualifications including the following:

- (a) The rate of dividend;
- (b) The price at and the terms and conditions upon which shares may be redeemed;
- (c) The amount payable upon shares in event of voluntary or involuntary dissolution or liquidation of the corporation;
- (d) Sinking fund provisions, if any, for the redemption or purchase of shares;
- (e) The terms and conditions upon which shares may be converted into shares of other series or other capital stock, if issued with the privilege of conversion; and
- (f) The voting rights, if any.

Section 3. Certificates for shares of capital stock of the corporation shall be in such form as shall be approved by the Board of Directors; provided, however, such certificates shall comply with all of the existing requirements of the laws of the State of Iowa with respect thereto. Shares of stock of the corporation shall be transferable only upon the books of the corporation in person or by attorney, duly authorized in writing. The Board of Directors shall be authorized to appoint registrars and/or transfer agents to act as agents of the corporation in recording transfers and registering ownership of capital stock of the corporation.

Section 4. The shareholders shall have no preemptive right to acquire unissued or treasury shares of the corporation, or securities of this corporation convertible into or carrying a right to subscribe to or acquire shares.

FIFTH: Until the first annual meeting or until their successors are elected and qualified, the initial Board of Directors shall consist of two (2) directors. Thereafter, the Board of Directors shall consist of not less than five (5) directors, who need not be shareholders, and the number of directors shall be fixed and stated in the Bylaws. At the regular annual meeting, the shareholders shall elect the directors to serve for the next year and until their successors are elected and qualified, unless removed in accordance with the laws of the State of Iowa. The following persons shall constitute the initial Board of Directors:

<u>Name</u>	<u>Address</u>
Lee Liu .....	200 First Street, S.E. Cedar Rapids, Iowa 52401
J. B. Rehnstrom .....	200 First Street, S.E. Cedar Rapids, Iowa 52401

SIXTH: The Board of Directors shall adopt Bylaws for the corporation not inconsistent with these Articles or the laws of the State of Iowa and shall have the power to alter, amend, repeal, or adopt new Bylaws.

Section 1. The Bylaws shall fix the annual meeting of shareholders which shall be held at the principal place of business or any place within the State of Iowa as fixed by the Board; however, other meetings of shareholders may be held at such time and place as fixed by the Board.

Section 2. The Board may designate, by resolution adopted by a majority of the full Board of Directors, an Executive Committee from among its members, which shall have and may exercise, to the extent provided in such resolution, all of the authority of the Board granted by the Articles or Bylaws except as prohibited by law. The delegation of authority to an Executive Committee shall not operate to relieve the Board or any director of any responsibility imposed by law.

Section 3. The Board of Directors shall elect a President, a Secretary, a Treasurer, and may elect one or more Vice Presidents and such other officers as may be provided for in the Bylaws or deemed advisable by the Board. Any two offices may be filled by one and the same person subject to any restrictions provided for in the Bylaws.

SEVENTH: The corporation reserves the right to amend, alter, change or repeal any provision contained in these Articles as may now or hereafter be authorized by the laws of Iowa, including any amendments changing the terms of any of its outstanding stock by classification, reclassification, or otherwise. All rights conferred on shareholders are granted subject to this reservation.

EIGHTH: The name and address of each incorporator is:

<u>Name</u>	<u>Address</u>
J. B. Rehnstrom .....	200 First Street, S.E. Cedar Rapids, Iowa 52401
Thomas J. Pitner .....	200 First Street, S.E. Cedar Rapids, Iowa 52401

NINTH: The existence of the corporation shall begin on February 4, 1986.

J. B. REHNSTROM

J. B. Rehnstrom

THOMAS J. PITNER

Thomas J. Pitner