1986

Accounting trends and techniques, 40th annual survey, 1986 edition

American Institute of Certified Public Accountants

1986 Accounting Trends & Techniques

AICPA

1986

Fortieth Edition

Accounting Trends & Techniques

Annual Survey of Accounting Practices
Followed in 600 Stockholders' Reports

AICPA 100
A CENTURY OF PROGRESS
IN ACCOUNTING
1887-1987

American Institute of Certified Public Accountants

1986
Fortieth Edition

Accounting Trends & Techniques

Fortieth annual cumulative survey of the accounting aspects of the annual reports of 600 industrial and merchandising corporations to which are added excerpts from and comments upon unusual accounting treatments found in additional reports. The reports analyzed are those with fiscal years ended not later than February 2, 1986.

Edited by:
Jack Shohet, CPA
Technical Manager, Technical Information Division
Richard Rikert
Coordinator, Editorial

American Institute of Certified Public Accountants

Library of Congress Catalog Card Number: 48-2517

PREFACE

Accounting Trends & Techniques—1986, Fortieth Edition, is a compilation of data obtained by a survey of 600 annual reports to stockholders undertaken for the purpose of analyzing the accounting information disclosed in such reports. The annual reports surveyed were those of selected industrial and merchandising companies for fiscal periods ending between February 22, 1985 and February 2, 1986.

Significant accounting trends, as revealed by a comparison of current survey findings with those of prior years, are highlighted in numerous comparative tabulations throughout this publication. These tables show trends in such diverse accounting matters as financial statement format and terminology and the accounting treatment of transactions and events reflected in the financial statements.

Accounting techniques are illustrated by excerpts from the annual reports of the survey companies and the annual reports of companies not included in the survey which presented items of particular interest or of an unusual nature. References (in the form of a listing of company identification numbers—see the following paragraph) to additional illustrations of an accounting technique may be requested from the American Institute of Certified Public Accountants either by writing or by calling Richard Rikert—(212) 575-6394.

Each of the 600 survey companies included in this edition has been assigned an identification number which is used for reference throughout the text in the discussion of pertinent information. For prior editions (1967-1985), the same identification number was used for a company while that company was included in the survey. When a company was deleted from the survey, its identification number was not reused. For this edition new identification numbers have been assigned to facilitate preparation of the text.

The American Institute of Certified Public Accountants has established the National Automated Accounting Research System (NAARS) as an additional means of information retrieval. NAARS includes a computerized data bank consisting of the full text of several thousand company annual reports to stockholders supplemented by a literature file of authoritative pronouncements. Information may be retrieved through individual computer terminal subscription or by requesting Institute personnel to perform searches on an AICPA terminal. For further information concerning NAARS, contact Hal Clark, American Institute of Certified Public Accountants, 1211 Avenue of the Americas, New York, NY 10036. Telephone (212) 575-6393.

Special acknowledgement is due to Matthew Calderisi, CPA; J. Richard Chaplin, CPA; Gregory Frydman, CPA; William A. Godla, CPA; Toni Monier, CPA; Joseph M. Nestor, CPA; John G. Pate, Jr., CPA; and Anthony Tarallo, CPA for their assistance in the analysis of the financial reports and preparation of the manuscript.

John Graves, Director, Technical Information Division
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Trends (212) 575-6394
NAARS (212) 575-6393
Order Department (212) 575-6426

AICPA Technical Hotline
(800) 223-4158 (Except New York)
(800) 522-5430 (New York Only)

Table of Contents

Section 1: General

Section 2: Balance Sheet

Section 3: Income Statement

Section 4: Stockholders' Equity

Section 5: Statement of Changes in Financial Position

Section 6: Auditors' Report

Section 1: General

TABLE 1-1: INDUSTRY CLASSIFICATIONS

	1985	1984	1983	1982
Foods:				
Meat products	7	8	8	8
Dairy Products	4	4	5	4
Canning, etc.	4	4	5	6
Packaged and bulk	18	17	18	18
Baking	4	4	3	3
Sugar, confections, etc.	4	5	5	5
Beverages	6	5	6	6
Tobacco products	5	5	5	5
Textiles	22	24	25	26
Paper products	20	18	18	17
Printing, publishing	17	16	15	14
Chemicals	25	25	26	26
Drugs, cosmetics, etc.	27	29	27	27
Petroleum	29	30	31	29
Rubber products, etc.	9	10	8	9
Shoes—manufacturing, merchandising, etc.	8	8	7	7
Building:				
Cement	3	2	3	3
Roofing, wallboard	11	11	11	11
Heating, plumbing	3	3	4	4
Other	18	19	17	18
Steel and Iron	16	16	16	18
Metal—nonferrous	17	16	16	16
Metal fabricating	18	18	18	20
Machinery, equipment and supplies	38	39	39	37
Electrical equipment, appliances	20	19	19	18
Electrical, electronic equipment	31	30	29	30
Business equipment and supplies	20	17	18	16
Containers—metal, glass, etc.	11	9	9	9
Autos and trucks (including parts, accessories)	25	22	22	23
Aircraft and equipment, aerospace	10	13	13	14
Railway equipment, shipbuilding, etc.	6	6	6	5
Controls, instruments, medical equipment, watches and clocks, etc.	18	19	17	16
Merchandising:				
Department stores	7	8	8	8
Mail order stores, variety stores	2	2	2	2
Grocery stores	17	18	20	20
Other	6	5	6	6
Motion pictures, broadcasting	6	6	5	5
Widely diversified, or not otherwise classified	88	90	90	91
Total Companies	**600**	**600**	**600**	**600**

THIS SECTION OF THE SURVEY is concerned with general information about the 600 companies selected for the survey and with certain accounting information usually disclosed in notes accompanying the basic financial statements.

COMPANIES SELECTED FOR SURVEY

All 600 companies included in the survey are registered with the Securities and Exchange Commission and are reported in either *Moody's Industrial Manual* or *Moody's OTC Industrial Manual*. Many of the survey companies have securities traded on one of the major stock exchanges—80% on the New York and 8% on the American. Table 1-1 presents an industry classification of the 600 survey companies; Table 1-2 indicates the relative size of the survey companies as measured by dollar value of revenue.

TABLE 1-2: REVENUE OF SURVEY COMPANIES

	1985	1984	1983	1982
Less than $100,000,000	54	63	69	68
Between $100,000,000 and $500,000,000	121	119	116	118
Between $500,000,000 and $1,000,000,000	88	88	98	89
Between $1,000,000,000 and $2,000,000,000	117	117	104	105
More than $2,000,000,000	220	213	213	220
Total Companies	**600**	**600**	**600**	**600**

INFORMATION REQUIRED BY RULE 14c-3 TO BE INCLUDED IN ANNUAL REPORTS TO STOCKHOLDERS

Rule 14c-3 of the Securities Exchange Act of 1934 states that annual reports furnished to stockholders in connection with the annual meeting of stockholders should include audited financial statements—balance sheets as of the 2 most recent fiscal years, and statements of income and changes in financial position for each of the 3 most recent fiscal years. Rule 14c-3 also states the following information, as specified in *Regulation S-K*, should be included in the annual report to stockholders:

1. Selected quarterly financial data.
2. Disagreements with accountants on accounting and financial disclosure.
3. Effects of inflation for those companies not required by FASB *Statement of Financial Accounting Standards No. 33* to disclose such information.
4. Summary of selected financial data for last 5 years.
5. Description of business activities.
6. Segment information.
7. Listing of company directors and executive officers.
8. Market price of Company's common stock for each quarterly period within the two most recent fiscal years.
9. Management's discussion and analysis of financial condition and results of operations.

Examples of items 1, 4, and 9 follow. Examples of segment and inflation information disclosures are presented on pages 15-22 and pages 82-96, respectively.

Quarterly Financial Data

THE BLACK & DECKER CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16: Quarterly Results (Unaudited)

1985	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	$503,033	$403,045	$371,903	$454,297
Gross margin	189,685	151,720	128,789	154,856
Net earnings (loss)	29,036	14,714	(7,032)	(195,143)
Earnings (loss) per share	.57	.29	(.14)	(3.82)
1984				
Net sales	$358,127	$318,834	$373,024	$482,898
Gross margin	139,466	127,084	145,129	167,363
Net earnings	26,702	23,103	21,111	24,488
Earnings per share	.56	.49	.43	.48

Results for the third and fourth quarters of 1985 included charges for restructuring costs, net of income taxes, of $9,545 ($.19 per share) and $194,700 ($3.81 per share), respectively.

The year ended September 30, 1984 was a 53-week year and, accordingly, the fourth quarter of 1984 included 14 weeks compared to 13 weeks in the fourth quarter of 1985.

During the third quarter of 1984, the acquisition of General Electric Company's Housewares operations was completed. The acquisition was accounted for as a purchase. Accordingly, operating results included the results of the Housewares operations from the purchase date, April 27, 1984.

Earnings per share calculations for each of the quarters are based on the weighted average numbers of shares outstanding for each period and the sum of the quarters may not necessarily be equal to the full year earnings per share amount.

IPCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10–Quarterly Financial Data (Unaudited)

Summarized quarterly financial data (in thousands of dollars except per share amounts) for the fiscal years ended June 30, 1985 and 1984 are as follows:

	Quarter Ended				Year Ended
Fiscal Year 1985	Sept. 30,	Dec. 31,	March 31,	June 30,	June 30,
Net Sales	$51,200	$49,005	$54,200	$56,394	$210,849
Gross Profit	23,678	21,845	24,151	26,035	95,709
Net Income	1,513	677	1,182	1,486	4,858
Primary Earnings Per Share:					
Net Income	.28	.13	.22	.28	.92
Cash Dividends Per Share	.085	.085	.085	.085	.34
Common Stock Price:					
High	13.375	11.875	13.000	13.500	13.500
Low	10.750	9.750	10.375	10.875	9.750
Fiscal Year 1984					
Net Sales	$46,208	$44,386	$49,667	$52,787	$193,048
Gross Profit	21,040	20,193	22,224	25,337	88,794
Income Before Extraordinary Tax Credit	1,652	1,334	1,790	1,626	6,402
Net Income	1,677	1,359	1,815	1,851	6,702
Primary Earnings Per Share:					
Income Before Extraordinary Tax Credit	.30	.24	.32	.29	1.16
Net Income	.30	.25	.33	.33	1.21
Cash Dividends Per Share	.075	.075	.075	.075	.30
Common Stock Price:					
High	18.125	16.500	14.625	12.875	18.125
Low	14.250	11.250	9.750	10.500	9.750

LONE STAR INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

26. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1985 and 1984 is as follows (in thousands except per-share data):

	Quarter			
1985	First	Second	Third	Fourth
Net sales	$160,040	$245,718	$254,964	$211,041
Gross profit	$ 17,865	$ 49,825	$ 55,333	$ 42,821
Income (loss) before extraordinary gains	$ (6,939)	$ 17,358	$ 35,181	$ 8,881
Extraordinary gains:				
Extinguishments of debt, net of income taxes	2,340	—	—	—
Utilization of tax loss carryforward by a joint venture	354	504	553	84
Net Income (loss)	$ (4,245)	$ 17,862	$ 35,734	$ 8,965
Income (loss) per common share:				
Primary:				
Income (loss) before extraordinary gains	$ (0.96)	$ 0.98	$ 2.39	$ 0.32
Extraordinary gains	0.21	0.04	0.05	0.01
Net income (loss)	$ (0.75)	$ 1.02	$ 2.44	$ 0.33
Fully diluted:				
Income (loss) before extraordinary gains	$ (0.96)	$ 0.95	$ 2.11	$ 0.32
Extraordinary gains	0.21	0.03	0.03	0.01
Net income (loss)	$ (0.75)	$ 0.98	$ 2.14	$ 0.33
1984				
Net sales	$189,726	$279,971	$279,762	$257,106
Gross profit	$ 16,625	$ 43,909	$ 51,130	$ 48,031
Income (loss) before extraordinary gains	$ (8,239)	$ 11,526	$ 10,915	$ 38,218
Extraordinary gains:				
Extinguishments of debt, net of income taxes	—	—	273	98
Utilization of tax loss carryforward by a joint venture	—	184	260	201
Net income (loss)	$ (8,239)	$ 11,710	$ 11,448	$ 38,517
Income (loss) per common share:				
Primary:				
Income (loss) before extraordinary gains	$ (0.97)	$ 0.49	$ 0.44	$ 2.59
Extraordinary gains	—	0.02	0.04	0.02
Net income (loss)	$ (0.97)	$ 0.51	$ 0.48	$ 2.61
Fully diluted:				
Income (loss) before extraordinary gains	$ (0.97)	$ 0.49	$ 0.44	$ 2.26
Extraordinary gains	—	0.02	0.04	0.02
Net income (loss)	$ (0.97)	$ 0.51	$ 0.48	$ 2.28

(1) Gross profit is after deducting depreciation expense relating to cost of sales of $43,005,000 and $45,321,000 in 1985 and 1984, respectively.

(2) Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share in 1985 do not equal the total for the year because of the stock transactions which occurred during 1985 as described in Note 19.

(3) The effect of preferred stock, convertible debentures and stock options on the fully-diluted earnings per share computation for the first and fourth quarters of 1985 and the first three quarters of 1984 were anti-dilutive and, therefore, primary and fully-diluted earnings per share are equivalent.

(4) The gain on asset dispositions contributed $354,000, $325,000 and $27,898,000, respectively, to the first, second and third quarter pre-tax income for 1985. The gain on asset dispositions contributed $9,406,000, $12,797,000, $991,000 and $32,440,000, respectively, to the first, second, third and fourth quarter pre-tax income for 1984.

(5) In December 1984 the company received regulatory approval for the termination of its existing salaried employees pension plan and the establishment of a new salaried employees pension plan (see Note 22). The termination and other changes resulted in a pension credit of approximately $6,200,000 in the fourth quarter of 1984.

WILSON FOODS CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14—Quarterly Financial Information (Unaudited)

The following table presents unaudited financial information by quarter for 1985 and 1984:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Thousands of dollars, except per share data)			
1985				
Net sales	$402,177	$382,461	$357,629	$390,888
Gross profit	$ 22,011	$ 17,081	$ 18,078	$ 20,411
Income (loss) before extraordinary gains	$ 127	$ (5,952)	$ (5,527)	$ (5,397)
Extraordinary gains	—	564	—	—
Net income (loss)	$ 127	$ (5,388)	$ (5,527)	$ (5,397)
Income (loss) per common share before extraordinary gains	$ .02	$ (1.00)	$ (.92)	$ (.90)
Extraordinary gains per common share	—	.10	—	—
Net income (loss) per common share	$ .02	$ (.90)	$ (.92)	$ (.90)
1984				
Net sales	$514,794	$468,426	$456,687	$443,523
Gross profit	$ 20,740	$ 30,184	$ 20,291	$ 18,810
Income (loss) before extraordinary gains(1)	$ (4,137)	$ 7,334	$ (5,419)	$ (4,900)
Extraordinary gains	—	24,909	5,817	1,963
Net income (loss)	$ (4,137)	$ 32,243	$ 398	$ (2,937)
Income (loss) per common share before extraordinary gains (1)	$ (.70)	$ 1.25	$ (.92)	$ (.83)
Extraordinary gains per common share	—	4.23	.99	.33
Net income (loss) per common share	$ (.70)	$ 5.48	$ .07	$ (.50)

(1) Includes unusual items relating to interest expense under the Plan of Reorganization, losses on the sales of the Albert Lea, Minnesota and Cedar Rapids, Iowa slaughtering and processing facilities and the sale of a wholly-owned subsidiary, estimated costs of plant closings, and expenses related to the Chapter 11 reorganization during the third and fourth quarters aggregating approximately $5.4 million and $4.7 million, respectively.

RANCO INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Quarterly Financial Data (Unaudited):

Quarterly results of operations for the years ended September 30, 1985 and 1984 are summarized below:

(In thousands except per share amounts)

	Fiscal Quarters Ended			
1985	Dec 31	Mar 31	Jun 30	Sep 30
Net sales	$39,260	$44,143	$45,185	$40,747
Gross profit	9,166	12,005	13,759	11,447
Net income	481	1,681	2,531	2,221
Net income per share	$.13	$.47	$.70	$.61
1984				
Net sales	$40,216	$49,322	$46,548	$41,374
Gross profit	9,753	13,505	13,180	10,655
Net income	1,081	2,531	2,297	1,961
Net income per share	$.30	$.71	$.64	$.55

The Company significantly reduced its pension expense in the third and fourth quarters of fiscal 1985. Excellent investment performance has contributed to a substantial overfunding of the Company's domestic pension plans. Actuarial assumptions were changed in the third quarter to recognize both the past investment performance and the expectation of good rates of return on pension fund investments in the future. The net effect of the changes was to decrease pension costs, aftertax, by $.2 million in the third and fourth quarters compared to earlier quarters this year. This was equivalent to $.04 and $.05 per share, respectively.

Net income in the fourth quarters of both 1985 and 1984 reflected a favorable change in anticipated tax credits. These were equivalent to $.07 and $.08 per share, respectively.

The fourth quarter of fiscal 1985 also included a $.4 million aftertax benefit ($.10 per share) from favorable inventory adjustments resulting from cuts in overhead costs and greater employee productivity. In the first quarter of fiscal 1984, the Company received settlement of a claim against the Deutsche Bundesbahn representing an adjustment of the selling prices of facilities sold by the Company in 1979 and 1980. This settlement resulted in an aftertax gain of $350,000 ($.10 per share).

Selected Information For Five Years

ANALOGIC CORPORATION

Consolidated Summary of Operations

	Years Ended July 31,				
	1985	1984	1983	1982	1981
Net sales	$132,019,371	$147,911,909	$133,487,901	$111,048,360	$85,979,903
Cost of sales	77,665,144	85,470,886	75,085,317	64,628,510	48,374,964
Gross profit	54,354,227	62,441,023	58,402,584	46,419,850	37,604,939
Expenses and other charges (income):					
General and administrative	11,708,383	11,699,469	10,190,095	7,283,876	5,500,503
Selling	12,753,124	11,971,353	11,073,486	9,744,142	8,758,383
Research and product development	18,415,977	18,676,765	16,069,132	11,029,291	9,162,706
Interest expense	1,088,576	774,449	102,000	401,294	1,003,368
Interest/dividend income	(3,945,810)	(4,529,532)	(2,227,722)	(1,440,248)	(911,466)
	40,020,250	38,592,504	35,206,991	27,018,355	23,513,494
Income from operations	14,333,977	23,848,519	23,195,593	19,401,495	14,091,445
Gain from sales of investment and marketable securities, net.		(1,310,791)			
Equity in loss of affiliated company		561,600	819,700		
Income before income taxes and extraordinary credit	14,333,977	24,597,710	22,375,893	19,401,495	14,091,445
Income taxes:					
Current	3,237,300	6,951,400	8,086,255	7,271,195	5,729,810
Deferred	1,598,000	1,202,000	117,745	344,505	60,490
	4,835,300	8,153,400	8,204,000	7,615,700	5,790,300
Income before extraordinary credit	9,498,677	16,444,310	14,171,893	11,785,795	8,301,145
Extraordinary credit, tax benefit of subsidiary net operating loss carryforward	441,000				
Net income	$ 9,939,677	$ 16,444,310	$ 14,171,893	$ 11,785,795	$ 8,301,145
Earnings per common and common equivalent share (A):					
Income before extraordinary credit	$.51	$.87	$.78	$.68	$.49
Extraordinary credit	.02				
Net income	$.53	$.87	$.78	$.68	$.49
Number of shares used in computation of per share data (A)	18,783,592	18,862,387	18,179,054	17,322,210	16,851,580

(A) Earnings per common and common equivalent share as retroactively adjusted to reflect 2-for-1 stock splits and the results of the operations of 3H Industries, (see Notes to Consolidated Financial Statements included elsewhere herein) are based on the weighted average of common and common equivalent shares for the five years ended July 31, 1985. Fully diluted earnings per share have been omitted since they are the same as primary earnings per share.

(B) There were no cash dividends paid on common stock during the five years ended July 31, 1985.

FISCHBACH CORPORATION

Selected Financial Data

(In thousands except per share data)

Year ended September 30	1985	1984	1983	1982	1981
Revenues From Completed Contracts and Other Operations	$1,039,046	$971,853	$1,339,020	$1,286,641	$1,137,723
Excess of Revenues Over Costs of Completed Contracts and Other Operations	93,168	117,587	158,865	152,222	140,129
Income (Loss) Before Extraordinary Loss	(6,468)	7,018	26,667	25,729	22,751
Extraordinary Loss	3,979	2,723			
Net Income (Loss)	(10,447)	4,295	26,667	25,729	22,751
Income (Loss) Per Share of Common Stock:					
Assuming No Dilution	(2.69)	1.12	7.39	7.35	6.53
Assuming Full Dilution	*	1.14	5.96	5.82	5.21
Total Assets	533,294	453,168	508,282	471,200	441,915
Long-Term Debt, Including Convertible Debt	30,787	26,006	47,606	58,884	60,752
Total Liabilities	371,442	278,477	324,992	316,683	306,383
Stockholders' Equity	161,852	174,691	183,290	154,517	135,532
Book Value Per Common Share	41.39	45.23	48.35	44.11	38.70
Cash Dividends Per Share	1.00	2.65	2.40	2.00	1.70
New Business Awarded	1,222,051	906,936	1,041,862	1,120,307	1,202,354

*Anti-dilutive

INTERLAKE, INC. (DEC)

Selected Financial Data

	1985	1984	1983	1982	1981
		(dollars in thousands except per share data)			
For the Year					
Net sales of continuing operations	$850,173	$845,087	$763,549	$712,406	$921,187
Income from continuing operations before unusual items and taxes on income	$ 50,283	$ 71,548	$ 42,840	$ 9,533	$ 70,307
Unusual items	—	—	(2,100)	1,300	—
Income from continuing operations before taxes on income	50,283	71,548	40,740	10,833	70,307
Provision for income taxes	19,690	31,793	14,276	2,046	26,899
	30,593	39,755	26,464	8,787	43,408
Minority interest in net income of subsidiaries	2,412	3,204	2,074	1,210	1,589
Income from continuing operations	28,181	36,551	24,390	7,577	41,819
Income (loss) from discontinued operations	—	—	(1,566)	(1,825)	4,758
Net income	$ 28,181	$ 36,551	$22,824	$ 5,752	$ 46,577
Earnings per common share					
Income from continuing operations	$5.07	$6.68	$4.22	$1.21	$6.82
Net income	5.07	6.68	3.94	.92	7.59
Cash dividends per common share	2.60	2.60	2.60	2.60	2.40
At Year End					
Working capital					
—amount	$179,838	$164,336	$202,860	$175,891	$199,803
—current ratio	1.9 to 1	2.0 to 1	2.2 to 1	2.1 to 1	2.2 to 1
Total assets	$729,397	$682,574	$673,930	$655,792	$710,217
Long-term debt, less current maturities	104,282	112,898	115,994	122,338	126,618
Common shareholders' equity					
—amount	351,753	323,264	327,401	323,251	358,748
—per common share	62.84	59.13	56.12	56.63	58.06

1984 was a 53-week year while all other periods were 52-week years.

OGDEN CORPORATION

Selected Financial Data

(In thousands of dollars, except per-share amounts)

December 31,	1985	1984	1983	1982	1981
Net Sales and Service Revenues	$1,026,352	$916,505	$817,724	$772,291	$723,957
Income (Loss) from:					
Continuing operations	21,093	34,610	46,930	30,753	24,126
Discontinued operations	(42,734)	4,939	6,047	27,717	50,643
Net income (loss)	(21,641)	39,549	52,977	58,470	74,769
Earnings (Loss) per Common Share:					
Continuing operations	1.08	1.79	2.45	1.63	1.26
Discontinued operations	(2.24)	.26	.32	1.50	2.75
Total	(1.16)	2.05	2.77	3.13	4.01
Earnings (Loss) per Common Share—Assuming Full Dilution:					
Continuing operations	1.08	1.75	2.37	1.59	1.25
Discontinued operations	(2.24)	.25	.30	1.42	2.55
Total	(1.16)	2.00	2.67	3.01	3.80
Total Assets	834,276	821,819	758,282	963,045	968,468
Long-Term Obligations	203,785	235,075	200,029	253,296	259,937
Shareholders' Equity	308,442	360,906	358,182	540,059	509,798
Shareholders' Equity per Common Share	14.36	18.75	18.64*	28.31	27.01
Cash Dividends Declared per Common Share	1.80	1.80	1.80	1.80	1.70

*After distribution, as a special dividend, of one share of OMI Corp. common stock for each share of Ogden common stock.

WESTVACO CORPORATION

Five-Year Summary of Selected Financial Data

In thousands, except per share and ratio data

Year ended October 31	1985	1984	1983	1982	1981
Sales	$1,721,783	$1,766,267	$1,493,412	$1,449,664	$1,550,529
Net income	$ 104,625	$ 129,974	$ 62,789	$ 63,093	$ 100,791
Preferred stock dividends ($4.50 per share)	—	2	8	8	8
Net income applicable to common stock	$ 104,625	$ 129,972	$ 62,781	$ 63,085	$ 100,783
Weighted average number of common shares outstanding	28,669	28,251	27,334	26,303	25,543
Per common share:					
Net income	$3.65	$4.60	$2.30	$2.40	$3.95
Dividends	1.32	1.23	1.20	1.20	1.14⅔
Total assets	$1,922,972	$1,759,364	$1,488,420	$1,342,998	$1,262,620
Long-term obligations	501,940	426,672	328,954	276,149	272,209
Shareholders' equity	1,012,860	936,282	824,666	755,927	701,820
Debt to total capitalization	33%	31%	29%	27%	28%
Current ratio	2.7	2.6	2.6	2.4	2.4
Working capital	$ 338,025	$ 336,410	$ 280,004	$ 235,957	$ 239,401
Funds provided from operations	248,474	260,488	171,402	173,038	193,307
Capital expenditures	316,590	297,817	186,876	168,706	147,905
Cash dividends	37,832	34,729	32,649	31,519	29,268

Management's Discussion and Analysis of Financial Condition and Results of Operations

AMERADA HESS CORPORATION (DEC)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

1985 COMPARED WITH 1984

Results of Operations: The results of operations for 1985 amounted to a net loss of $260 million ($3.08 per share), which reflects the impact of an after tax special charge in the fourth quarter of $433 million ($5.12 per share). The special charge represents a write-down in the book value of certain ocean-going tankers and a provision for marine transportation costs in excess of market rates. Excluding the special charge, net income for 1985 amounted to $173 million ($2.04 per share) compared with $140 million ($2.01 per share) for 1984. Earnings included a net gain (after income taxes) of $7 million in 1985 and $29 million in 1984 from the sale of investments in The Louisiana Land and Exploration Company (LL&E).

Excluding the 1985 special charge and the net gain from sale of LL&E investments in 1985 and 1984, net income from operations for 1985 increased $25 million compared with 1984. The increase was largely attributable to an improvement in refining and marketing operations, partially offset by lower earnings from exploration and production activities.

Earnings from worldwide exploration and production operations decreased $52 million in 1985 to $233 million. The decrease was mainly due to a decrease in income from domestic oil and gas operations (due to lower selling prices and volumes), increases in worldwide exploration expenses and depreciation charges (mainly from start-up of new fields in the North Sea) and lower investment tax credits. These changes were partially offset by a decrease in the U.S. Crude oil windfall profits tax (due primarily to lower revenues) and increases in North Sea oil and gas income and foreign currency exchange gains.

Refining and marketing operations had net losses of $49 million in 1985 and $109 million in 1984. The improvement was primarily attributable to increased margins in the fourth quarter, particularly for gasoline and distillates. In early 1986, selling prices of crude oil and refined petroleum products declined substantially from the year-end level, which will have a significant adverse impact on 1986 first quarter operations.

Transportation and other activities (including Corporate administration) had a net loss of $11 million for 1985 compared with a net loss of $6 million for 1984. The change was primarily attributable to a decrease in the net gain from sale of LL&E investments and lower earnings from shipping operations, partially offset by a decrease in interest expense (due primarily to a reduction in debt).

Total revenues for 1985 amounted to $7,723 million, a decrease of $631 million. The decrease was mainly attributable to lower sales volumes and selling prices of refined petroleum products. Sales volumes of refined petroleum products amounted to 152 million barrels in 1985 compared with 161 million barrels in 1984.

Liquidity and Capital Resources: Working capital at December 31, 1985 amounted to $445 million, a decrease of $200 million compared with year-end 1984. Funds generated from operations in 1985 amounted to $761 million which were slightly lower than capital expenditures of $699 million and dividend payments of $92 million. During 1985, long-term debt was reduced $198 million which was the primary reason for the reduction in working capital.

Total debt (short-term and long-term) amounted to $1,936 million at December 31, 1985 compared with $2,370 million at the 1984 year-end. At December 31, 1985, the Corporation had additional short-term and long-term borrowing capacity under available lines of credit aggregating $938 million. The credit arrangements are more fully described in the notes to consolidated financial statements.

Capital expenditures in 1985 amounted to $699 million, a decrease of $201 million from the $900 million expended in 1984. Due to the significant decline in crude oil and refined product selling prices subsequent to year-end, a reduction of approximately 50% is planned for 1986 capital expenditures. It is anticipated that funds generated from operations will be adequate to cover the 1986 capital outlays.

1984 COMPARED WITH 1983

Results of Operations: Net income for 1984 amounted to $170 million ($2.01 per share) compared with $205 million ($2.43 per share) for 1983. Earnings include a net gain (after income taxes) of $29 million in 1984 and $9 million in 1983 from the sale of common stock of LL&E.

The decrease in net income was due primarily to an increase in net losses from refining and marketing operations and higher interest charges, partially offset by an increase in the net gain from sale of LL&E common stock.

Net income from worldwide exploration and production operations amounted to $286 million for 1984 compared with $272 million for 1983. The increase was mainly attributable to an increase in foreign crude oil sales and a decrease in the crude oil windfall profits tax, partially offset by an increase in worldwide exploration expenses, lower domestic crude oil sales (due to lower volumes and selling prices) and increased depreciation charges in the North Sea from start-up of new fields. The crude oil windfall profits tax decreased $36 million mainly as a result of increases in the base price (due to the inflation adjustment factor) and incremental tertiary oil and lower crude oil selling prices and volumes.

Refining and marketing operations had net losses of $109 million for 1984 and $66 million for 1983. The worldwide surplus of crude oil and refined petroleum products continued to have a severe adverse impact on refined product prices, particularly for gasoline.

Earnings from transportation and other activities (including Corporate administration) decreased $6 million. The decrease resulted mainly from increased interest charges and lower earnings from pipeline and shipping operations, partially offset by an increase in the net gain from sale of LL&E common stock. The increase in interest charges resulted from increased borrowings and a reduction in the amount of interest capitalized.

Total revenues for 1984 amounted to $8,354 million, a decrease of $68 million compared with 1983. The decrease was mainly attributable to a decrease in sales of refined petroleum products, partially offset by an increase in the gain from sale of LL&E common stock. Sales volume of refined petroleum products decreased from 169 million barrels in 1983 to 161 million barrels in 1984.

Liquidity and Capital Resources: Working capital at December 31, 1984 amounted to $645 million, a decrease of $99 million compared with year-end 1983. Funds generated from operations in 1984 amounted to $756 million and were exceeded by capital expenditures of $900 million and dividend payments of $92 million. Additional funds of $137 million were provided from long-term borrowings (net of repayments), disposal of certain assets and other sources.

Capital expenditures in 1984 amounted to $900 million, an increase of $174 million over the $726 million expended in 1983.

The impact of general inflation and changes in specific prices on the Corporation's results of operations and financial position is presented in a separate section herein entitled "Supplementary Information on Financial Impact of Changing Prices" in accordance with Statement of Financial Accounting Standards No. 33.

BMC INDUSTRIES, INC. (DEC)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

The discussion and analysis that follows examines the results of operations of the Company's two continuing business segments, exclusive of discontinued operations (see Note 3 to the Consolidated Financial Statements—Discontinued Operations). As used herein, "operating profit" will refer to profit from continuing operations before corporate allocation, corporate expense and interest, as shown in Note 12 to the Consolidated Financial Statements—Segment Information.

Precision Etched Products

The $5.7 million increase in 1985 Precision Etched Products (formerly Special Products, now consisting of the Company's aperture mask operations and the Buckbee-Mears St. Paul operation) revenues compared to 1984 was due primarily to increased unit sales of color television aperture masks due to added production capacity at the Company's Cortland, New York manufacturing facility. (A second production line is expected to be completed at the Muellheim, West Germany manufacturing facility by May, 1986, and the added capacity is expected to increase that facility's sales for the remainder of 1986, given continued strong sales demand.) An amount equal to $3.2 million of the $6.0 million improvement in 1985 Precision Etched Products operating profit compared to 1984 was due to a $1.7 million accrual in 1984 for the costs of a planned move of the St. Paul manufacturing facility to a new site, and the subsequent reversal of that accrual (less incurred expenses) in the amount of $1.5 million in 1985. The decision to move that facility was reversed by the Company's Board of Directors in an effort to reduce expenses and conserve cash. The balance of the profit improvement was due primarily to increased sales and improved manufacturing yields at the Cortland manufacturing facility.

The $3.8 million increase in 1984 Precision Etched Products revenues compared to 1983 related primarily to an improvement in demand for, and increased unit shipments of, color television aperture masks manufactured at the Muellheim, West Germany facility, and to increased demand for and unit shipments of specialty circuits from the St. Paul manufacturing facility. The $1.8 million decline in 1984 Precision Etched Products operating profit compared to 1983 was due to the $1.7 million accrual for plant move mentioned above, and to a decline in operating yields at the Cortland facility related to problems associated with the construction and assimilation of a new production line. These declines in profits were partially offset by profit improvements at the Muellheim and St. Paul manufacturing facilities due to increased sales volume.

Optical Products

The $5.8 million increase in 1985 Optical Products revenues compared to 1984 was due primarily to increased unit sales of eyewear lenses, reflecting an increase in market share. The $1.0 million decline in 1985 Optical Products operating profit compared to 1984 was due to a $698,000 decrease in amorization of deferred credit, and a decrease in gross profit related primarily to price competition in the eyewear lens market, partially offset by an increase in royalty income due to a gain on the sale of all of the Company's rights under a license agreement.

The $3.5 million increase in 1984 Optical Products revenues compared to 1983 was due primarily to increased unit sales of eyewear lenses, reflecting an increase in market share. The $1.4 million decline in 1984 Optical Products operating profit compared to 1983 was due to a $696,000 decrease in amortization of deferred credit, a decrease in gross profit related primarily to price competition in the eyewear lens market, an increase in bad debt expense related to the bankruptcy of a large customer, and joint venture start-up costs incurred in the production of polycarbonate lenses.

Selling

Selling expense remained relatively stable from 1984 to 1985. Selling expense increased from 1983 to 1984 due primarily to costs incurred in efforts to increase market share in the Optical Products Group.

Administrative

Administrative expense continued to increase moderately, due primarily to increased costs and expenses associated with 1984 and 1983 acquisitions. Administrative expenses are expected to decline in 1986 primarily as a result of recent personnel cutbacks.

Interest

The increase in interest expense, from $1.9 million in 1983 to $7.5 million in 1984 to $11.7 million in 1985, was the result of higher average debt levels incurred primarily as a result of 1984 acquisitions and related working capital increases and capital spending, mainly within Interconics. Substantially all interest expense was charged against continuing operations. The Company's interest expense will remain at current levels in 1986 until the Company is able to reduce its debt through divestitures. Although not a major factor contributing to 1985 interest expense, the Company began to carry higher than normal cash balances during the fourth quarter of 1985, and expects to continue to do so in 1986, since it cannot reborrow funds used to pay down senior debt because of defaults under the senior debt agreement (described below). The Company invests the majority of such cash in short-term commercial paper at rates that are less than the interest rate charged under the debt agreements.

Income Taxes

The Company has provided income taxes on continuing operations at a relatively high rate in 1985 and at relatively low rates in 1984 and 1983. The reasons for these rate fluctuations are explained in Note 10 to the Company's Consolidated Financial Statements—Income Taxes. If the Company were to be profitable from continuing operations in 1986, the Company would expect to provide for income taxes at approximately statutory rates on any foreign, state or domestic income. The Company will not be in a position to reflect any benefit from net operating loss carryforwards until such time as it has realized the remaining $5.0 million of tax debits associated with the Camelot acquisition. When realized, such amounts will be reflected through a provision in lieu of income taxes at statutory rates on domestic income before the application of net operating loss carryforwards.

Capitalization and Liquidity

Due to the $69.6 million net loss incurred during 1985, including $72.2 million in losses related to discontinued operations, the Company's stockholders' equity declined from $78.5 million at December 31, 1984 to 9.4 million at December 31, 1985. As a result of an increase in cash balances from $2.6 million to $18.9 million during the same period, funded (interest bearing) debt also increased from $89.4 million to $100.8 million. Consequently, the ratio of funded debt to equity increased from 1.1 to 10.7, while the ratio of total liabilities to equity increased from 1.4 to 13.0 during the period.

The decline in stockholders' equity placed the Company in default of both its $70 million senior and $30 million subordinated debt agreements, as well as certain capital lease obligations, principally related to discontinued operations. As a result, the Company classified these obligations as current debt on its December 31, 1985 balance sheet, whereas $83 million had been classified as long-term at December 31, 1984. This change in classification was the major factor involved in the decline in working capital from $79.9 million at December 31, 1984 to a negative $46.9 million at December 31, 1985.

The Company intends to eliminate defaults under its debt agreements by restructuring the agreements through the use of proceeds from divestitures. Until the Company is able to reduce its debt through divestitures and achieve a related restructuring of its debt agreements, it will remain in default of, and subject to the lenders' rights of acceleration under, these agreements.

During 1985, the institutional lenders holding $30 million of the Company's convertible subordinated debentures filed suit to rescind the transaction. This lawsuit could come to trial as early as the fall of 1986. If the Company were to lose the lawsuit, the institutional lenders, as judgment creditors, would no longer be subordinated to the senior lenders and could pursue all collection remedies available to judgment creditors, which action might increase the risk of the Company's senior lenders exercising their right of acceleration. The Company believes it has a meritorious defense in that lawsuit, but cannot predict the outcome.

Because the Company is in default under its senior debt agreement, it does not have the ability to borrow additional amounts under that agreement. The Company had less than $2 million in outstanding domestic capital expenditure commitments at December 31, 1985, and plans to monitor domestic capital expenditures and working capital usage very closely in 1986. The Company is in the process of expanding its Muellheim, West Germany facility with two new production lines at a cost of approximately $3.5 million, to be financed by a German bank. The Company believes that existing cash balances ($18.9 million as of December 31, 1985) are sufficient to fund normal operating needs of the Company's continuing and discontinued operations during 1986, without additional domestic borrowings.

Effects of Inflation

Inflation has had a moderate impact on BMC over the past several years and management believes its effect was no greater than for industry as a whole.

BROWN GROUP, INC. (OCT)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Financial Condition

Brown Group has consistently maintained a strong financial position and solid capital structure which provide the flexibility and liquidity needed to meet growth opportunities. In 1985, the corporation's balance sheet was strengthened further as a result of the sale of the Recreational Products segment which freed assets for higher return investment. The majority of Brown Group's capital requirements is funded with internally generated cash flow.

At the end of 1985, working capital was $303 million compared with $321 million at the end of 1984 and $326 million at the end of 1983. The current ratio, the relationship of current assets to current liabilities, stood at 2.7 to 1 in 1985, compared with 2.7 to 1 in 1984 and 3.1 to 1 in 1983.

The corporation's ratio of long-term debt to total capitalization was 14% at the end of 1985 compared with 14% and 15% at the end of 1984 and 1983, respectively. There were no long-term borrowings incurred during the three-year period.

The corporation's commercial paper is rated A-1 by Standard and Poor's and P-1 by Moody's. These ratings permit the corporation to issue commercial paper at the lowest industrial rates when short-term borrowing is required. In addition, lines of credit and a revolving credit agreement to meet the corporation's needs for seasonal short-term borrowings are maintained through arrangements with several banks. Under these arrangements, the corporation could have borrowed up to $71.9 million at the end of 1985. The amount available under these arrangements is increased to approximately $100 million during peak business periods.

During 1985, the corporation generated substantial cash flow by reducing inventories throughout most of the year and negotiating better payment terms with vendors. In addition, the sale of the Recreational Products businesses generated $35 million of cash. As a result of these actions, no short-term notes payable were outstanding at the end of 1985 compared with $55 million of short-term notes payable outstanding at the end of 1984.

During the past three years, capital expenditures have totaled $101 million. Of the 1985 capital expenditures of $25 million, approximately 80% was for new retail units and refurbishing existing retail locations, with the balance expended primarily for manufacturing and warehousing equipment. Capital expenditures are anticipated to be moderately higher in 1986 than in 1985, primarily due to continued expansion of retailing operations.

Results of Operations

Brown Group recorded a sales decrease of 2.5% in 1985. In 1984, sales were increased 6.0% from 1983. In 1985, earnings per share from continuing operations decreased 6.1% to $2.47 per share compared with $2.63 in 1984 and $3.13 in 1983. Earnings from continuing operations decreased 9.2% to $48.8 million compared with $53.7 million in 1984 and $65.7 million in 1983. Due to the earnings decrease, Brown Group's return on average invested capital decreased to 10.0% in 1985 from 10.3% in 1984 and 13.8% in 1983. Return on average stockholders' equity declined to 12.6% in 1985 from 13.5% and 17.3% respectively.

The earnings decline in 1985 occurred entirely during the year's first two quarters. Earnings for the corporation and the footwear industry as a whole suffered during 1984 and 1985 from an oversupplied and highly promotional marketplace. In addition, the corporation incurred costs during this period for restructuring programs at Brown Shoe and other areas of the corporation. The third and fourth quarters of 1985 showed higher earnings as Brown Shoe Company's manufacturing operations recorded significant improvements as a result of these changes.

The corporation's shoe manufacturing operations shipped 5.8% fewer pairs in 1985 than in 1984, and 3.6% fewer pairs were shipped in 1984 than in 1983. Men's, women's and children's lines all suffered lower unit sales in 1985. These declines in unit sales were anticipated for 1985 and reflect the continuing impact of increased importing. In anticipation of this decline in unit sales and domestic manufacturing, nine of the shoe manufacturing division's 30 plants were closed. The costs associated with these plant closings and with an early retirement program, instituted to reduce operating overhead, were primarily recorded in 1984 and resulted in a decrease in operating earnings last year. During the fourth quarter of 1985, footwear manufacturing operations were producing at or near capacity.

Sales and earnings of the footwear retailing operations decreased in 1985. Store-for-store sales declines, coupled with the impact on margins of the highly promotional retail marketplace, caused lower earnings. During 1985, the corporation continued its program of expanding its retail operations. There was a net addition of 105 Naturalizer, Connie, Fanfares and Famous Footwear specialty stores and four other units. As part of the restructuring program, the Regal chain of men's stores was reduced by 44 units through a combination of store closings and conversions to women's specialty stores. As a result of the loss of two major leased department customers, there was a net decrease of 45 units. Sales and earnings of the retailing operations increased in 1984 as a result of store-for-store sales increases and the net addition of 150 stores.

The Specialty Retailing segment achieved a 5.5% sales increase in 1985 from 1984 compared with a 3.1% increase in 1984 from 1983. The 1985 increase reflects higher store-for-store sales at Cloth World and Linen Center, particularly in the third and fourth quarters. Sales at Meis stores declined in total and on a store-for-store basis in 1985, reflecting a sluggish retail environment. Specialty Retailing's operating earnings decreased 18.4%, primarily as a result of lower sales at Meis and start-up costs associated with new programs and promotional efforts at Cloth World. Linen Center showed improved results from 1984. The Specialty Retailing segment's 1984 sales were increased by store-for-store sales gains at Meis and the opening of 18 Linen Center stores. In 1984, operating earnings for the segment decreased 10.7% due to lower sales at Cloth World and start-up costs associated with the expansion of the Linen Center and Peck's Menswear chains.

During the period 1983 through 1985, retailing has represented an increasing proportion of the corporation's business—63% of sales in 1983, 65% in 1984 and 68% in 1985. Retailing carries a higher gross profit percentage and a higher selling and administrative expense structure than manufacturing. As a result, the consolidated gross profit percentage has steadily increased except for 1984 when the rate declined 1.3% as a result of footwear manufacturing's lower production levels and the impact of the general oversupply of footwear on selling prices.

In 1985, Brown Group disposed of its remaining Recreational Products companies—Hedstrom and Gerry. These companies had declining sales and earnings over the past few years and were not expected to contribute to earnings growth or to an improved return on stockholders' investment.

Information on the impact of inflation upon the operations and financial condition of the corporation is presented on pages 32 and 33 of this report.

PENTRON INDUSTRIES, INC. (JUN)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Consolidated net sales from continuing operations in fiscal year 1985 increased $5,680,058 (53.7%) over sales in fiscal year 1984, compared with a decrease of $1,981,012 (15.8%) in sales for fiscal year 1984 from fiscal year 1983. The sales increase in 1985 was largely due to sales generated by the Company's new subsidiaries, Pentron Products, Inc. and PTI Industries, acquired in February and April 1985, respectively. The decrease in sales experienced in fiscal year 1984 resulted from lower retail merchant demand for the Company's houseware products, largely due to competition and the 1982-1983 recession.

Cost of sales in fiscal year 1985 increased $2,714,367 (29.2%) compared with fiscal year 1984, and decreased $1,957,015 (17.4%) in fiscal year 1984 as compared with fiscal year 1983. The increase experienced in 1985 was due to the Company's increased sales generated by its newly acquired subsidiaries. The decrease experienced in fiscal 1984 was due to the decrease in net sales.

Gross margins were 26.2% of net sales in fiscal year 1985, up from 12.3% in the prior fiscal year. Gross margins equaled 10.5% of net sales in fiscal year 1983. The increase in gross margins experienced in fiscal year 1985 resulted primarily from the low product cost experienced in the product lines of Pentron Products and PTI Industries. The increase in gross profit as a percentage of sales in fiscal year 1984 over fiscal year 1983 reflected the cost cutting programs instituted during the year and the completion of plant consolidations in February 1984.

Selling, general and administrative expenses increased $2,225,737 (94.4%) in fiscal year 1985 over fiscal year 1984, and decreased $836,524 (26.2%) in that year compared with fiscal year 1983. The 1985 increase was the result of increased marketing costs, the cost of moving the Company's executive offices first to Columbiana, Ohio, and then to Walnut Creek, California, as well as the additional administrative expenses associated with the acquisitions of Pentron Products and PTI Industries. The 1984 decrease from fiscal year 1983 was largely due to reductions in employees, the cost reduction program begun in 1984 and, to a lesser extent, nonrecurring legal fees incurred in fiscal year 1983.

Interest expense, was stable in fiscal years 1983 and 1984, increased $431,430 (97.5%) in fiscal year 1985, largely due to increased borrowings by the Company to finance the acquisitions of Pentron Products and PTI Industries.

Net losses from continuing operations of $864,855 or $.17 per share were incurred in fiscal year 1985, compared with $1,718,985 or $.47 per share in fiscal year 1984 and $2,231,625 or $.69 per share in fiscal year 1983.

The accompanying consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business.

Loan Covenant

Although the Company has reduced its operating losses and arranged for the infusion of additional capital into the Company, the continuation of the Company in its present form is still dependent upon the successful maintenance of a loan agreement convenant and the eventual achievement of sustained profitable operations. The loan agreement covenant requires the Company to maintain a minimum net worth. See Note 12 to Notes to Consolidated Financial Statements. As of June 30, 1985, the Company did not satisfy the net worth covenant requirement and obtained a waiver from the lender, In September 1985, the Company acquired the 20% minority interest in Pentron Products for 2,000,000 shares of the Company's Common Stock. As a result of this acquisition, the Company anticipates future operating profits through the consolidation of operations, profits from newly acquired companies and the previous disposal of nonprofitable product lines. See Notes 6 and 7 to Notes to Consolidated Financial Statements. In addition, the Company has entered into a management contract that will provide for the managing company to be responsible for any losses in the Houseware Products Group up to $200,000 annually. See Note 19 to Consolidated Financial Statements.

Liquidity and Capital Resources

Working capital at June 30, 1985 was $3,491,303 compared to $1,050,519 and a deficit of $227,144 at June 30, 1984 and June 30, 1983, respectively. The current ratios were 1.45 to 1, 1.44 to 1 and .95 to 1 at the respective balance sheet dates. Total liabilities at June 30, 1985 were $17,714,934 compared with $5,587,845 at June 30, 1984 and $6,255,890 at June 30, 1983. During fiscal years 1985 and 1984, long-term debt increased by $6,665,032 and $1,569,306, respectively. Capital expenditures totaled $202,948 for the year ended June 30, 1985, $229,559 for the year ended June 30, 1984 and $244,451 for the year ended June 30, 1983.

The unprofitability experienced in fiscal year 1985 necessitated the use in excess of $600,000 of working capital to finance the Company's operations. During this period, the Company used the proceeds from the sale of Preferred Stock and assets held for resale and loans from a limited group of investors, as well as cash obtained from new secured borrowings, to partially fund operations and restore working capital. The increase in long-term debt resulted from the acquisitions of Pentron Products and PTI Industries.

In July 1984, the Company completed the sale of its former plastic parts facility, which was under lease, to the lessee for an aggregate of $457,000 in cash, a note and the assumption by the buyer of a first mortgage.

A partnership and a corporation controlled by the Company's Chairman of the Board advanced a total of $435,000 during August through October 1984 to the Company. In August 1984, Pentron assigned a $174,901 note receivable (resulting from the sale of a plant in July 1984) to the partnership as partial payment on the amount advanced. The Company also repaid $60,000 to the corporation in October 1984.

A private placement of 106,500 shares of Preferred Stock ($5 par value) at $10 per share was completed on December 12, 1984, providing the Company with proceeds of $867,400 after commissions and other costs of issuance. These shares are convertible into Common Stock at the rate of 20 shares of Common Stock to one share of Preferred Stock, and have voting privileges equal to the number of shares of Common Stock into which they may be converted.

On December 21, 1984, the Company sold the plant facility of a discontinued division to the lessee thereof for an aggregate of $240,000 in cash and a note.

In February 1985, the Company sold $1.2 million of Subordinated Secured Convertible Promissory Notes, which are convertible into shares of Common Stock of the Company beginning August 11, 1986. In connection with the sale of such Promissory Notes, the Company also issued warrants to purchase 575,000 shares of Common Stock.

The Company obtained working capital loans totaling $750,000 during the fiscal quarter ending June 30, 1985 from a limited group of investors, including the Company's Chairman of the Board and President. The investors have borrowed funds from a financial institution and have loaned such funds to the Company. The Company is paying the investors the same interest rate which they are paying the financial institution and has reimbursed all bank fees charged such investors. The loans payable by the Company to their investors are subordinated to any outstanding bank or secured debt. In connection with such loans, the Company also issued warrants to purchase 375,000 shares of Common Stock exercisable at $.75 per share.

On June 17, 1985, the Company reached an agreement with a credit institution to borrow a maximum of $2,375,000. The total consists of a three-year term loan of $475,000 (of which $130,000 was repaid upon completion of the sale of four product lines of the Houseware Products Group in July 1985) collateralized by all machinery and equipment of the Company's Houseware Products Group, and a two year revolving line of credit. Amounts outstanding under the revolving line are limited to the lesser of $1,900,000 or a specified percentage of the collateral (in the form of inventories and trade receivables) held by the Group. The revolving line requires monthly interest payments of 3% above the institution's prime rate on the outstanding balance. Proceeds of approximately $600,000 borrowed under this new agreement were used to retire existing borrowings from another institution.

SPS TECHNOLOGIES, INC. (DEC)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Earnings for the year ended December 31, 1985 increased 13% over 1984, primarily as a result of increased sales, offset somewhat by increased operating expenses, including $1,580,000 in costs and expenses associated with reorganization of the Company along worldwide product lines, increased foreign currency transaction costs, and a higher overall effective income tax rate. Earnings for the year ended December 31, 1984 improved sharply over 1983 primarily as a result of significant increases in sales, offset somewhat by decreased sales margins. Earnings for the year ended December 31, 1983 improved in comparison to 1982, notwithstanding a 10% decline in sales. The additional earnings resulted from reduced expenses due to cost reduction programs and improved operating efficiencies, as well as lower foreign currency transaction costs and reduced interest expense. The backlog of orders to be shipped was $99.5 million at December 31, 1985, compared to $80.2 million at December 31, 1984 and $75.4 million at December 31, 1982.

Fastener sales in 1985 increased over 1984 primarily due to increased demand for the Company's aerospace products led by a resurgence in orders for commercial jet aircraft and ongoing strength in demand in support of the military aerospace market. Fastener sales in 1984 increased over 1983 due to strengthened demand which resulted in improved levels of orders and shipments. The most significant improvements were achieved in the industrial markets. Fastener sales in 1983, although less than 1982, improved from the depressed levels of demand experienced during the second half of 1982, reflecting the improved economic conditions in the major markets served. During 1985, as in 1984, fastener margins decreased from the prior year level primarily as a result of continued price competition and some change in product mix. Improved margins were achieved in the fastener segment during 1983, as a result of cost reduction programs and operating efficiencies. The improved volume and margins in the industrial fastener market were offset somewhat by lower volume and increased price competition in the aerospace market.

Materials handling segment sales during 1985 increased over 1984 due to increased capital spending in the major markets served, stimulated by the improved economic environment, which has resulted in an increase in contracts awarded to the segment. Operating losses during 1985 were significantly reduced. Margins improved primarily as a result of increased volume as well as cost reduction programs and operating efficiencies. During 1984, the materials handling segment sales increased 42% compared to 1983, primarily as a result of increased demand. Despite the 1984 increase, the segment did not produce an operating income. Operating margins from the increased level of activity were not sufficient to offset the increased costs incurred for engineering, technical and manufacturing support to complete existing contracts, and investment in new products. During 1983, the materials handling segment was unfavorably affected by the continued reduction in capital expenditures in those industries served. The lower volume adversely affected the materials handling segment's ability to cover its fixed costs, in spite of increased operating efficiencies and cost reduction programs. Additionally, the development costs associated with several fixed price contracts, which unfavorably affected results in prior years, were reduced during 1983, as these projects were completed.

During 1985, foreign currency transaction costs significantly increased primarily as a result of the general weakening of the U.S. dollar against certain major European currencies. The higher overall effective income tax rate is due primarily to reduced earnings in areas substantially free of income taxation by statute, and to an increase in taxable earnings, offset somewhat by the utilization of a non-United States tax loss carryforward recognized as an extraordinary item. The effect of inflation on sales and income from operations is discussed in Note 20 to the Consolidated Financial Statements which should be read in conjunction with this discussion of the results of operations.

Liquidity and Capital Resources

Management considers liquidity to be the ability to generate adequate amounts of cash to meet its needs and capital resources to be the source from which such cash can be obtained, principally from operations and from external sources. The total debt to equity ratio at December 31, 1985 was 30% and unused short and long-term lines of credit were $48 million. Management has no reason to believe that capital resources available to it will not be sufficient to meet the needs of its business, both on a short and long-term basis.

The principal uses of funds during the year 1985 were additions to property, plant and equipment, a reduction in long-term debt, and dividends to shareholders. Funding of these uses was principally from operations. The principal uses of funds during the year 1984 were additions to property, plant and equipment, an increase in working capital (principally receivables and inventory), and dividends to shareholders. Funding of these uses was principally from operations and an increase in long-term debt. The principal uses of funds during the year 1983 were additions to property, plant and equipment, the acquisition of a business in the United Kingdom, dividends to shareholders, and an increase in investments in an affiliate, Metalac S.A. Industria e Comercio, Sao Paulo, Brazil. Funding of these uses was principally from operations, a public offering of $8.5 million of Industrial Development Revenue Bonds for the purchase of a corporate headquarters facility, and utilization of various short-term lines of credit available to the Company.

On January 1, 1986, the Company paid an initial purchase price of $13,250,000 in cash to purchase all of the capital stock of Cannon-Muskegon Corporation, Muskegon, Michigan and in consideration for an agreement not to compete, financed by borrowing long-term funds available under its existing Bank Credit Agreement.

Capital expenditures for property, plant and equipment, exclusive of the aforementioned acquisition, are planned at $12.0 million in 1986.

TABLE 1-3: SEGMENT INFORMATION

	Number of Companies			
	1985	1984	1983	1982
Industry segments				
Revenue	443	451	457	456
Operating income or loss	396	398	408	406
Identifiable assets	435	444	453	452
Depreciation expense	433	438	448	451
Capital expenditures	428	434	441	444
Geographic areas				
Revenue	206	207	214	219
Operating income or loss	161	165	166	167
Identifiable assets	201	204	203	212
Depreciation expense	15	13	15	15
Capital expenditures	16	16	16	18
Export sales	116	127	133	126
Sales to major customers	136	134	127	119

SEGMENT INFORMATION

Effective for fiscal years beginning after December 15, 1976, *Statement of Financial Accounting Standards No. 14* requires that financial statements presented in conformity with generally accepted accounting principles include specified information relating to a reporting entity's: operations in different industries, foreign operations and export sales, and major customers. *SFAS No. 14* describes the information to be presented and the formats for presenting such information. *Statement of Financial Accounting Standards No. 21*, issued in April 1978, amends *SFAS No. 14* by stating that the requirements of *SFAS No. 14* do not apply to nonpublic enterprises.

Table 1-3 shows the type of segment information most frequently presented as an integral part of the 1985 financial statements of the survey companies.

Industry Segments

CORNING GLASS WORKS (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per-share amounts.)

2. Information by Industry Segment

The company realigned its business into new categories for industry-segment disclosure and adopted segment titles which more accurately portray activity in the industries in which the company operates. The primary revision has been separating the Electronics and Telecommunications businesses from the former Consumer Durable Goods Components and Capital Goods Components segments. The majority of remaining businesses of these former segments make up the Specialty Materials segment. The Health and Science and Consumer Products industry segments are essentially unchanged.

Equity-company operations are included by industry segment due to the significance of equity-company results to Corning's operations.

1985	Specialty Materials	Electronics & Telecom-munications	Health & Science	Consumer Products	Corporate R&D and Other	Con-solidated
Net sales	$ 324.3	$487.7	$471.1	$407.4		$1,690.5
Income from operations	76.9	116.3	76.1	4.7	$(137.1)*	136.9
Identifiable assets	550.3	405.3	288.6	271.0	517.2	2,032.4
Depreciation expense	19.4	38.3	19.0	28.9	8.7	114.3
Additions to plant and equipment	36.4	93.4	22.6	30.0	33.6	216.0
Equity companies:						
Net sales	1,140.9	489.5	117.6	55.2		1,803.2
Corning's share of earnings	50.7	25.7	(5.1)	0.5		71.8
1984						
Net sales	$ 343.0	$441.4	$520.6	$427.7		$1,732.7
Income from operations	79.8	87.8	62.4	(7.7)**	$(132.9)*	89.4
Identifiable assets	481.3	333.5	329.3	233.3	479.4	1,856.8
Depreciation expense	14.8	29.8	20.3	20.0	16.0	100.9
Additions to plant and equipment	19.9	49.1	24.7	26.8	21.9	142.4
Equity companies:						
Net sales	1,081.4	385.7	29.4	57.9		1,554.4
Corning's share of earnings	49.8	9.8	(5.4)	(0.6)		53.6
1983						
Net sales	$ 276.7	$374.0	$526.5	$412.2		$1,589.4
Income from operations	67.7	51.0	65.2	14.5	$(130.4)*	68.0
Identifiable assets	498.1	264.6	280.8	204.5	526.6	1,774.6
Depreciation expense	11.9	27.7	18.2	18.1	15.8	91.7
Additions to plant and equipment	17.0	41.1	28.8	21.4	21.0	129.3
Equity companies:						
Net sales	966.7	227.9	14.4	61.3		1,270.3
Corning's share of earnings	38.7	(2.7)	(1.6)	0.6		35.0

*Since corporate research and development projects are designed to benefit a broad range of products and processes which cross industry-segment lines, most of these costs have not been identified with industry segments.

**Includes a $24.0 million charge for repositioning the sunglass business.

WALT DISNEY PRODUCTIONS

Consolidated Statements of Income

(In thousands, except per share data)

Year ended September 30	1985	1984	1983
Revenues			
Entertainment and recreation	$1,257,517	$1,097,359	$1,031,202
Filmed Entertainment	319,986	244,552	165,458
Community development	315,354	204,384	
Consumer products	122,572	109,682	110,697
	2,015,429	1,655,977	1,307,357
Costs and Expenses			
Entertainment and recreation	991,130	904,664	834,324
Filmed entertainment	286,344	242,303	198,843
Community development	252,903	162,158	
Consumer products	66,256	55,819	53,815
	1,596,633	1,364,944	1,086,982
Income (Loss) Before Corporate Expenses and Unusual Charges			
Entertainment and recreation	266,387	192,695	196,878
Filmed entertainment	33,642	2,249	(33,385)
Community development	62,451	42,226	
Consumer products	56,316	53,863	56,882
	418,796	291,033	220,375
Corporate Expenses			
General and administrative	49,874	59,570	35,554
Design projects abandoned	7,387	7,032	7,295
Interest—net	51,644	41,738	14,066
	108,905	108,340	56,915

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Business Segments (in thousands)

The Company operates in four business segments: Entertainment and Recreation, Filmed Entertainment, Community Development and Consumer Products. These business segments are identified in the Description of the Business in Note 1.

The Consolidated Statement of Income presents revenues and operating income by business segment. Operating income for fiscal year 1984 excludes unusual charges of $166 million (Note 11). The Filmed Entertainment business segment includes operating income for The Disney Channel for fiscal year 1985 as compared to operating losses of $35 and $28 million for fiscal years 1984 and 1983, respectively. The Disney Channel commenced operations in April, 1983. Additional financial information relative to business segments follows.

Capital expenditures are entertainment attractions and other property by business segments were:

	1985	1984	1983
Entertainment and recreation	$154,964	$145,295	$287,940
Filmed entertainment	12,170	23,959	1,845
Community development	6,391	6,509	
Consumer products	57	244	222
Corporate	5,559	6,044	1,195
	$179,141	$182,051	$291,202

Depreciation expense of entertainment attractions and other property by business segment was:

	1985	1984	1983
Entertainment and recreation	$104,207	$100,497	$ 88,059
Filmed entertainment	4,175	3,027	1,643
Community development	3,222	2,094	
Consumer products	67	147	135
Corporate	1,159	842	347
	$112,830	$106,607	$ 90,184

Identifiable assets by business segment were:

	1985	1984	1983
Entertainment and recreation	$2,087,539	$2,012,553	$2,018,787
Filmed entertainment	299,061	212,871	200,195
Community development	396,002	351,952	
Consumer products	15,337	17,458	17,387
Corporate	99,346	144,609	144,826
	$2,897,285	$1,739,443	$2,381,195

WHITTAKER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Business Segments

A summary of information about Whittaker's operations by business segments and geographic area at October 31, 1985, 1984 and 1983 and for the fiscal years then ended follows:

Financial Data by Business Segment—

(In millions of dollars)	Sales	Operating Profit	Identifiable Assets	Depreciation and Amortization Expense	Capital Expenditures
1985					
Life Sciences	$ 425.3	$ 19.7	$143.3	$ 3.0	$ 3.0
Metals	300.6	6.7	174.1	8.5	9.0
Technology	230.9	20.6	197.6	4.9	7.6
Chemicals	120.4	12.4	74.4	3.1	3.3
Marine	53.3	4.5	7.1	.9	.6
Corporate	—	—	199.6	.7	.3
Consolidated	$1,130.5	$ 63.9	$796.1	$21.1	$23.8
1984					
Life Sciences	$ 723.7	$ 98.3	$211.1	$ 3.5	$ 1.7
Metals	278.0	7.9	200.7	8.1	7.4
Technology	207.1	4.5	156.8	4.2	14.6
Chemicals	106.7	13.4	57.2	2.4	3.4
Marine	121.5	9.8	76.6	2.5	1.6
Corporate	—	—	170.7	.8	.2
Consolidated	$1,437.0	$133.9	$873.1	$21.5	$28.9
1983					
Life Sciences	$ 949.7	$101.3	$299.3	$ 4.9	$ 2.4
Metals	210.2	(25.5)	214.3	8.2	4.8
Technology	235.0	16.8	172.1	4.5	8.0
Chemicals	91.7	11.1	58.9	2.4	1.9
Marine	116.2	3.1	72.2	3.0	2.2
Corporate	—	—	156.9	.8	.4
Consolidated	$1,602.8	$106.8	$973.7	$23.8	$19.7

Sales of medical, surgical and laboratory products to the health care industry, included in the Life Sciences segment were $376.2 million in 1985, $336.9 million in 1984 and $381.9 million in 1983. Sales of hydraulic devices, included in the Technology segment, were $100.9 million in 1985, $94.4 million in 1984 and $140.1 million in 1983.

Sales to agencies of the Government of Saudi Arabia, included in the Life Sciences segment, amounted to $10.8 million in 1985, $304.9 million in 1984 and $454.0 million in 1983.

During 1984 and the first quarter of 1985, the Company completed its performance of its Mideast health care programs. Approximately $15 million of income before taxes anticipated in connection with these projects have not yet been recognized, pending finalization of contract completion arrangements. During fiscal year 1985, the Company recognized income before taxes of approximately $23 million upon finalization of certain of these arrangements.

Financial Data by Geographic Area—

(In millions of dollars)	Sales	Operating Profit	Identifiable Assets
1985			
United States	$ 997.6	$ 37.5	$500.8
Western Europe	104.1	1.6	80.6
Middle East	28.8	24.8	15.1
Corporate	—	—	199.6
Consolidated	$1,130.5	$ 63.9	$796.1
1984			
United States	$ 963.2	$ 38.2	$521.2
Western Europe	111.9	(1.7)	93.3
Middle East	361.9	97.4	87.9
Corporate	—	—	170.7
Consolidated	$1,437.0	$133.9	$873.1
1983			
United States	$ 932.6	$(11.2)	$539.7
Western Europe	161.4	12.2	121.2
Middle East	508.8	105.8	155.9
Corporate	—	—	156.9
Consolidated	$1,602.8	$106.8	$973.7

Approximately 15% of Whittaker's 1985 sales are to customers outside the United States. Approximately 82% of those sales are accounted for by foreign operations. Such operations are subject to certain influences not normally experienced in domestic operations, such as currency fluctuations, currency control regulations, settlement of contract disputes under foreign law and the effect of international relations.

Following is a reconciliation of operating profit to income before provision for taxes:

(In millions of dollars)	1985	1984	1983
Operating profit	$63.9	$133.9	$106.8
Unallocated corporate items	(75.1)	(37.6)	(21.4)
Interest expense, net	(3.6)	(10.9)	(19.9)
Income (loss) before provision for taxes	$(14.8)	$85.4	$ 65.5

Operating profit of an industry segment represents its revenues minus all operating expenses. None of the following, if present, is taken into account in computing the operating profit or loss of an industry segment: revenue earned at the corporate level; general corporate expenses; interest expense; domestic and foreign income taxes; equity in income or loss from unconsolidated subsidiaries and other unconsolidated investees; gain or loss on discontinued operations; extraordinary items; and the cumulative effect of a change in accounting principles. Operating profits have been reduced by minority interests relating to segments and geographic areas.

On March 1, 1985 certain Marine segment units were sold. Sales and operating profit of the Marine segment for fiscal year 1985 include the results of operations of the sold units through February 28, 1985. Operating profit for fiscal year 1985 does not include nonrecurring losses on (i) write-offs of goodwill related to operating units in the Metals, Technology and Chemicals segments amounting to $7.6 million (United States), $3.6 million (Western Europe) and $.9 million (United States), respectively, reflecting management's opinion that such goodwill no longer had value, (ii) a write-off through the income statement of cumulative currency translation adjustments of $17.4 million related to Whittaker's French subsidiary in the Technology segment, which were previously recorded as a reduction of stockholders' equity, reflecting management's opinion that the decline through the third quarter of 1985 in the dollar value of the French franc impaired the recoverable dollar value of Whittaker's investment in such subsidiary, and (iii) warranty litigation provisions related to certain businesses in the Metals and Chemicals segments (United States) previously disposed of amounting to $12.0 million and $4.0 million, respectively.

Operating profit (United States) for fiscal year 1984 does not include nonrecurring losses on write-offs of goodwill of $6.5 million related to certain Technology segment operating units which were disposed of during the year and $5.4 million related to a Metals segment operating unit, reflecting management's opinion that such goodwill no longer had value.

STALEY CONTINENTAL, INC. (SEP)

NOTES TO FINANCIAL STATEMENTS

Industry Segment Information

Until 1985, the Company operated primarily in one industry segment—agricultural products. After giving effect to the discontinued operations, A.E. Staley remains a leading processor of grain, ranking as one of the largest corn refiners in the United States. Its products include sweeteners, starches, vegetable oils and other ingredients that are supplied to the food and beverage industries; starches for nonfood industries; alcohol for use in motor fuel; corn feeds for poultry and livestock, and chemicals from carbohydrates that have industrial applications.

With the 1985 acquisition of CFS, one of the nation's premier suppliers of food and related products to the foodservice industry, foodservice distribution became a reportable segment. CFS principally distributes items, either processed or purchased, including coffee, frozen, refrigerated and dry products, fresh produce, meat products, paper products, equipment, tableware products and janitorial supplies, to the foodservice industry.

Net sales by industry segment include sales to unaffiliated customers, and intercompany sales which are made at prices prevailing in the industry at the time of sale. Operating earnings represent net sales less operating expenses. The Company's share of net earnings in equity companies of $4.0 million is not included in the pretax operating earnings. These equity companies operate primarily in Europe, Mexico, South America and the United States. Corporate and other expenses principally represent general and administrative costs.

Identifiable assets are those used specifically in each segment's operations. Corporate assets principally include cash and certain prepaid and fixed assets.

The identifiable assets for the foodservice distribution segment reflect adjustments made to assign the fair value to the CFS assets acquired, including $200 million for goodwill and other intangibles. In addition, the operating earnings for this segment include a negative impact of approximately $8 million for amortization and depreciation resulting from these adjustments. Finally, the operating earnings reflect results of CFS for the 11 months since acquisition.

For the year ended September 30, 1985, the Company's segment information for continuing operations is as follows:

(in thousands)	1985
Net sales	
Agricultural products	$1,242,642
Foodservice distribution	1,468,593
Eliminations	(3,373)
Total	$2,707,862
Operating earnings	
Agricultural products	$ 53,253
Foodservice distribution	33,317
Total	86,570
Corporate and other expenses	(18,512)
Interest expense	(47,700)
Earnings from continuing operations before income taxes	$ 20,358
Identifiable assets	
Agricultural products	$ 943,362
Foodservice distribution	640,030
Equity companies	50,343
Corporate	1,629
Eliminations	(2,982)
Total	$1,632,382
Depreciation and amortization	
Agricultural products	$ 66,023
Foodservice distribution	22,313
Corporate	309
Total	$ 88,645
Capital expenditures	
Agricultural products	$ 87,098
Foodservice distribution	31,868
Corporate	1,892
Total	$ 120,858

The Company's export sales from continuing operations for the years ended September, 30, 1985, 1984 and 1983 are $87 million, $135 million and $119 million, respectively. Export sales are principally to Western Europe and Canada. No one customer accounted for more than 10% of total sales.

JOHNSON CONTROLS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Segment Information

Subsequent to the Hoover and Ferro acquisitions and related divestitures, the Company's business segments were redefined and now consist of Controls, Battery, Automotive and Plastics. The two businesses which formerly comprised the Industrial segment are now part of the Controls segment. Controls segment amounts for 1984 and 1983 reflect this change. The Automotive segment, consisting of acquired Hoover and Ferro businesses, is primarily engaged in the manufacture of automotive seating. The Plastics segment, consisting of acquired Hoover businesses, manufactures plastic containers and plastics blowmolding machinery. Results of operations from the Automotive and Plastics segments are shown in the segment tables since their dates of acquisition. Reference is made to Management's Discussion and Analysis on pages 22 through 27 for additional description and discussion of the Company's business segments.

Net sales by business segment and geographic area exclude intercompany sales. Income and expenses not allocated to business segments or geographic areas in computing operating income include general corporate expense, interest income and expense, earnings of unconsolidated affiliates, and foreign currency gains and losses. Unallocated assets are cash, marketable securities, net assets held for sale and other nonallocable assets.

Transfers of manufactured products between business segments are in the aggregate not material. Battery segment net sales to Sears, Roebuck and Co. aggregated approximately $181 million in 1985, $193 million in 1984 and $178 million in 1983.

Business Segments

	Year Ended September 30,		
	1985	1984	1983
		(in millions)	
Net Sales			
Controls	$ 936.2	$ 863.9	$ 829.0
Battery	540.1	561.4	494.4
Automotive	209.9	—	—
Plastics	100.8	—	—
Consolidated	$1,787.0	$1,425.3	$1,323.4
Operating Income			
Controls	$ 71.2	$ 69.1	$ 68.4
Battery	63.1	69.6	58.8
Automotive	15.2	—	—
Plastics	10.2	—	—
Unallocated	(27.5)	(25.8)	(19.7)
Consolidated	$132.2	$112.9	$107.5
Assets			
Controls	$ 526.7	$460.9	$386.3
Battery	407.8	398.0	380.6
Automotive	361.2	—	—
Plastics	226.3	—	—
Unallocated	267.3	133.3	159.1
Consolidated	$1,789.3	$992.2	$926.0
Depreciation/Amortization			
Controls	$21.7	$21.0	$18.3
Battery	26.7	22.9	21.4
Automotive	6.3	—	—
Plastics	7.2	—	—
Consolidated	$61.9	$43.9	$39.7
Capital Expenditures			
Controls	$ 43.7	$29.3	$36.6
Battery	43.0	32.8	25.3
Automotive	12.5	—	—
Plastics	5.8	—	—
Consolidated	$105.0	$62.1	$61.9

Product transfers from domestic to foreign locations amounted to $25.1 million in 1985, $20.0 million in 1984 and $18.2 million in 1983. Product transfers from foreign to domestic locations were not significant in any of the three years. Interarea transfers of manufactured products are at prices in excess of cost. The resultant income is assigned to the geographic area of manufacture. Appropriate eliminations are made in consolidation for interarea income remaining in inventories and costs of uncompleted contracts. If foreign subsidiaries were combined into logical geographic areas, none would have sales, operating income or total assets in excess of 10% of the respective consolidated totals.

Foreign Operations

CORNING GLASS WORKS (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. International Activities

Information by geographic area is presented below on a source basis, with exports shown in their area of origin, and research and development expenses shown in the area where the activity was performed.

1985	United States	Europe	Latin America, Asia-Pacific, and Canada	Eliminations and Unallocated Amounts	Consolidated
Sales	$1,334.6*	$260.1	$ 95.8		$1,690.5
Transfers between areas	51.0	18.9	2.9	$(72.8)	
Total sales	1,385.6	279.0	98.7	(72.8)	1,690.5
Income from operations	118.1	23.6	7.6	(12.4)	136.9
Identifiable assets at year end	1,140.6	235.4	168.7	487.7	2,032.4
R&D expenditures	81.3	4.5	1.7		87.5
1984					
Sales	$1,362.8*	$271.8	$ 98.1		$1,732.7
Transfers between areas	60.9	21.9	4.4	$(87.2)	
Total sales	1,423.7	293.7	102.5	(87.2)	1,732.7
Income from operations	65.4**	20.9	15.7	(12.6)	89.4
Identifiable assets at year end	1,162.2	185.6	127.2	381.8	1,856.8
R&D expenditures	87.5	5.2	1.6		94.3
1983					
Sales	$1,235.5*	$272.0	$ 81.9		$1,589.4
Transfers between areas	51.3	8.7	1.5	$(61.5)	
Total sales	1,286.8	280.7	83.4	(61.5)	1,589.4
Income from operations	66.1	11.2	(0.4)	(8.9)	68.0
Identifiable assets at year end	1,126.7	181.6	116.4	349.9	1,774.6
R&D expenditures	81.2	6.8	1.3		89.3

*1985, 1984 and 1983 United States sales to unaffiliated customers include $160.9 million, $162.9 million and $135.9 million of export sales; $59.8 million, $65.5 million and $56.9 million to Europe; and $101.1 million, $97.4 million and $79.0 million to Latin America, Asia-Pacific and Canada.

**Includes a $24.0 million charge for repositioning the sunglass business.

Transfers between areas are accounted for at prices approximating prices to unaffiliated customers.

McDONALD'S CORPORATION (DEC)

FINANCIAL COMMENTS

Segment and Geographic Information

The Company operates in one industry segment. All significant revenues relate to sales of food products to the general public, whether the restaurants involved are operated by the Company, its affiliates or franchisees.

There were 8,901 restaurants in operation at December 31, 1985, of which 1,929 were operating outside of the U.S., including 492 in Canada, 576 in 16 Western European countries, and the remaining 861 in 23 other countries.

Revenues and operating income for the three years ended December 31, 1985, and identifiable assets at the end of each year, classified by the major geographic areas in which the Company operates, were as follows:

(In thousands of dollars)	1985	1984	1983
Revenues			
U.S.	$2,863,826	$2,624,910	$2,388,516
Canada	389,939	369,593	314,735
Western Europe	380,327	299,800	252,825
Other international	126,768	120,495	106,846
	$3,760,860	$3,414,798	$3,062,922
Operating income			
U.S.	$ 756,791	$ 682,742	$ 614,885
Canada	82,042	82,527	60,257
Western Europe	43,754	26,992	27,289
Other international	40,418	37,247	34,103
	923,005	829,508	736,534
Interest expense	(140,766)	(122,019)	(108,494)
Income before provision for income taxes	$ 782,239	$ 707,489	$ 628,040
Identifiable assets			
U.S.	$3,672,501	$3,227,638	$2,794,094
Canada	317,460	290,761	257,590
Western Europe	740,748	451,368	436,955
Other international	312,437	259,871	238,668
	$5,043,146	$4,229,638	$3,727,307

Revenues and operating income from sources outside of the U.S. include operating results of subsidiaries, fees from franchisees and affiliates (1985—$19 million; 1984—$15 million; and 1983—$13 million) and the Company's share of operating results of affiliates. Fees received in the U.S. from foreign subsidiaries which together with all other intercompany income and expenses are eliminated in computing revenues and operating income, were as follows: 1985—$29 million; 1984—$26 million; and 1983—$21 million.

STEIGER TRACTOR, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Segment Information

Steiger is engaged in the manufacture and sale of four-wheel-drive tractors, parts, components, and a line of related tillage equipment, used primarily in agricultural applications. Steiger conducts separate operations in the United States, Australia and (beginning in January 1984) Canada. Steiger Credit conducts its operations in the United States and Canada. Information about Steiger's operations in these geographic areas is as follows:

	1985	1984	1983
For the years ended September 30:	(amounts in thousands)		
Sales to unaffiliated customers:			
United States	$40,788	$ 79,040	$ 92,753
Australia	22,482	28,445	16,067
Canada	17,025	14,343	—
Intercompany transfers	31,035	32,154	11,502
Eliminations	(31,035)	(32,154)	(11,502)
Consolidated sales	$80,295	$121,828	$108,820
Operating profit (loss):			
United States	$(3,588)	$ 5,715	$ 5,327
Australia	1,245	6,722	725
Canada	363	2,765	—
Operating profit (loss)	(1,980)	15,202	6,052
General corporate and engineering expenses	(7,697)	(7,559)	(6,806)
Equity earnings of Steiger Credit	966	1,193	1,467
Other income	634	680	548
Interest and finance charges	(6,994)	(8,189)	(9,496)
Income (loss) before income tax benefits	$(15,071)	$ 1,327	$ (8,235)
At September 30:			
Identifiable assets:			
United States	$32,232	$ 39,193	$ 36,411
Australia	4,250	5,698	15,920
Canada	2,023	504	—
Eliminations	(798)	(574)	(1,310)
	37,707	44,811	51,021
Investment in and advances to Steiger Credit	23,041	33,961	17,059
Total assets	$60,748	$ 78,772	$ 68,080

In 1985, the Company changed its method of allocating expenses to geographical segments to reflect the reclassification of general corporate and engineering expenses out of operating profit (loss) in the United States. All prior years have been restated to reflect this method consistently.

Steiger's intercompany pricing philosophy is to establish prices at levels deemed equivalent to those that would prevail in an armslength transaction. Identifiable assets are those assets of the Company that are identifiable with the operations in each geographic area.

Net sales of Steiger's U.S. operations for the years ended September 30, 1985, 1984 and 1983 include export sales (including Canada prior to January 1984) of $6,151,000, $12,518,000 and $27,604,000, respectively.

Major Customers

ACME PRECISION PRODUCTS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(9) Business Segment Data

The Company operates in one business segment after giving effect to the disposition of the die casting segment (see Note 2). The Company is engaged primarily in the design and manufacture of machine tools together with related cutting tools and industrial automation equipment.

The Company has no foreign operations, and export sales are not significant. The Company distributes its products directly and is not dependent upon any single customer. However, sales to five customers in 1985, 1984 and 1983 each represented 10% or more of consolidated sales. Specifically, sales to General Motors Corporation amounted to $9,018,000 in 1985, $12,287,000 in 1984, and $6,660,000 in 1983; sales to Ford Motor Company amounted to $16,337,000 in 1985 and $5,276,000 in 1984; sales to United Technologies amounted to $5,877,000 in 1984; sales to Watervliet Arsenal amounted to $4,467,000, in 1983; and sales to Rockwell International Corporation amounted to $3,179,000 in 1983.

ADAMS-RUSSELL CO., INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Business Segments

The Company conducts business in two major industry segments, electronic products and cable services. A description of products included in each industry segment can be found elsewhere in the Annual Report. Certain financial information for each industry segment is as follows (see "Selected Financial Data," included elsewhere in the Annual Report, for information relating to net sales and operating income by industry segment):

Substantially all of the Electronic Products group's sales are to customers of the U.S. Government or its agencies. Direct sales to U.S. Government agencies represent 12%, 13% and 13% of total net sales for 1985, 1984 and 1983, respectively. In 1985, one customer accounted for 10% of consolidated net sales. In 1984 and 1983, no customer accounted for as much as 10% of consolidated net sales. Sales to foreign customers of the Electronic Products group represented 6%, 8% and 7% of total net sales for 1985, 1984 and 1983, respectively.

Export Sales

ALPHA INDUSTRIES, INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4—Company Operations

The Company operates in one industry segment: the development, production, and sale of microwave materials, devices, and components. Sales include export sales primarily to Europe of $11,116,000, $10,994,000, and $8,880,000 for the years ended March 31, 1985, 1984, and 1983, respectively.

The Company operates sales subsidiaries in the United Kingdom and West Germany. Foreign assets, liabilities, and results of operations were not material.

COMMERCIAL METALS COMPANY (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

N (In Part): Business Segments

Summarized data for the Company's foreign operations (principally Europe) are as follows (in thousands):

	1985	1984	1983
Revenues—unaffiliated customers	$280,764	$412,466	$271,354
Intersegment revenues	—	—	—
Total revenues	$280,764	$412,466	$271,354
Operating profit	$ 310	$ 886	$ 1,414
Identifiable assets	$ 23,602	$ 38,127	$ 48,350

Export sales from the U.S. were as follows (in thousands):

	1985	1984	1983
Far East	$ 41,476	$ 37,352	$ 36,761
Europe	7,642	2,963	4,550
Other	30,320	17,958	26,860
Total	$ 79,438	$ 58,273	$ 68,171

During 1984, sales to one unaffiliated customer totaled 14% of net sales, and purchases from one unaffiliated vendor amounted to 15% of cost of sales. These amounts are included in the marketing and trading segment.

The Company operates in three business segments, as indicated below. Intersegment sales generally are priced at prevailing market prices. Certain corporate administrative expenses have been allocated to segments based upon the nature of the expense.

MGM/UA ENTERTAINMENT CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Segment Information and Foreign Operations

MGM/UA's business activities consist of one business segment, filmed entertainment, which involves the financing, production and worldwide distribution of theatrical motion pictures and television series and films, music publishing related to such activities and the operation of a motion picture film laboratory which processes film for MGM/UA as well as other producers and distributors. The operating revenues and operating income are reported in the consolidated statements of income. Corporate assets were not significant in any of the last three fiscal years.

The three major U.S. television networks are significant customers of MGM/UA with revenues from these networks totaling $88,465,000 in fiscal 1983, $52,635,000 in fiscal 1984 and $58,144,000 in fiscal 1985. Individually, none of the television networks contributed more than 10% of MGM/UA's revenues in any of the three years.

Net foreign assets and income from subsidiaries operating in foreign countries were not material in relation to consolidated assets or consolidated net income. Foreign revenues are primarily export revenues earned from motion picture and television films produced in the U.S. Such export revenues by major geographic area were as follows:

	Year Ended August 31,		
	1983	1984	1985
	(Thousands)		
Europe	$139,146	$150,309	$ 76,773
Western Hemisphere (excluding U.S. and Canada)	19,663	20,256	12,651
Asia, Africa and other	56,670	61,589	46,955
Total	$215,479	$232,154	$136,379

TABLE 1-4: MONTH OF FISCAL YEAR END

	1985	1984	1983	1982
January	24	25	25	25
February	16	12	12	15
March	12	13	13	12
April	5	6	6	7
May	14	13	13	13
June	43	40	37	38
July	16	16	17	17
August	20	20	23	22
September	39	39	39	38
October	26	28	25	24
November	11	14	13	11
Subtotal	**226**	**226**	**223**	**222**
December	374	374	377	378
Total Companies	**600**	**600**	**600**	**600**

NATURAL BUSINESS YEAR

For years, the accounting and legal professions, printers, the Securities and Exchange Commission, and others interested in various aspects of the year-end bottleneck have advocated that companies adopt a natural business year. A natural business year is the period of 12 consecutive months which ends when a business's activities have reached the lowest point in its annual cycle. In many instances, the natural business year of a company is December 31.

Table 1-4 summarizes, by the month in which a fiscal year ends, the fiscal year endings of the survey companies. For tabulation purposes, if a fiscal year ended in the first week of a month, the fiscal year was considered to have ended in the preceding month.

One hundred twenty-eight survey companies use a 52–53 week fiscal year.

During 1985, six companies changed the date of their fiscal year end. Examples of such changes and examples of fiscal year definitions follow.

Change in Date of Fiscal Year Ending

ASTROSYSTEMS, INC.

Consolidated Balance Sheets

	June 30, 1985	August 31, 1984

Consolidated Statements of Operations

	Ten Months Ended June 30, 1985 (Note A1)	Year Ended August 31, 1984	1983

Consolidated Statements of Changes in Financial Position

	Ten Months Ended June 30, 1985 (Note A1)	Year Ended August 31, 1984	1983

NOTES TO FINANCIAL STATEMENTS

Note A (In Part): Summary of Significant Accounting Policies:

1. Principles of consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Material inter-company transactions and account balances have been eliminated in consolidation.

The Company changed its fiscal year end to June 30, from August 31. Accordingly, the 1985 consolidated statements of operations, changes in financial position and changes in shareholders' equity reflect the Company's operations for the ten-month period ended June 30, 1985.

Auditors' Report

Board of Directors and Shareholders
Astrosystems, Inc.
Lake Success, New York

We have examined the consolidated balance sheets of Astrosystems, Inc. and subsidiaries as at June 30, 1985 and August 31, 1984 and the related consolidated statements of changes in shareholders' equity, operations, and changes in financial position for the ten months ended June 30, 1985 and for each of the years in the two-year period ended August 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements enumerated above present fairly the consolidated financial position of Astrosystems, Inc. and subsidiaries at June 30, 1985, and August 31, 1984, and the consolidated results of their operations and changes in their financial position for the ten months ended June 30, 1985 and for each of the years in the two-year period ended August 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

BOBBIE BROOKS, INCORPORATED

Consolidated Balance Sheets

December 31, 1985	April 27, 1985

Consolidated Statements of Operations

Eight Months Ended	Years Ended	
December 31, 1985	April 27, 1985	April 28, 1984

Consolidated Statements of Shareholders' Equity

Eight Months Ended	Years Ended	
December 31, 1985	April 27, 1985	April 28, 1984

Consolidated Statements of Changes in Financial Position

Eight Months Ended	Years Ended	
December 31, 1985	April 27, 1985	April 28, 1984

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Year-End Change:

The Company has elected a calendar year-end effective December 31, 1985. Previously, the Company's fiscal year ended on the Saturday nearest to April 30.

Auditors' Report

Board of Directors and Shareholders
Bobbie Brooks, Incorporated

We have examined the consolidated balance sheet of Bobbie Brooks, Incorporated and subsidiaries as of December 31, 1985 and the related consolidated statements of operations, changes in shareholders' equity and changes in financial position for the eight months then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of Bobbie Brooks, Incorporated and subsidiaries for the years ended April 27, 1985 and April 28, 1984 were examined by other auditors whose report thereon dated July 12, 1985 expressed an unqualified opinion on those statements.

In our opinion, the 1985 financial statements referred to above present fairly the consolidated financial position of Bobbie Brooks, Incorporated and subsidiaries as of December 31, 1985 and the consolidated results of their operations and changes in their financial position for the eight months then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

INTEL CORPORATION

Consolidated Balance Sheets

December 28, 1985 and December 31, 1984	1985	1984

Consolidated Statements of Income

Three Years Ended December 28, 1985	1985	1984	1983

Consolidated Statements of Changes in Financial Position

Three Years Ended December 28, 1985	1985	1984	1983

Consolidated Statements of Shareholders' Equity

Three Years Ended December 28, 1985

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part)

Fiscal Year. In 1985 the Company changed its accounting period from a fiscal year ended December 31 to a fiscal year ended the last Saturday in December. As a result of this change, fiscal year 1985, a 52 week year, ended on December 28, 1985. This change had no material effect on the Company's 1985 financial statements. The next 53 week year will end on December 31, 1988.

Report of Certified Public Accountants

The Board of Directors and Shareholders
Intel Corporation

We have examined the consolidated balance sheets of Intel Corporation at December 28, 1985 and December 31, 1984, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 28, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements mentioned above present fairly the consolidated financial position of Intel Corporation at December 28, 1985 and December 31, 1984, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 28, 1985, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

LABARGE, INC.

Consolidated Balance Sheets

	June 30, 1985	December 31, 1984	December 31, 1983

Consolidated Statements of Operations

	Six Months Ended June 30,	Year Ended December 31,		
	1985	1984	1983	1982

Consolidated Statements of Chaes in Financial Position

	Six Months Ended June 30,	Year Ended December 31,		
	1985	1984	1983	1982

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Principles of Consolidation

Change in Reporting Period

In 1985, the Company changed its fiscal year end from December 31 to June 30. As a result of this change, fiscal year 1985 includes results of operations only for the six months ended June 30, 1985.

Accountants' Report

The Board of Directors and Stockholders
LaBarge, Inc.:

We have examined the consolidated balance sheets of LaBarge, Inc. and subsidiaries as of June 30, 1985, December 31, 1984 and December 31, 1983, and the related consolidated statements of operations, stockholders' equity, and changes in financial position for the six months ended June 30, 1985 and each of the years in the three-year period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Duralite Company, Inc. and subsidiaries, consolidated subsidiaries, as of and for each of the years in the two-year period ended December 31, 1983, such statements reflect total assets constituting 22% and total revenues constituting 24% and 2% in 1983 and 1982, respectively, of the related consolidated totals. These statements were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Duralite Company, Inc. and subsidiaries, as of and for each of the years in the two-year period ended December 31, 1983, is based solely upon the report of the other auditors.

In our opinion, based upon our examinations and the report of other auditors, the aforementioned consolidated financial statements present fairly the financial position of LaBarge, Inc. and subsidiaries at June 30, 1985, December 31, 1984 and December 31, 1983, and the results of their operations and the changes in their financial position for the six months ended June 30, 1985 and each of the years in the three-year period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

THE L. S. STARRETT COMPANY

Consolidated Balance Sheets

	June 29 1985	June 30 1984

Consolidated Statements of Earnings and Changes in Financial Position

For the years ended in June	1985	1984	1983

Consolidated Statements of Stockholders' Equity

For the years ended in June, 1983 through 1985

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant Accounting Policies (In Part)

Fiscal Year: Beginning with 1985, the Company changed its fiscal year from the last day in June to the last Saturday in June. Fiscal 1985 ended on June 29, 1985 and consisted of 364 days (52 weeks). Both fiscal 1984 and 1983 ended on June 30 and consisted of 365 days.

Accountants' Report

To the Stockholders and Directors of
The L. S. Starrett Company

We have examined the consolidated balance sheets of The L. S. Starrett Company and subsidiaries as of June 29, 1985 and June 30, 1984 and the related consolidated statements of earnings, changes in financial position and stockholders' equity for each of the years in the three-year period ended June 29, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The L. S. Starrett Company and subsidiaries at June 29, 1985 and June 30, 1984 and the results of operations and the changes in financial position for each of the years in the three-year period ended June 29, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Definition of Fiscal Year

BEATRICE COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Fiscal Year—The fiscal year of Beatrice ends on the last day of February. Many non-U.S. subsidiaries have fiscal years that end on December 31 and certain subsidiaries have fiscal years ending on the last Saturday in February.

FLEETWOOD ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. (In Part): Summary of Significant Accounting Policies

g. Accounting period: The Company's fiscal year ends on the last Sunday in April. The year ending dates for the past three fiscal years were April 28, 1985, April 29, 1984 and April 24, 1983, respectively. Fiscal year 1984 included 53 weeks compared to 52 weeks for 1985 and 1983.

HUGHES SUPPLY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies:

Fiscal Year:

The Company's fiscal year ends on the last Friday in January. Fiscal year 1986 had 53 weeks. Fiscal years 1985 and 1984 had 52 weeks.

HUNT MANUFACTURING CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. (In Part): Summary of Significant Accounting Policies:

Fiscal Year: The Company's fiscal year ends on the Sunday nearest the end of November. Fiscal year 1985 ended December 1, 1985; fiscal year 1984 ended December 2, 1984; and fiscal year 1983 ended November 27, 1983. Fiscal years 1985 and 1983 comprised 52 weeks; fiscal year 1984 comprised 53 weeks.

ROUNDING OF AMOUNTS

Table 1-5 shows a continuing increase in the number of survey companies stating financial statement amounts in millions of dollars.

TABLE 1-5: ROUNDING OF AMOUNTS

	1985	1984	1983	1982
To nearest dollar	66	72	75	81
To nearest thousand dollars:				
Omitting 000	363	357	363	351
Presenting 000	44	50	54	66
To nearest million dollars	127	121	108	102
Total Companies	**600**	**600**	**600**	**600**

COMPARATIVE FINANCIAL STATEMENTS

Rule 14c-3 of the Securities Exchange Act of 1934 requires that annual reports to stockholders should include comparative balance sheets, and statements of income and changes in financial position for each of the 3 most recent fiscal years. All of the survey companies are registered with the Securities and Exchange Commission and conformed to the aforementioned requirements of Rule 14c-3.

Usually the income statement is the first financial statement presented and is followed by either a balance sheet (252 companies) or a statement showing changes in retained earnings (106 companies). The respective totals for 1984 were 221 and 114. 177 companies presented the balance sheet as the first financial statement followed by an income statement. The corresponding total for 1984 was 186.

NOTES TO FINANCIAL STATEMENTS

Securities and Exchange Commission *Regulations S-X and S-K,* Section 545 of *Statement on Auditing Standards No. 1*, and *SAS No. 32* state the need for adequate disclosure in financial statements. Normally the financial statements alone cannot present all information necessary for adequate disclosure but must make reference to appended notes which disclose information of the sort listed below:

Changes in accounting principles.

Any material retroactive adjustments.

Long-term lease agreements.

Assets subject to lien.

Preferred stock data.

Pension and retirement plans.

Restrictions on the availability of retained earnings for cash dividend purposes.

Contingencies and commitments.

Depreciation and depletion policies.

Stock option or stock purchase plans.

Consolidation policies.

Business combinations.

Computation of earnings per share.

Subsequent events.

Quarterly data.

Segment information.

Table 1-6 summarizes the manner in which financial statements refer to notes. Notes on specific topics are illustrated in this publication in the sections dealing with such topics.

TABLE 1-6: NOTES TO FINANCIAL STATEMENTS

	1985	1984	1983	1982
General reference only......	345	335	333	317
General and direct references	246	258	259	274
Direct reference only........	6	4	4	5
No reference to notes.......	3	3	4	4
Total Companies.............	**600**	**600**	**600**	**600**

DISCLOSURE OF ACCOUNTING POLICIES

APB Opinion No. 22 states a conclusion of the Accounting Principles Board "that information about the accounting policies adopted by a reporting entity is essential for financial statements users . . . (and) should be included as an integral part of the financial statements." *Opinion No. 22* sets forth guidelines as to the content and format of disclosures of accounting policies.

Table 1-7 shows the nature of information frequently disclosed in summaries of accounting policies and the number of survey companies disclosing such information. Examples of summaries of accounting policies follow.

TABLE 1-7: DISCLOSURE OF ACCOUNTING POLICIES

	Number of Companies			
	1985	1984	1983	1982
Consolidation basis	584	581	580	578
Depreciation methods	580	580	582	585
Inventory pricing............	557	556	560	557
Interperiod tax allocation ...	532	530	533	528
Property	496	497	481	476
Earnings per share calculation.........................	393	375	376	367
Amortization of intangibles .	304	294	292	289
Employee benefits	274	281	308	323
Translation of foreign currency.......................	236	261	268	243
Research and development costs	124	145	142	137
Capitalization of interest....	78	86	93	101

ALBERTSON'S, INC. (JAN)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year End

The Company's fiscal year ends on the Thursday nearest to January 31 in each year. Unless the context otherwise indicates, reference to a fiscal year of the Company refers to the calendar year in which such fiscal year commences.

Consolidation

The consolidated financial statements include the results of operations, account balances and changes in financial position of the Company and its wholly-owned subsidiaries. All material inter-company balances have been eliminated.

Inventories

The Company values inventories at the lower of cost or market or at retail less percentages estimated as being sufficient to reduce inventories to the lower of cost or market. Cost of substantially all inventories is determined on a last-in, first-out (LIFO) basis. Cost of the remaining inventories is determined on a first-in, first-out (FIFO) basis.

Capitalization, Depreciation and Amortization

Land, buildings and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful life of the asset.

The cost of major remodeling and improvements on leased stores are capitalized as leasehold improvements. Leasehold improvements are amortized over the shorter of the life of the applicable lease or the life of the asset. Capital leases are recorded at the lower of fair market value or the present value of future lease payments. These leases are amortized over their primary term.

Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the consolidated statement of earnings.

Store Opening and Closing Costs

The noncapital expenditures incurred in opening new stores or remodeling existing stores are expensed in the year in which they are incurred. When a store is closed the remaining investment in fixtures and leasehold improvements, net of expected salvage, is expensed. The present value of any remaining liability under the lease, net of expected sublease recovery, is also expensed.

Stock Options

Proceeds from the sale of newly issued stock to employees under the company's stock option plans are credited to common stock to the extent of par value and the excess to capital in excess of par value. With respect to nonqualified stock options, the difference between the option exercise price and market value at date of grant is charged to operations over the exercise period. Income tax benefits attributable to stock options exercised are credited to capital in excess of par value.

Pensions

The Company has two pension plans which are noncontributory for eligible employees who are 21 years of age with one or more years of service and who are not covered by collective bargaining agreements. Pension costs include current service costs, which are accrued and funded on a current basis, and prior service costs, which are amortized and funded over periods of not more than 30 years. Actuarial assumptions are reviewed annually.

Income Taxes

The Company provides for deferred income taxes resulting from timing differences in reporting certain income and expense items for income tax and financial accounting purposes. The major timing differences and their net effect are shown in the notes to consolidated financial statements under income taxes.

Investment tax credit is deferred and amortized over the useful life of the related asset.

Earnings Per Share

Earnings per share is computed by dividing consolidated net earnings by the weighted average number of shares outstanding. Equivalent shares in the form of stock options are excluded from the calculation since they are not materially dilutive.

BALL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Ball Corporation and its majority-owned subsidiaries. All significant intercompany transactions are eliminated.

Revenue Recognition

Sales and earnings are recognized primarily upon shipment of products except in the aerospace operations, where the percentage of completion method is used for long-term contracts.

Inventories

Inventories are stated at the lower of cost or market, cost being determined on the last-in, first-out (LIFO) basis for glass container and zinc inventories, and generally on the first-in, first-out basis for all other inventories. If LIFO inventories had been valued at current costs, they would have been greater by $15.2 million and $16.4 million in 1985 and 1984, respectively.

Deferred Preoperating Costs

Preoperating costs of new manufacturing facilities are charged to income as incurred, except for those facilities and major expansions or modifications thereof which are constructed primarily to serve customers under contractual supply arrangements. The costs deferred, which represent principally training and other start-up costs, are amortized over the terms of the related supply contracts of up to seven years, commencing with commercial production.

Depreciation

Depreciation is provided in amounts sufficient to amortize the cost of the properties over their estimated useful lives (buildings—20 to 50 years; machinery and equipment—5 to 10 years), generally on the straight-line method.

Taxes on Income

Deferred taxes are provided for those items reported in different periods for income tax and financial statement purposes. The investment tax credit reduces the current provision for federal income tax in the year the related property which gave rise to the credit is placed in service.

Retirement Plans

Pension expense includes charges for current service and amortization of prior service costs over an average of twenty years. The company funds pension costs in accordance with the funding provisions of the Employee Retirement Income Security Act.

Earnings Per Share of Common Stock

Earnings per share computations are based upon the weighted average number of shares of common stock outstanding during the year which are disclosed on page 42 of this report. Assumed exercise of outstanding stock options would not result in significant dilution of earnings.

COLLINS & AIKMAN CORPORATION (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of all domestic and Canadian subsidiaries. All intercompany transactions and profits have been eliminated.

Fiscal year

The Company's fiscal year is 52 or 53 weeks, ending on the Saturday nearest to February 28.

Inventories

Approximately 77% of the 1985 and 82% of the 1984 inventories are valued at cost on the first-in, first-out (FIFO) method or market, whichever is lower. The remaining inventories, all of which relate to the Company's wallcovering business segment, are valued at cost on the last-in, first-out (LIFO) method, which cost is lower than current replacement market.

Depreciation

The costs of property, plant and equipment are depreciated over the estimated useful lives of the assets using principally the straight-line method. The estimated useful lives are as follows:

Buildings	20 to 50 years
Machinery & equipment	5 to 14 years

Investment tax credit

The Company recognizes the investment tax credit as a reduction of the income tax provision in the year in which the related assets are placed in service.

Foreign currency translation

Effective in 1983, the Company changed its method of accounting for foreign currency translation to comply with the requirements of Statement of Financial Accounting Standards No. 52. Under this Statement, translation adjustments previously included in net income are accumulated as a separate component of stockholders' equity.

Changes in presentation

In 1985 the Company changed its presentation of the Consolidated Statement of Changes in Financial Position from a working capital format to a format which reflects the net change in cash and temporary investments. In the opinion of management, the new format represents a more meaningful presentation of the Company's financial strength and liquidity position. Amounts for 1984 and 1983 have been reclassified to conform with the 1985 presentation. Additionally, the Consolidated Statement of Income for 1984 and 1983 has been reclassified for comparability with 1985.

GENERAL FOODS CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of General Foods Corporation and its subsidiaries. Investments in common stock representing a significant ownership interest of 50 per cent or less, and General Foods Credit Corporation, a finance leasing subsidiary, are included in these statements on the equity method of accounting.

Foreign Currency Translation: Substantially all assets and liabilities of the company's international operations are translated at the year-end exchange rates; income and expenses are translated at the average exchange rates prevailing during the year. Translation adjustments are accumulated in a separate section of stockholders' equity. Most foreign currency transaction gains and losses, as well as translation adjustments relating to hyperinflationary economies, are included in net earnings.

Inventories: Inventories are stated at the lower of cost (principally average) or market for financial reporting purposes.

Land, Buildings, Equipment: The straight-line method is generally used to compute depreciation of buildings and equipment for financial reporting purposes.

Intangible Assets: Goodwill represents the excess of cost above the fair value of net tangible assets of acquired businesses and is being amortized by the straight-line method over periods not exceeding 40 years. Other intangible assets, some of which are deductible for tax purposes, principally include the values assigned to delivery systems, product formulas, patents and inventions and also are being amortized by the straight-line method over periods not exceeding 40 years.

Retirement Plans and Postretirement Benefits: The cost of retirement plans is determined on the basis of actuarial valuations. The company accrues and generally funds current service costs and amortization of the unfunded actuarial liability usually over periods not exceeding 15 years. The company charges the cost of providing retiree health care and life insurance benefits to expense when paid.

Income Taxes: Income taxes are based on amounts included in the consolidated statements of earnings. Deferred taxes result from differences between the time that certain revenue and expense items are recognized in computing tax expense for financial statement purposes and when these items are actually reported for income tax purposes. Investment tax credits reduce the provision for income taxes as earned.

Earnings Per Share: Earnings per share amounts are based on the weighted average number of common shares outstanding during each fiscal year. Common shares issuable upon exercise of stock options are excluded from the earnings per share computation because their dilutive effect is not material.

Futures Contracts: The company executes futures contracts primarily to hedge fluctuations in costs of commodities used in production and to hedge exposures in foreign currencies. Changes in the market value of hedging contracts are reported as an adjustment of the carrying amount of the hedged item.

SUPREME EQUIPMENT & SYSTEMS CORP. (JUL)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Summary of Significant Accounting Policies:

A) Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Supreme Equipment & Systems Corp. and its wholly-owned subsidiaries. During the year ended July 31, 1985 several wholly-owned subsidiaries were dissolved. All material intercompany accounts and transactions have been eliminated in consolidation.

B) Long-Term Contracts: Sales and earnings on long-term automated systems contracts are stated on the percentage-of-completion method, based on costs incurred in relation to total estimated costs. For income tax purposes, the Company reports such earnings on the completed contract method.

C) Inventories: Inventories are priced at the lower of cost (first-in, first-out) or market.

D) Property, Equipment and Depreciation: Property and equipment are stated at cost. Depreciation and amortization are provided on a straight-line basis over the following useful lives:

	Depreciable Life Years
Building and improvements	23 to 30
Machinery and equipment	3 to 10
Tools, dies and jigs	5
Furniture and fixtures	10
Leasehold improvements	Life of lease but not in excess of useful life.

E) Consulting and Contract Proposal Costs: Fees and costs incurred for major management consulting surveys in progress and pending prime contract proposals are deferred until completion of the surveys or awarding of the contracts.

F) Income Taxes: Deferred income taxes have been provided for timing differences, primarily in tax reporting of income from long-term contracts, depreciation, deferred compensation, consulting and contract proposal costs and disposal loss on discontinued segment (See Note 7).

A former subsidiary of the Company had qualified as a Domestic International Sales Corporation (DISC) under federal tax regulations. A portion of the DISC income was not subject to federal income tax. The Company had not provided for income taxes on undistributed DISC income of $460,000. That amount has been distributed tax free in 1985 under new tax regulations.

Investment tax credits are applied to reduce income tax expense when utilized.

TRIBUNE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The significant accounting policies of Tribune Company and subsidiaries (the "Company"), as summarized below, conform with generally accepted accounting principles and reflect practices appropriate to the businesses in which they operate. Certain prior year amounts have been reclassified to conform with the 1985 presentation.

Fiscal year

The Company's fiscal year ends on the last Sunday in the calendar year. The fiscal years 1985 and 1983 comprised 52 weeks. The fiscal year 1984 comprised 53 weeks.

Principles of Consolidation

The consolidation financial statements include the accounts of Tribune Company and all majority owned subsidiaries. Investments in 20% to 50% owned companies and joint ventures are accounted for by the equity method. All intercompany transactions have been eliminated.

Translation of Canadian Financial Statements

The financial statements and transactions of the Company's Canadian subsidiaries are maintained in their functional currency (Canadian dollars) and translated into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52. Assets and liabilities are translated at current exchange rates in effect at the balance sheet date and stockholders' investment is translated at historical exchange rates. Revenues and expenses are translated at the average exchange rate for each period. Translation adjustments, which result from the process of translating Canadian financial statements into U.S. Dollars, are accumulated in a separate component of stockholders' investment in accordance with Statement No. 52.

Short-Term Investments

Short-term investments are stated at cost which approximates market value.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out ("FIFO") or average cost basis for pulpwood, supplies, materials and Canadian newsprint and primarily on the last-in, first-out ("LIFO") basis for U.S. Newsprint.

Broadcast Rights

Broadcast rights consist principally of rights to broadcast feature films, sports and syndicated programs, and are stated at the lower of cost or estimated net realizable value. The total cost of these rights is recorded as an asset and liability when the program becomes available for broadcast. Broadcast rights which have limited showings are generally amortized using an accelerated method as programs are aired. Those with unlimited showings are amortized on a straight-line method over the contract period. Broadcast rights which will be amortized in the succeeding year are classified as current assets.

Net Assets Held For Sale

Net assets held for sale represent total assets less liabilities of operations to be divested by the Company. The operations to be divested include the Company's Los Angeles newspaper and all of its cable television systems. The net assets of these operations have been shown as an asset in the Company's consolidated statement of financial position as of December 29, 1985. Net assets of this newspaper and the cable operations are $23,301,000 and $129,217,000, respectively. Such net assets comprise net properties: $149,424,000 and intangible assets: $25,307,000; less deferred income taxes: $19,650,000 and other liabilities—net: $2,563,000.

Properties

Property, plant and equipment are stated at cost. Improvements and replacements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the properties' estimated useful lives. Depletion of timber limits is based on the amount of timber cut. Depreciation and depletion expense was $87,894,000 in 1985, $76,878,000 in 1984 and $69,199,000 in 1983. The cost and accumulated depreciation and depletion of property sold or retired are removed from the accounts and gains or losses, if any, are reflected in earnings for the period.

The Company capitalizes interest costs as part of the cost of constructing major facilities and equipment. Interest costs of $2,700,000, $3,300,000 and $3,700,000 were capitalized in 1985, 1984 and 1983, respectively.

Preoperating Costs

In conformity with industry practice, the newsprint and forest products and cable television businesses capitalize preoperating costs of major new facilities during the period of construction. Start-up costs for newspaper and other production facilities are expensed as incurred. At December 29, 1985 preoperating costs of cable television businesses were $2,300,000 and have been included in net assets held for sale in the Company's 1985 consolidated statement of financial position. The 1984 unamortized preoperating costs of the newsprint and forest products business totaling $4,900,000 have been amortized fully in 1985.

Intangible Assets

Intangible assets primarily represent the excess of cost of acquired companies over the fair market value of their tangible assets. This excess cost related to subsidiaries acquired since 1971 is being amortized on a straight-line basis over various periods up to 40 years. Intangible assets of approximately $25,500,000 related to pre-1971 acquisitions are not being amortized as the Company believes there has been no diminution of value.

Deferred Income

Deferred income primarily includes two items relating to the gain on the sale of the New York Daily News building in 1982. The first item is $23,600,000 of gain that was deferred as the portion representing the equity interest retained in the partnership that purchased the building. This deferred income will be recognized in the event the Company's interest in the partnership is sold or the building is sold to a third party.

The second item is gain that was deferred due to the leaseback of a portion of the building. During 1985, 1984 and 1983, $4,600,000, $8,200,000 and $9,600,000, respectively, of this deferred gain was amortized to income as a reduction of rent expense in the newspaper publishing segment. The remaining unamortized gain of $6,600,000 will be amortized to income over the next two years. The deferred gain of

$4,000,000 that will be amortized to income in 1986 is classified as a current liability at December 29, 1985.

Income Taxes

Investment tax credits are recorded under the flow-through method of accounting as a reduction of the provision for income taxes. Investment tax credits are recognized in the financial statements to the extent that the credit would have been realized on the respective income tax return if taxes payable had been based on pre-tax accounting income. Any remaining available investment tax credit has been recognized to the extent that existing net deferred tax credits will reverse during the investment tax credit carryforward period, subject to statutory limitations.

A provision is made for appropriate income taxes on undistributed earnings of Canadian subsidiaries which are expected to be received by the U.S. parent company. No provision for income taxes has been made on undistributed Canadian earnings of $211,000,000 at December 29, 1985. These earnings have been permanently invested by the Canadian subsidiaries in facilities and other assets and have borne substantial Canadian income taxes that would offset, in major part, any tax liability resulting from their distribution.

Net Income Per Share

Net income per share has been computed based upon the weighted average number of common shares outstanding during the year. Shares issuable upon the exercise of stock options have not been included in the computation because they would not have a material effect on net income per share. The number of shares used in the computation were 40,522,628 in 1985, 40,400,463 in 1984 and 36,625,391 in 1983. All share and per share amounts have been retroactively adjusted for the 4,799-to-1 stock distribution in the nature of a stock split, effective October 3, 1983.

TABLE 1-8: ACCOUNTING CHANGES

	Number of Companies			
	1985	1984	1983	1982
Actuarial assumptions	104	118	83	144
Actuarial cost method	38	20	19	22
SFAS 87 adopted	17	—	—	—
LIFO method adopted or extended	10	4	6	14
Other inventory changes	8	7	4	7
Depreciation method	7	4	5	9
Reporting entity	5	9	9	4
Depreciable lives	3	3	6	6
Investment credit	2	3	2	7
Foreign currency translation	—	12	64	167
Taxes on undistributed earnings	—	—	2	6
Compensated absences	—	1	—	50
Interest capitalization	—	—	—	2
Other—described	16	15	11	26

ACCOUNTING CHANGES

APB Opinion No. 20 "defines various types of accounting changes and establishes guides for determining the manner of reporting each type." Table 1-8 lists the accounting changes disclosed in the 1985 annual reports of the survey companies. As indicated in Table 1-8, the most frequently disclosed changes related to pension plans with 17 companies disclosing early compliance with *Statement of Financial Accounting Standards No. 87* and 38 additional companies disclosing a change to the projected unit credit method without referring to *SFAS No. 87*.

Examples of accounting changes follow. Examples of accounting changes related to pension plans or involving a restatement of prior year financial statements are presented in connection with Table 3-8 or Table 4-3, respectively.

CHANGE IN ACCOUNTING ESTIMATES

CYCLOPS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12—Deferred Service Revenue

In 1985, the Company effected an accounting estimate change for the recognition of deferred service revenue, resulting in additional net income of $6,885,000, or $1.76 per share for the year. This change was made so that revenue recognition would more closely correspond to the historical warranty claim experience of the Company.

RCA CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

12 (In Part): Employee Benefit Plans

Post-Retirement Insurance Plan

RCA provides certain health-care and life-insurance benefits to qualified retired employees. The actuarially determined cost of such benefits is accrued for each employee from age 55 until retirement and is funded annually. The expense was $24.7 million (1984—$36.5; 1983—$31.7). The estimates used to develop this expense were revised in 1985 to more accurately reflect RCA's historical claims experience. This revision reduced 1985 expense by $19.2 million ($.12 per share after tax). In addition, $15 million ($.09 per share after tax) of previously provided post-retirement liabilities was no longer required and was reversed.

UNION CARBIDE CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Fixed assets and depreciation—Fixed assets are carried at cost. Expenditures for replacements are capitalized and the replaced items are retired. Gains and losses from the sale of property are included in income.

Depreciation is calculated on a straight-line basis. The Corporation and its subsidiaries generally use accelerated depreciation methods for tax purposes where appropriate.

In the third quarter of 1985, Union Carbide revised, retroactive to January 1, 1985, the estimated useful lives used to depreciate the cost of machinery and equipment. Machinery and equipment lives, which formerly ranged from 10 to 20 years, were shortened to 10 to 15 years. See Note 3.

3: Change in Accounting Estimate

As explained in Note 1, during 1985 Union Carbide revised, retroactive to January 1, 1985, the estimated useful lives used to depreciate the cost of machinery and equipment. The effects of this change in accounting estimate were to increase 1985 depreciation expense by approximately $57 million, and to decrease 1985 net income by approximately $34 million, or $0.16 per share.

CHANGE IN ACCOUNTING PRINCIPLES

BERGEN BRUNSWIG CORPORATION (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2–Change to LIFO Accounting

To match costs and related revenues more properly, the Corporation changed its method of valuing the Drug and Health Care and Medical/Surgical Supplies inventories to the LIFO method in the third quarter of 1985. The Consumer Electronics segment inventories ($41,090,000 at August 31, 1985) continue to be valued using the FIFO method because of the deflationary nature of its inventory costs.

It is not possible to determine the cumulative effect of the change on retained earnings as of September 2, 1984 nor the proforma effects of retroactive application of the change for prior periods. In accordance with generally accepted accounting principles, the change is prospective from September 1, 1984. The effect of the change to LIFO in 1985 was to decrease earnings from continuing operations by $3.4 million or $.27 per share.

MUNSINGWEAR, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

E. Inventories

Inventories at December 31 consisted of:

	1985	1984
	(In thousands)	
Raw Materials	$ 7,623	$ 3,731
Work In Process	2,804	2,307
Finished Goods	12,546	10,138
	$22,973	$16,176

Effective January 1, 1985, the Company changed its method of determining the cost of its outlet store inventories from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method. Effective July 17, 1985 (acquisition date), the Company's wholly-owned subsidiary Form-O-Uth, changed its method of determining the cost of its inventories from the FIFO method to the LIFO method. The Company believes the LIFO method will more fairly present results of operations by reducing the effect of inflationary cost increases in inventories and thus match current costs with current revenues. Because the December 31, 1984 outlet stores inventories and the July 16, 1985 Form-O-Uth inventories valued at FIFO are the opening LIFO inventories, there is neither a cumulative effect to January 1, 1985 or July 17, 1985 nor pro forma amounts of retroactive application of changing to the LIFO method of determining inventory costs. The effect of the change in 1985 was to reduce inventory and net earnings by $1,262,000.

Inventories stated at the lower of cost or market as determined by the LIFO method, are lower than cost, as determined by the FIFO method, by $7,462,000 and $7,100,000 at December 31, 1985 and 1984, respectively. A decrease in the level of inventories valued under the LIFO method in 1983 resulted in the liquidation of certain LIFO valuation layers, which increased the Company's net earnings by $4,200,000 or $1.10 per share for 1983.

A. O. SMITH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Accounting Changes

Software development costs. During the third quarter of 1985, the Financial Accounting Standards Board issued and the company adopted statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." Under this statement, software production costs incurred by the company's data systems business segment in connection with the development of certain products, primarily electronic funds transfer software, are being capitalized and amortized on a product-by-product basis over periods not exceeding three years. The effect of this accounting change, which is in accordance with the statement and which has been applied to costs incurred during all of 1985, was to increase earnings from continuing operations by approximately $2.0 million ($.26 per primary share of common stock). At December 31, 1985, $3.9 million of unamortized software costs are included in the accompanying consolidated balance sheet and $.1 million was charged to expense as amortization of such costs for the year then ended.

WILSON FOODS CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

Inventories: Inventories are stated at the lower of cost (first-in, first-out method) or market except that those products which do not have ascertainable costs, principally the meat portion of product inventories, are stated at market less an allowance for selling and distribution expenses.

From time to time, the Company partially hedges its inventories and purchase and sale commitments by entering into contracts on commodity exchanges. Effective with the 1985 fiscal year, in accordance with Financial Accounting Standards Board ("FASB") Statement No. 80, the results of these hedging transactions become part of the cost of the related inventory items. The computation of market value of inventories includes adjustment for unrealized gain or loss in open contracts. Gains and losses on open futures contracts not deemed to be hedges, if any, are charged to operations. Prior to fiscal year 1985, gains and losses on all futures contracts were recognized when settled, except unrealized losses were charged to operations. Had the new method been in effect in prior years, fiscal 1983 net loss would have been reduced by approximately $2.6 million or $0.44 per share and fiscal 1984 net income would have been reduced by approximately $2.5 million or $0.42 per share. There is no material cumulative effect at the beginning of the 1985 fiscal year or on the results of operations for the 1985 fiscal year because of this change in accounting method.

ROWE FURNITURE CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2—Change in Accounting Principle

Depreciation is provided for primarily by the declining balance method on substantially all property acquired prior to December 1, 1984. The Company adopted the straight-line method for financial statement purposes for all property acquired after November 30, 1984. The new method conforms with that prevalent in the industry. The effect of the change for the year ended November 30, 1985 was to increase net earnings by $122,000 and earnings per share by $0.05.

TEXAS INSTRUMENTS INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

Property, Plant and Equipment at Cost

	Depreciable Lives	Millions of Dollars 1985	1984
Land		$ 47.7	$ 47.6
Buildings and improvements	5-40 years	1,150.9	1,076.0
Machinery and equipment	3-10 years	1,577.0	1,453.5
Total		$2,775.6	$2,577.1

Authorizations for property, plant and equipment expenditures in future years were approximately $273 million at December 31, 1985, and $447 million at December 31, 1984.

Accounting Change: The company changed its depreciation method for certain machinery and equipment placed in service beginning in the third quarter of 1985 from double declining balance to 150-percent declining balance. Similar machinery and equipment placed in service prior to July 1, 1985, continue to be depreciated by the double declining balance method. In the company's opinion, the new method will result in a more appropriate matching of costs with revenue for the new machinery and equipment over their estimated useful lives. The change did not have a material effect on 1985 results.

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Change—Program Products

On January 1, 1985, the company changed the method of amortization of program product assets from the straight-line method to a method based on the estimated revenue distribution over the products' revenue-producing lives. This change was applied as of January 1, 1985 to the remaining net book value of the existing assets, as well as to new assets.

In the opinion of management, this change will result in a better matching of costs with revenue because it is reflective of the increasing diversity of product offerings and of their terms and conditions. This change did not have a material effect on 1985 earnings.

REPORTING ENTITY

CONTROL DATA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Accounting Policies

Change in Basis of Consolidation and Presentation

Effective December 31, 1985, Control Data changed its method of accounting for its investment in Commercial Credit, a wholly-owned financial services subsidiary, from consolidation to recording it on an equity basis. As a result, the presentation of the balance sheet has changed from a non-classified to a classified basis. The change has no effect on consolidated net earnings or stockholders' equity, and prior years financial information has been restated on a comparable basis.

The equity method is intended to provide stockholders a more appropriate view of the computer business results than was provided under the consolidated basis. The change is due to the disparity of the businesses and changes in strategies related to Commercial Credit resulting in greater separateness of this business.

J.C. PENNEY COMPANY, INC. (JAN)

SUMMARY OF ACCOUNTING POLICIES

Basis of Consolidation. The accounts of J.C. Penney Financial Corporation (Financial), a wholly-owned subsidiary whose primary activity is to finance the Company's operations, are, for the first time, included in the Company's consolidated financial statements in order to more appropriately reflect the financial structure of the Company. Prior to 1985, Financial was presented as an unconsolidated subsidiary accounted for by the equity method and its income before income taxes was included as a reduction of interest expense. This change had no effect on the Company's Statement of Income; however, the Balance Sheet and the Statement of Changes in Financial Position have been retroactively restated. For a more detailed description of Financial, refer to its 1985 annual report, which is available upon request.

The consolidated financial statements present the results of J.C. Penney Company, Inc. and its subsidiaries except for the insurance operations, the bank, and real estate development operations, which are accounted for by the equity method. The combined income of these unconsolidated operations is included as a single item in the Statement of Income. Intercompany items and transactions have been eliminated in consolidation.

CONSOLIDATION POLICIES

Accounting Research Bulletin No. 51 states in part:

1. The purpose of consolidated statements is to present, primarily for the benefit of the shareholders and creditors of the parent company, the results of operations and the financial position of a parent company and its subsidiaries essentially as if the group were a single company with one or more branches or divisions. There is a presumption that consolidated statements are more meaningful than separate statements and that they are usually necessary for a fair presentation when one of the companies in the group directly or indirectly has a controlling financial interest in the other companies.

5. Consolidated statements should disclose the consolidation policy which is being followed. In most cases this can be made apparent by the headings or other information in the statements, but in other cases a footnote is required.

Paragraphs 2 and 3 of *ARB No. 51* and paragraph 8, Chapter 12 of *ARB No. 43* describe the conditions under which a subsidiary should or might not be consolidated.

Table 1-9 summarizes the consolidation policies of the survey companies for significant subsidiaries and shows the type of subsidiary commonly excluded from consolidation. For the purpose of the aforementioned tabulation a subsidiary is a company described in an annual report as a subsidiary or as more than 50 percent owned by its parent company. Notes to financial statements discussing consolidation policies follow.

TABLE 1-9: CONSOLIDATION POLICIES

	1985	1984	1983	1982
Nature of Subsidiaries Not Consolidated				
Finance related				
Credit	107	104	97	102
Insurance	58	54	60	60
Leasing	16	15	18	21
Banks	7	5	5	4
Real Estate	32	26	31	33
Foreign	12	15	17	20
Number of Companies				
Consolidating all significant subsidiaries	423	420	419	414
Consolidating certain significant subsidiaries	172	174	172	180
Not presenting consolidated financial statements	5	6	9	6
Total Companies	**600**	**600**	**600**	**600**

All Subsidiaries Consolidated

CAMPBELL SOUP COMPANY (JUL)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation—The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Significant intercompany transactions are eliminated in consolidation. In previous years, foreign subsidiaries (except those in Canada) were consolidated on the basis of their fiscal years ended June 30. During the current year, the fiscal year-ends of those subsidiaries were changed to conform with the Company's and accordingly, an additional month of operating results, which are not material, are included in the financial statements. Investments in affiliates owned 20% or more are accounted for by the equity method.

DIAMOND SHAMROCK CORPORATION (DEC)

FINANCIAL SUMMARY

Significant Accounting Policies (In Part)

Consolidation and Equity Accounting

The Consolidated Financial Statements include the accounts of Diamond Shamrock Corporation and all domestic and foreign subsidiaries ("the Company"). The Company uses the equity method to account for its investments in affiliates and joint ventures ("associated companies"), and the proportionate consolidation method to account for its investments in Diamond Shamrock Offshore Partners Limited Partnership and other non-corporate joint ventures in oil and gas exploration and production. Under the equity method, the Company recognizes its proportionate share of the net income or loss of associated companies currently, rather than when realized through dividends or disposal.

All significant intercompany accounts and transactions have been eliminated. Foreign subsidiaries and associated companies are included principally on the basis of fiscal years ending November 30.

EMERSON RADIO CORP. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): The Company and its Significant Accounting Policies:

(1) Principles of Consolidation:

The consolidated financial statements include the accounts of Emerson Radio Corp. ("the Company"), its wholly-owned subsidiaries, and Cardiac Resuscitator Corporation ("CRC") which is 71% owned in 1985 and 1984 and 74% owned in 1983. All significant intercompany transactions have been eliminated. Effective October 1, 1982, the accounts of CRC have been included in the consolidated financial statements of the Company. CRC was previously accounted for under the equity method. The change was made due to the increased significance of CRC's balance sheet to the consolidated financial position of Emerson Radio Corp. This change had no effect on net earnings for any period.

The investment in Imatron Inc., is carried at equity and the Company's proportionate share of Imatron's undistributed income or losses are charged or credited to income.

NATIONAL PRESTO INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies:

Principles of Consolidation: The consolidated financial statements include the accounts of National Presto Industries, Inc. and its subsidiaries all of which are wholly-owned. All material intercompany accounts and transactions are eliminated.

SMITHKLINE BECKMAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of SmithKline Beckman Corporation, all of its subsidiaries and its controlled joint venture in Japan.

The accounts of foreign subsidiaries are included for their fiscal years ended within two months of the Company's year end. Intercompany accounts and transactions are eliminated in consolidation.

All Significant Subsidiaries Consolidated

FISCHBACH CORPORATION (SEP)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Principles of Consolidation—The accompanying consolidated financial statements include the accounts of all significant domestic and foreign subsidiaries. All significant intercompany accounts and transactions are eliminated.

5. Foreign Operations

Summarized information relating to foreign operations is as follows:

(In thousands)	1985	1984
Revenues from completed contracts and other operations	$17,204	$21,406
Income before income taxes	2,139	3,407
Federal and foreign income taxes	958	1,758
Net income	1,181	1,649
Total assets	27,091	30,100
Total liabilities	11,607	12,609

Finance-Related Subsidiaries Not Consolidated

KERR-McGEE CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Principles of Consolidation

The accounts of all subsidiary companies that are more than 50-percent owned, except for Kerr-McGee Credit Corporation and its subsidiaries, all of which are engaged in financing and leasing activities, are included in the consolidated financial statements. Investments in affiliated companies that are 10-percent to 50-percent owned and Kerr-McGee Credit Corporation are carried in the "Investments and Other Assets" caption of the Consolidated Balance Sheet at cost adjusted for equity in undistributed earnings. Changes in equity in undistributed earnings are included in the Consolidated Statement of Income. All material intercompany transactions have been eliminated.

THE MEAD CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

A (In Part): Accounting Policies

Consolidation. The accompanying statements include the accounts of all significant domestic and overseas packaging subsidiaries, all of which are wholly-owned. Jointly-owned companies, partially-owned foreign operations and insurance subsidiaries are stated at cost plus the company's equity in their undistributed net earnings since acquisition. All significant intercompany transactions are eliminated.

D (In Part): Other Assets

(All dollar amounts in millions)

Mead's insurance activities are conducted by Mead Reco, a wholly-owned subsidiary that operates primarily in the reinsurance market.

(All dollar amounts in millions) December 31	1985	1984
Total assets	$175.6	$143.4
Claim reserves	(122.3)	(95.9)
Other liabilities	(28.1)	(21.0)
Equity in insurance activities	$ 25.2	$ 26.5

Year Ended December 31	1985	1984	1983
Net premiums earned	$68.1	$50.5	$32.4
Investment and other revenue—net	14.3	14.2	18.1
Costs and expenses	(90.6)	(83.2)	(45.7)
Earnings (loss) before income taxes	(8.2)	(18.5)	4.8
Income taxes (benefit)	(5.0)	(4.3)	2.0
Net earnings (loss)	$(3.2)	$(14.2)	$ 2.8

Insurance subsidiaries of Mead Reco entered into an agreement to reinsure $35 million of potential claims over $80 million on all business written and assumed related to the 1983 and prior policy years. These subsidiaries recorded insurance recoveries under this agreement resulting in a net reduction of costs and expenses of $4.0 million and $5.0 million in 1985 and 1984, respectively, and $19.6 million (net of contract cost of $6.4 million) in 1983. Payments by the assuming company to the insurance subsidiaries begin no earlier than 1994.

Insurance activities in 1984 included an accrual for loss on the disposition of the company's foreign reinsurance operations which reduced earnings before tax and net earnings by $9.0 million.

PFIZER INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

The consolidated financial statements include the accounts of Pfizer Inc. and all significant subsidiaries except for its financial subsidiaries. Because of the nature of these operations, the accounts of these companies are not consolidated, but their earnings are included in "Other income" in the Consolidated Statement of Income under the equity method of accounting. Material intercompany transactions are eliminated.

Financial Subsidiaries

During the fourth quarter of 1985, the Company incorporated and began operations of a wholly-owned offshore banking subsidiary (Pfizer International Bank). Combined financial data as of November 30, 1985 applicable to the Bank, as well as a small captive, offshore insurance company (Kodiak), which was formed in a prior year, are presented below:

Condensed Balance Sheet (millions of dollars)	1985
Cash and interest bearing deposits	$315.7
Investment securities, at cost	266.5
Loans and other assets	55.7
Total assets	$637.9
Time deposits and other liabilities	$ 27.0
Shareholder's equity	610.9
Total liabilities and shareholder's equity	$637.9

Condensed Statement of Income (millions of dollars)	1985
Net interest income	$5.5
Other expenses	1.1
Net income	$4.4

Foreign Subsidiaries Not Consolidated

AMERICAN HOME PRODUCTS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies:

Principles of consolidation: The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries with the exception of those subsidiaries described in Note 3 which are accounted for on a cash basis.

3. Provision for Impairment of Investment in Certain Foreign Locations:

In 1984, the Corporation recorded a charge of $50,000,000 recognizing the impairment of its investment in its subsidiaries in South America, except for its investment in Brazil. The provision was made after determining that the continued imposition of constraints such as dividend restrictions, exchange controls, price controls and import restrictions in these countries so severely impede management's control of the economic performance of the businesses that continued inclusion of these subsidiaries in the consolidated financial statements is inappropriate. The Company is continuing to operate these businesses, which for the most part are self-sufficient; however, the investments have been deconsolidated and earnings are recorded on a cash basis. Net sales from these operations aggregated $97,790,000, $95,084,000, and $100,845,000 in 1985, 1984 and 1983, respectively. Net income included in the consolidated statements of income was approximately $2,200,000 for 1985 and approximately $2,000,000 for 1984 and 1983.

Subsidiaries To Be Spun Off Not Consolidated

ALLIED-SIGNAL INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions except per share amounts)

Note 1 (In Part): Summary of Significant Accounting Policies

Consolidated financial statements include the accounts of Allied-Signal Inc. and all majority owned significant subsidiaries, except for operations to be distributed to shareholders (see Note 3 of Notes to Financial Statements). The Company is the successor to Allied Corporation (Allied) which acquired The Signal Companies, Inc. (Signal) in a combination which became effective on September 19, 1985.

Note 3 (In Part): Investment in the Henley Group

The Board of Directors has authorized management to proceed with the formation of a new company, The Henley Group, Inc., and the subsequent distribution of 70 percent of Henley stock to the Company's shareholders. Henley will consist of 35 businesses which are no longer consistent with the Company's strategic focus on value-added, high technology products and markets.

In connection with the distribution, the Company has agreed, subject to certain conditions, to provide support arrangements to Henley, including cash advances and financial, contract performance and project completion guarantees.

The Company's investment in Henley is reflected in the consolidated financial statements on the equity method of accounting for all years presented. Prior years' financial statements have been restated accordingly.

Selected financial data for Henley are summarized below:

Years ended December 31	1985	1984	1983
Net sales	$1,845	$1,320	$1,233
Cost of goods sold	1,577	1,092	1,004
Net income (loss)	(66)(a)	(23)	3(b)

December 31	1985	1984
Assets:		
Current assets	$ 815	$ 367
Property, plant and equipment-net	706	462
Other assets	2,520(c)	366
	$4,041	$1,195
Liabilities and Group Equity:		
Current liabilities	$1,199	$ 157
Long-term debt	25	14
Other liabilities	197	74
Group equity	2,620	950
	$4,041	$1,195

(a) Includes a nonrecurring charge of $47 million (after tax loss of $41 million) relating to streamlining and the write-down to realizable value of operations to be sold.

(b) Includes $3 million for the cumulative effect of the change in method of accounting for investment tax credits from the deferral to the flow-through method, effective January 1, 1983.

(c) Includes majority owned investments in leasing, financing, real estate and refuse-to-energy operations on an equity basis and cost in excess of net assets of acquired companies.

Subsidiary Not Consolidated Because Control Temporary

AEL INDUSTRIES, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. The Company owns 58.7% of Elisra Electronic Systems Ltd. and accounts for its investment therein by the equity method (see Note 4).

4. Investment In Unconsolidated Subsidiary

On November 29, 1984 the Company acquired additional capital stock of Elisra Electronic Systems Ltd. (ELISRA). The Company previously owned 37% of the capital stock of ELISRA and accounted for this investment by the equity method. The additional investment in ELISRA's capital stock was purchased for $4,111,000, and $1,200,000 represents goodwill which is being amortized over ten years. The Company now owns 58.7% of the voting stock of ELISRA and has effective control of this investment. However, control is deemed to be temporary and a continuation of the equity method of accounting is considered appropriate because of the Company's intent to sell or exchange the ELISRA stock. Disposition is expected to occur within the next two to four years. In applying the equity method in annual reporting periods, the Company has used the financial statements of ELISRA for its fiscal year ended December 31. At February 22, 1985, the cumulative undistributed earnings of ELISRA included in the Company's consolidated balance sheet are $2,865,000.

Summarized financial information of ELISRA is as follows:

	December 31,	
	1984	1983
	(Dollars in thousands)	
Current assets	$44,174	$34,841
Noncurrent assets	11,089	8,659
	$55,263	$43,500
Current liabilities	$32,291	$25,746
Noncurrent liabilities	8,606	7,839
Shareholders' equity	14,366	9,915
	$55,263	$43,500

	Year Ended December 31,		
	1984	1983	1982
	(Dollars in thousands)		
Sales	$54,995	$45,729	$40,170
Operating costs and expenses	48,534	41,568	37,101
Other income (expense), net	(310)	75	(1,287)
	6,151	4,236	1,782
Income tax provision	1,700	1,746	824
Net income	$ 4,451	$ 2,490	$ 958

Net foreign exchange transaction gains (losses) were $112,000, $529,000 and $(1,236,000) for the years ended December 31, 1984, 1983, and 1982, respectively. These amounts are included in other income (expense), net.

Fiscal Period Of Foreign Subsidiaries Changed

ALLEGHENY INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Basis of Consolidation. The consolidated financial statements include the accounts of Allegheny and its subsidiaries with the exception of wholly-owned finance, insurance and real estate development subsidiaries (see page 16). Prior to 1985, foreign subsidiaries were consolidated generally on the basis of a November 30 year-end. During 1985 Allegheny began consolidating its non-U.S. operations on a coterminous basis, the effect of which was immaterial to 1985 operating results. All significant intercompany transactions are eliminated.

Investments in unconsolidated affiliated companies are carried at cost plus equity in undistributed earnings since acquisition.

BUSINESS COMBINATIONS

Paragraph 8 of *APB Opinion No. 16* states:

The Board concludes that the purchase method and the pooling of interests method are both acceptable in accounting for business combinations, although not as alternatives in accounting for the same business combination. A business combination which meets specified conditions requires accounting by the pooling of interests method. A new basis of accounting is not permitted for a combination that meets the specified conditions, and the assets and liabilities of the combining companies are combined at their recorded amounts. All other business combinations should be accounted for as an acquisition of one or more companies by a corporation. The cost to an acquiring corporation of an entire acquired company should be determined by the principles of accounting for the acquisition of an asset. That cost should then be allocated to the identifiable individual assets acquired and liabilities assumed based on their fair values; the unallocated cost should be recorded as goodwill.

Paragraphs 50 to 65 and 66 to 96 of *Opinion No. 16* describe the manner of reporting and disclosures required for a pooling of interests and a purchase, respectively.

Table 1-10 shows that in 1985 the survey companies reported 24 business combinations accounted for as a pooling of interests of which 14 such business combinations did not result in a restatement of prior year financial statements. Those companies not restating prior year financial statements for a pooling of interests usually commented that the reason for not doing so was immateriality.

Examples of poolings of interests and purchases follow. Also presented are examples of corporate reorganizations.

TABLE 1-10: BUSINESS COMBINATIONS

	1985	1984	1983	1982
Poolings of Interests				
Prior year financial statements restated	10	12	11	11
Prior year financial statements not restated..	14	11	15	13
Total	**24**	**23**	**26**	**24**
Purchase Method.................	**200**	**194**	**154**	**145**

POOLINGS OF INTERESTS

HUGHES SUPPLY, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7—Business Combination:

On September 24, 1985, the Company acquired all the common stock of Carolina Pump & Supply Corp. in exchange for 134,145 shares of the Company's common stock. Carolina is a wholesale distributor of water and sewer products and pump and irrigation equipment and supplies, with eleven sales outlets in North and South Carolina. The business combination has been accounted for as a pooling of interests and, accordingly, the consolidated financial statements for periods prior to the combination have been restated to include the accounts of Carolina. Carolina's previous financial results have been restated from a calendar year to the Company's January fiscal year, the effect of which was immaterial.

The following table shows the effect on results of operations for the periods prior to the combination:

Six Months Ended July 31, 1985 (Unaudited):	Sales	Net Income	Net Income Per Share	Average Number of Shares Outstanding
The Company	$143,050,110	$2,996,188	$ .94	3,191,457
Carolina	14,909,613	340,414		
Combined	$157,959,723	$3,336,602	$1.01	3,325,602

Fiscal Year Ended January 25, 1985	Sales	Net Income	Net Income Per Share	Average Number of Shares Outstanding
The Company (as previously reported)	$285,454,791	$6,327,120	$2.02	3,127,847
Carolina	25,014,863	496,461		
Combined	$310,469,654	$6,823,581	$2.09	3,261,992

Fiscal Year Ended January 27, 1984	Sales	Net Income	Net Income Per Share	Average Number of Shares Outstanding
The Company (as previously reported)	$237,240,176	$5,438,458	$1.85	2,943,392
Carolina	19,438,262	434,378		
Combined	$256,678,438	$5,872,836	$1.91	3,077,537

There were no transactions between the Company and Carolina prior to the combination.

QUAKER STATE OIL REFINING CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

2 (In Part): Acquisitions:

In November 1985, the Company acquired Quaker State Minit-Lube, Inc., formerly Arctic Circle, Inc., (Minit-Lube), an operator of fast-service automobile lubrication centers and fast food restaurants. The transaction was effected through the exchange of 1,425,000 shares of Capital Stock of the Company for all the issued and outstanding shares of Minit-Lube and has been accounted for as a pooling of interests. The consolidated statements, including earnings per share, have been restated for 1984 and 1983 to include the balance sheets and results of operations of the Minit-Lube fiscal years ended March 31, 1985 and 1984. To reflect the change in Minit-Lube's fiscal year to conform to that of the Company, consolidated retained earnings in 1985 has been charged for $322,000, representing Minit-Lube's net income on sales of $7,446,000 for the three months ended March 31, 1985. Separate Company financial information is presented below.

(in thousands)	Nine months ended September 30, 1985 (unaudited)	1984	Year ended December 31, 1983
Sales and Operating Revenues:			
Quaker State	$721,930	$924,630	$902,690
Minit-Lube	25,392	28,809	24,127
Combined	$747,322	$953,439	$926,817
Net Income:			
Quaker State	$ 32,022	$ 17,756	$ 36,574
Minit-Lube	1,319	1,375	890
Combined	$ 33,341	$ 19,131	$ 37,464

ANALOGIC CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Business combination:

In May 1985, the Company issued approximately 485,000 shares of its common stock for all of the outstanding common stock of 3H Industries (3H), a manufacturer of electronic test equipment. This acquisition has been accounted for as a pooling of interests and, accordingly, the consolidated financial statements for three years ended July 31, 1985 have been restated for the period prior to the acquisition to include the accounts and operations of 3H.

Separate results of operations of the combined entities are as follows:

	Nine months ended April 30, 1985 (Unaudited)	Year ended July 31, 1984	Year ended July 31, 1983
Net sales:			
Analogic	$93,632,153	$141,311,783	$128,804,901
3H	4,857,000	6,665,000	4,683,000
Less intercompany sales	(183,962)	(64,874)	
Combined	$98,305,191	$147,911,909	$133,487,901
Net income:			
Analogic	$ 6,004,477	$ 16,506,310	$ 15,093,893
3H	801,000	(62,000)	(922,000)
Combined	$ 6,805,477	$ 16,444,310	$ 14,171,893

RUBBERMAID INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share amounts)

2 (In Part): Acquisitions

In December 1985, 2,266,449 Common Shares were issued in exchange for all the outstanding Common Shares of Gott Corporation, a manufacturer of insulated chests, beverage coolers and other molded plastic products.

The acquisition has been accounted for as a pooling of interests, and accordingly the accompanying financial information has been restated to include the accounts of Gott Corporation for all periods presented. Gott Corporation financial information included in the accompanying consolidated financial statements has been converted from a fiscal year ending September 30 to the Company's calendar year basis of reporting.

Net sales and net earnings of the separate companies for the periods preceding the acquisition were:

	Eleven months ended November 30, 1985	Years ended December 31 1984	1983
Net sales:			
Rubbermaid	$570,337	$566,429	$479,584
Gott	55,996	42,706	32,124
Combined	$626,333	$609,135	$511,708
Net earnings:			
Rubbermaid	$ 50,466	$ 46,870	$ 39,575
Gott	3,358	2,558	2,222
Combined	$ 53,824	$ 49,428	$ 41,797

PURCHASES

BOBBIE BROOKS, INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D—Acquisition

On November 1, 1985, the Company acquired for $4,000,000 all of the outstanding common stock of Main Line Fashions, Inc., a manufacturer of women's coats and outerwear. Additional consideration, not to exceed $4,000,000, may be paid on a five year earnout formula.

The acquisition has been accounted for as a purchase and, accordingly, the original purchase price was allocated to assets and liabilities acquired based upon their fair value at the date of acquisition. The excess of the purchase price over the fair value of net assets acquired ($843,000) has been allocated to intangible assets. Additional consideration under the earnout formula will increase intangible assets if earned and paid.

The Company's financial statements for the eight month period ended December 31, 1985 include the results of operations of Main Line Fashions since November 1, 1985.

The following summarizes the unaudited consolidated pro forma results of operations, assuming the acquisition had occurred at the beginning of each of the following periods:

	Eight Months Ended December 31, 1985	Year Ended April 27, 1985
	(000's except per share amounts)	
Net sales	$43,400	$83,900
Net loss	(5,600)	(120)
Net loss per share	(.90)	(.02)

CMI CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Acquisition

On October 1, 1985, the Company acquired all of the outstanding capital stock of RayCo, Inc. and its wholly-owned subsidiary, R.G.B.A. Albaret Industries S.A. (RayGo), for $7,500,000. RayGo builds a broad line of soil and road compaction equipment.

The RayGo shareholders received from the Company 468,000 shares of common stock with a fair market value of $3,534,000; 4,800 shares of 7% Series B Preferred Stock with a fair market value of $3,766.000; and a $200,000 note due December 31, 1985. The preferred stock is more fully described in note 6 of the notes to consolidated financial statements "Redeemable Preferred Stock."

RayGo's assets, liabilities and results of operations since October 1, 1985, are included in the accompanying consolidated financial statements. The acquisition has been accounted for as a purchase and the purchase price has been assigned to the net assets acquired based on the fair value of such assets and liabilities at date of acquisition. The excess of cost over the net tangible assets acquired of $2,581,000 is included in deferred charges and other assets in the accompanying balance sheet and is being amortized over 25 years on a straight-line basis.

The following unaudited pro forma combined results of operations for the years ended December 31, 1985 and 1984, each give effect to the acquisition of RayGo as though it had occurred at the beginning of the year, with adjustments primarily attributable to the amortization of the excess of cost over the net tangible assets acquired.

(In thousands, except per share)	1985	1984
Net sales	$172,838	$147,298
Earnings (loss) from continuing operations	467	(3,171)
Net earnings	5,823	7,745
Earnings (loss) per common share:		
Continuing operations	—	(.29)
Discontinued operations	(.03)	(.06)
Extraordinary items	.42	.93
Net earnings (loss) per common share	$ .39	$ .58

BEATRICE COMPANIES, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Business Realignment

Beatrice is undergoing a long-term Business Realignment program to organize its operations along marketing lines. This program includes acquisitions of new companies, divestitures of businesses that do not fit the strategic direction of Beatrice, a corporate identity marketing program and reorganizations of management and corporate structures.

Acquisitions Effective June 1984 Beatrice acquired Esmark, Inc. ("Esmark") for cash of approximately $2.7 billion, including related expenses. Esmark, through its subsidiaries, operates primarily in the food, consumer products, and vehicle rental industries. Beatrice has accounted for the Esmark acquisition as a purchase. Esmark's net assets are included in the accompanying consolidated balance sheet at values representing a preliminary allocation of the purchase cost to such net assets. The excess of purchase cost over the preliminary valuation of the net tangible assets is reflected as Unallocated Purchase Cost and is being amortized over 40 years using the straight-line method. The preliminary purchase cost allocation is subject to change when additional information concerning asset and liability valuations is obtained. Therefore, the final allocation will probably differ from the preliminary allocation. The preliminary allocation, in millions, is summarized as follows:

Current assets	$2,463
Current liabilities	(1,757)
Working capital	706
Property, plant and equipment	854
Unallocated purchase cost	1,958
Investments in affiliated companies	141
Other noncurrent assets	217
Long-term debt	(879)
Deferred items and other noncurrent liabilities	(289)
	$2,708

Results of Esmark operations are included in the statement of consolidated earnings for the last eight months of fiscal 1985. Unaudited pro forma results of operations, assuming the acquisition of Esmark had occurred at the beginning of fiscal 1984, are presented below. In addition to purchase accounting and acquisition financing adjustments, pro forma adjustments include the effects of the exchange of preference stock for previously outstanding debt (note 8), the repurchase of common shares (note 9), and the divestitures and other realignment activities discussed below, as if each had occurred at the beginning of fiscal 1984. The pro forma adjustments are based upon available information and upon certain assumptions and estimates which Beatrice believes are reasonable in the circumstances. Pro forma results of operations are as follows:

(In millions except per share data)	1985	1984
As reported:		
Net sales	$12,595	$ 9,327
Net earnings	$ 479	$ 433
Less Business Realignment income, after-tax.	(220)	(99)
Net earnings, exclusive of Business Realignment income	$ 259	$ 334
Per share:		
Primary	$ 2.66	$ 3.23
Fully diluted	$ 2.59	$ 3.08
Pro forma (unaudited):		
Net sales	$12,219	$11,666
Net earnings, exclusive of Business Realignment income	$ 216	$ 226
Per share:		
Primary	$ 2.15	$ 2.28
Fully diluted	$ 2.10	$ 2.22

Pro forma information does not purport to be indicative of the results that actually would have been obtained if the combined operations had been conducted during the periods presented and is not intended to be a projection of future results.

In fiscal 1985, 1984 and 1983 Beatrice acquired several other businesses, the revenues and net earnings of which did not significantly affect consolidated results.

DRESSER INDUSTRIES, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C—Acquisitions

During 1985, the Company purchased the net assets and businesses of certain divisions of the McGraw-Edison Company for approximately $243.0 million including $45.3 million of accounts receivable which are paid for when collected. The acquisitions were made under separate transactions which were effective as of November 1, 1984 (Turbodyne Division), February 15, 1985 (Worthington and Masoneilan Divisions) and April 8, 1985 (Mechanical Repair Centers). The acquisitions were accounted for as purchases and, accordingly, the accompanying consolidated statement of earnings includes their results of operations since the dates of acquisition. The acquisition cost exceeded the fair value of net assets acquired by approximately $17.0 million which has been recorded as goodwill to be amortized on a straight-line basis over ten years (See Note F). The following table summarizes the unaudited pro forma results of operations for the years ended October 31, 1985 and 1984, as if the acquisitions had been consumated on November 1, 1983. The pro forma results do not necessarily reflect what would have occurred if the acquisitions had been made on November 1, 1983 or of results that may occur in the future.

In millions, except per share amounts	1985	1984
Sales and service revenues	$4,268.1	$4,326.5
Net earnings (loss)	(203.2)	81.8
Earnings (loss) per common share	(2.67)	1.05

Effective June 1, 1984, the Company purchased the WABCO construction and mining equipment assets and business of American Standard, Inc. for approximately $66.3 million. The pro forma effect of this acquisition would not be significant to either 1984 or 1983 operations. The fair value of the net assets acquired from American Standard, Inc. was in excess of the acquisition cost which eliminated the amount otherwise assignable to property, plant and equipment.

MONSANTO COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Principal Acquisitions

In August 1985, Monsanto acquired G. D. Searle & Co. for $2,754 million. Searle researches, manufactures and distributes prescription pharmaceutical products and aspartame-based, low calorie sweetener products. The acquisition of Searle was accounted for using the purchase method, and Searle's assets and liabilities have been recorded at their estimated fair values at the date of acquisition. The excess of the purchase price over the fair value of the identifiable net assets acquired ($582 million) is being amortized on a straight-line basis over 40 years. Searle's results of operations have been included in the Statement of Consolidated Income from August 1985.

The following table presents unaudited, pro forma operating results as if the acquisition of Searle and the sales of certain assets (described below) had occurred on January 1, 1985 and 1984.

	1985	1984
Net sales	$7,150	$7,469
Net income (loss)	(136)	331
Earnings per share, after extraordinary item	(1.77)	4.09

The pro forma operating results include Searle's results of operations for the indicated years, less increased amortization of intangible assets, increased interest expense on the acquisition debt, and related income tax effects. In addition, the pro forma results reflect lower interest expense that would have resulted from using the net proceeds from certain sales of assets to reduce debt, as if those transactions had occurred on January 1 of the years presented. Asset sales include the sale of Searle's investment in Pearle Health services, Inc. and Searle's nonprescription pharmaceuticals business; and Monsanto's oil and gas business, the Seal Sands, United Kingdom plant and certain other assets. The gross sales proceeds from these transactions were $1,612 million. Where determinable, the operating results associated with the above described assets have been eliminated from the pro forma data presented above. Nonrecurring gains and losses from the sales of these assets have been excluded from the pro forma operating results.

The pro forma operating results do not purport to present Monsanto's actual operating results had the acquisition of Searle and the other transactions referred to above occurred on January 1 of the years presented, nor to present Monsanto's consolidated operating results for any subsequent period.

In 1983, Monsanto purchased for $178 million the minority interest in Fisher Controls International, Inc. (FCII), increasing the Company's ownership to 100 percent from the previous 66½ percent. The excess purchase price above FCII's net assets attributable to the minority interest was $81 million, which is being amortized on a straight-line basis over 20 years.

PENNWALT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Turco-Purex Acquisition

In December 1985, the Company acquired the Turco-Purex industrial business of Purex Industries Inc. ("Turco-Purex") for $34,500,000 in cash. Turco-Purex is a manufacturer of industrial cleaning products and aircraft maintenance chemicals and cleaners. The acquisition has been accounted for as a purchase transaction and the balance sheet of Turco-Purex has been consolidated with that of the Company effective December 31, 1985. No operating results of Turco-Purex are included in the Company's consolidated financial statements.

The purchase price was based on a preliminary determination of the net assets of Turco-Purex and may be adjusted subsequently upon final determination of such amount. The excess of the cost over the fair value of the net assets acquired is approximately $9,000,000 which will be amortized on a straight-line basis over 40 years or $225,000 annually. (Additionally, amortization of the Company's existing goodwill resulting from previous acquisitions amounted to approximately $225,000 in each of the years 1985, 1984 and 1983.)

Pro forma results of the Company's operations, assuming the acquisition had occurred at the beginning of 1984, are shown in the following table. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisition been made at the beginning of 1984, or of results which may occur in the future.

	1985	1984
	(Millions of Dollars Except Per Share Amounts) (Unaudited)	
Net sales	$1,071.5	$1,042.2
Earnings from continuing operations	12.7	46.8
Net earnings (loss)	(18.2)	47.3
Per share:		
Earnings from continuing operations	$ .20	$ 3.41
Net earnings (loss)	(2.65)	3.45

CORPORATE REORGANIZATIONS

AMERICAN BRANDS, INC. (DEC)

NOTES ACCOMPANYING FINANCIAL STATEMENTS

Reorganization

Pursuant to a plan of reorganization, effective January 1, 1986, American Brands, Inc., a New Jersey corporation ("American New Jersey"), which was the publicly-held parent corporation for the American Brands group of companies, was merged into a subsidiary of American Brands, Inc., a Delaware corporation ("American Delaware"), with the result that the shares of stock in American New Jersey were converted into shares of stock in American Delaware and American Delaware became the new publicly-held parent corporation for the American Brands group of companies. The transaction had no effect on the financial statements.

CLEVELAND-CLIFFS INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part)

Reorganization of Corporate Structure: Effective July 1, 1985, pursuant to a Plan and Agreement of Merger previously approved by the shareholders of The Cleveland-Cliffs Iron Company (Cliffs), a reorganization of Cliffs was effected by which the shareholders of Cliffs became shareholders of Cleveland-Cliffs Inc., a newly created holding company, on a share for share basis and Cliffs became a wholly-owned subsidiary of Cleveland-Cliffs Inc.

PHILIP MORRIS COMPANIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reorganization:

At the annual meeting held on April 25, 1985, the shareholders of Philip Morris Incorporated (PMI) approved a reorganization of PMI pursuant to a Plan of Exchange (the "Plan") between PMI and the company. Pursuant to the Plan, which became effective on July 1, 1985, the corporate framework through which the operations of PMI were conducted was restructured, with the company becoming the publicly-held parent of PMI and the holders of PMI's common stock becoming the holders of the company's common stock. Under the Plan, one share of the company's common stock was exchanged for each share of PMI's common stock.

The exchange has been accounted for in a manner similar to a pooling of interests and the consolidated results of the company for the periods prior to July 1, 1985 reflect the consolidated results of PMI. The reorganization had no effect on previously reported financial data.

CONTINGENCIES AND COMMITMENTS

Statement of Financial Accounting Standards No. 5 defines a contingency as "an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur." *SFAS No. 5*, supersedes *Accounting Research Bulletin No. 50* as the authoritative pronouncement on accounting for and reporting loss contingencies but reaffirms the provisions of *ARB No. 50* that apply to gain contingencies and to commitments.

Table 1-11 summarizes the various contingencies and commitments (except leases which are summarized in Table 2-28) disclosed in the 1985 annual reports of the survey companies. The balance sheets of 186 survey companies showed a caption, without an amount, for contingencies and/or commitments. As indicated in Table 1-11, 24 survey companies disclosed that they were self insured either as a result of company policy or because of not being able to obtain adequate insurance.

Examples of contingency and commitment disclosures follow. Additional examples of disclosures concerning sales of receivables with recourse and obligations to maintain working capital or restrict dividends are presented in connection with Tables 2-6 or 2-26, respectively.

TABLE 1-11: CONTINGENCIES AND COMMITMENTS

	Number of Companies			
	1985	1984	1983	1982
Loss Contingencies				
Litigation	347	339	340	341
Guarantee of indebtedness	127	118	121	125
Other guarantees	45	42	42	54
Sale of receivables with recourse	95	85	75	83
Possible tax assessment	68	65	74	69
Government regulations	52	40	39	43
Insurance	24	N/C	N/C	N/C
Letters of credit	19	17	24	N/C
Renegotiation of government contracts	6	7	6	7
Other—described	30	24	30	22
Gain Contingencies				
Operating loss carryforward	169	135	131	127
Investment credit carryforward	150	121	123	115
Plaintiff litigation	22	19	28	24
Other—described	11	3	5	4
Commitments				
Dividend restrictions	398	413	418	434
Plant expansion	87	89	97	103
Purchase agreements	70	66	63	57
Hedge contracts	59	N/C	N/C	N/C
Employment contracts	26	29	22	19
Additional payments in connection with an acquisition	22	10	14	10
Sale agreements	19	7	11	16
Other—described	33	27	24	12

N/C—Not Compiled.

LOSS CONTINGENCIES

Litigation

AMCAST INDUSTRIAL CORPORATION (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contingencies

On December 11, 1984, a class action suit was filed by the United Electrical, Radio and Machine Workers of America, its local Union 765, and certain retired bargaining unit employees. The action stems from the closing of the GHR Division, Dayton, Ohio, in January 1983. Plaintiffs are seeking retroactive reinstatement of medical and life insurance benefits and an early retirement supplement, all of which were discontinued when the collective bargaining agreement expired in June 1983. In addition, the plaintiffs are seeking $10 million in punitive damages and $5 million related to mental and emotional distress. Management believes these claims are without merit and the outcome of this case will not materially affect the financial position of the company.

In June 1985, a class action suit was filed on behalf of certain retired employees of the Ironton Division. The plaintiffs allege defendant's breach of contract relating to their medical and life insurance benefits. Plaintiffs are seeking reinstatement of benefits for the remainder of their lives which were discontinued on the day of the plant closing. The plaintiffs are seeking $35 million of compensatory damages and $40 million for punitive damages. Management believes these claims are without merit and the outcome of the case will not materially affect the financial position of the company.

The company is subject to other legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the company.

AMERICAN MEDICAL INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments and Contingencies (In Part):

In December 1983, the Company was served with a lawsuit by the former owners of the Raleigh Hills chain of alcoholism treatment centers, concerning the aborted purchase of the chain by the Company. In March 1983, the Company announced that it had terminated discussions and did not intend to consummate the transaction. The suit alleges breach of contract and seeks damages of $27 million, the approximate difference between the price it alleges should have been paid for Raleigh Hills by the Company and the apparent price for which Raleigh Hills was later sold to another company. The Company intends to defend this action vigorously, and has filed a counterclaim seeking recovery of costs and expenses incurred in its due diligence review of the Raleigh Hills operation.

COMMERCIAL METALS COMPANY (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

K (In Part): Commitments and Contingent Liabilities:

The Company is a defendant in two related lawsuits alleging that the Company and other defendants engaged in certain illegal activities in connection with sales of steel products to plaintiffs in violation of federal and state laws. The lawsuits seek approximately $20 million, trebled under federal law, and $40 million in punitive damages. The Company is vigorously contesting this litigation. In the opinion of management, the lawsuits ultimately will be disposed of in a manner which will not have a material adverse effect upon the business or consolidated financial position of the Company.

The Company is involved in other litigation, governmental proceedings, and disputes that could result in additional litigation, the ultimate disposition of which management believes will not have a materially adverse effect upon the business or consolidated financial position of the Company.

DRESSER INDUSTRIES, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note L (In Part): Commitments and Contingencies

Hughes Tool Company Litigation

The Company has been engaged for a number of years in patent related litigation with Hughes Tool Company ("Hughes"). Hughes charged the Company with infringement of two U.S. patents relating to structure within a journal bearing rock bit. A Federal District Court has held that one of the patents was valid and infringed and awarded Hughes a royalty of 25% of the Company's sales revenue for infringing premium journal bearing bits made and sold in the U.S. since 1973, and a royalty of 5% for infringing non-premium journal bearing bits. The Company has redesigned its journal bearing bits so that the patent is no longer infringed. The remaining patent was held to be invalid.

In March 1985, the District Court entered a judgement, based on the royalty rates discussed above, against the Company in the amount of $126.8 million which, with statutory interest, would approximate $141.0 million at October 31, 1985. The District Court's judgement has been appealed to the United States Court of Appeals for the Federal Circuit. The briefing process involved in the appeal has been completed and oral arguments before the Court of Appeals are to be held in January, 1986.

It is the position of the Company that the Hughes patent was invalid and therefore not infringed. However, should the Court of Appeals affirm the infringement, management and its outside legal counsel are firmly of the opinion that the size of the award by the District Court was founded upon erroneous conclusions and will be reduced to an amount that would not have a material effect on the consolidated financial statements.

GENERAL FOODS CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Litigation

A class action was filed on June 30, 1977 in the Superior Court of California by a number of organizations and individuals against General Foods and others accusing the defendants of using unfair and deceptive advertising and packaging in marketing presweetened cereals in California and alleging harmful effects from the sugar content of the products. On motion by General Foods, the plaintiffs' case was dismissed by the Superior Court on procedural grounds, which dismissal was upheld by the California Court of Appeals. On December 22, 1983, the California Supreme Court decided plaintiffs' appeal of this class action lawsuit. The Court's opinion affirmed the dismissal of certain causes of action in the plaintiffs' complaint. The Court also held that, under the pleading rules applicable to California civil litigation, plaintiffs had stated sufficient facts as to certain other claims to require a General Foods' answer. This opinion did not constitute a decision as to the merits of plaintiffs' complaint, which can only be determined at a full trial. No trial date has been scheduled.

On March 6, 1985, a jury returned a verdict against Burger Chef Systems, Inc. and General Foods as the former owner of Burger Chef in the case of Vaughn vs. General Foods Corporation and Berger Chef Systems, Inc., filed in the U.S. District Court in Hammond, Indiana. The verdict for the plaintiff on counts of fraud and punitive damages awarded this former Burger Chef franchisee $4.8 million in "actual" damages, and $9.2 million in "punitive" damages. Counsel is of the opinion that the trial record does not support the jury's verdict nor warrant damage award. We have filed a notice of appeal to the United States Court of Appeals for the 7th Circuit and believe that we have strong appellate arguments for significant relief from the judgment.

There are other pending claims and litigation against the company, the ultimate liability for which, management believes, based upon the opinions of counsel, will not have a material adverse impact on the company's financial position.

W.R. GRACE & CO. (DEC)

NOTES TO FINANCIAL STATEMENTS

$ Millions (except per share)

Note 13—Asbestos and Other Litigation

There are various lawsuits pending against the Company relating to exposure to asbestos-containing products previously sold by the Company. At December 31, 1985, the Company was a defendant in approximately 1,800 asbestos-related lawsuits (940 at December 31, 1984), and it is anticipated that additional lawsuits will be brought in the future. (However, the number of such lawsuits is not necessarily indicative of the Company's liability since, among other things, the Company has been named as a defendant in a number of cases in which its products are not involved.) Through December 31, 1985, 63 personal injury cases had been dismissed with respect to, and without payment by, the Company (on the ground that the Company's products were not involved), and 40 personal injury cases had been settled for a total of $.7. In January 1986, an $8.4 verdict was returned against the Company in a property damage case; this case is being appealed. The Company believes that its insurance will substantially cover any damages for which the Company may be held liable, amounts paid in settlement and litigation costs. The Company will be obligated to pay these amounts to the extent they are not covered by insurance. While the Company's ultimate liability in respect of these lawsuits cannot be determined at this time, the Company believes that the resolution thereof will not have a material adverse effect on its consolidated financial position.

Grace is also involved in various other lawsuits and claims arising from the conduct of its business. Such matters are not material to its consolidated financial position.

H. J. HEINZ COMPANY (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands except per share data)

8. Legal Matters

Beginning in December, 1979, a number of private treble damage class action lawsuits were filed against The Hubinger Company ("Hubinger"), a wholly owned subsidiary of the company, alleging similar antitrust violations relating to the prices or terms of sale of corn syrup as alleged in a Civil Penalties lawsuit by the United States Department of Justice, which lawsuit has been settled. The private lawsuits, which seek unspecified treble damages, were consolidated in the United States District Court for New Jersey on March 28, 1980 and have been settled. The District Court entered final judgment on the settlement on September 7, 1983. Three members of the class have filed an appeal to the Third Circuit Court of Appeals challenging the appropriateness of the settlement. This appeal is pending. Provision for the amount of the agreed-upon settlement was made in the 1982 financial statements and the amount of the agreed-upon settlement has been paid into an escrow account.

On February 14, 1985, a Complaint for Damages and Injunctive Relief was filed by twenty-four fishing vessel owners ("Plaintiffs") with respect to fifty-four currently or formerly owned fishing vessels, against Star-Kist Foods, Inc., which is a wholly owned subsidiary of the company, Ralston Purina, Inc. and Castle & Cooke, Inc. ("Defendants") in the United States District Court for the Southern District of California. The Complaint alleged that Defendants have violated Sections 1 and 2 of the Sherman Act and Section 3 of the Clayton Act. Plaintiffs alleged that Defendants and various other companies and individuals not named in the Complaint have engaged in a continuing combination and conspiracy in unreasonable restraint of interstate and foreign trade and commerce in tuna and canned tuna, have conspired to monopolize, attempted to monopolize, and monopolized interstate trade and commerce in tuna and canned tuna, and entered into unlawful tie-in contracts, exclusive dealing contracts and requirements contracts. The Complaint further alleged tortious interference with prospective economic advantage in violation of California law.

On May 13, 1985, the District Court dismissed, with leave to amend, the portions of the Complaint alleging the entering into of unlawful tie-in contracts, exclusive dealing contracts and requirements contracts and the tortious interference with prospective economic advantage. On June 6, 1985, Plaintiffs filed a First Amended Complaint that restated the allegations of the original Complaint except the allegations of violation of Section 3 of the Clayton Act, tortious interference with prospective economic advantage, and violations with respect to canned tuna.

Plaintiffs allege antitrust damages of $432 million, which, if proven, would be trebled to approximately $1.3 billion. Attorney's fees and costs also are sought. The company intends to defend vigorously against the action.

On May 17, 1985, thirty-one crew members of fishing vessels filed in the United States District Court for the Southern District of California a class action Complaint against the same three Defendants alleging similar violations of Sections 1 and 2 of the Sherman Act and Section 3 of the Clayton Act and tortious interference with prospective economic advantage in violation of California law. This Complaint alleges antitrust damages of $40 million, which, if proven, would be trebled to $120 million, and damages in the second count alleging violations of California law in the amount of $40 million plus $30 million in punitive damages for a total of $190 million. Attorneys' fees and costs are sought. The company intends to defend vigorously against this action.

Certain other claims have been filed against the company or its subsidiaries and have not been finally adjudicated. These claims, as well as those described above, when finally concluded and determined, will not, in the opinion of management, based upon the information that it presently possesses, have a material adverse effect on the consolidated financial position.

KIDDE, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Legal Matters

The Company is among those named in a class action brought in August 1983 on behalf of certain purchasers of the common stock of Victor. The action relates to the public sale in March 1983 of 4,500,000 shares of common stock of Victor (including 2,000,000 shares sold by the Company) at $17.50 per share and seeks recovery of the amounts paid for such stock along with certain costs and damages. An answer has been filed denying the substantive allegations contained in the complaint. In a separate matter, during 1984 a court hearing was held before a Magistrate of a U.S. District Court to determine damages on a patent infringement suit relating to a former subsidiary. This suit was previously dismissed in 1975, subsequently appealed by the plaintiff and eventually decided in plaintiff's favor in 1983. Although the Company and its outside counsel were of the opinion that damages would be relatively minor, in January 1985 the Magistrate's Report, recommending damages be assessed against the Company, which when trebled approximated $31 million (before related tax benefits and subsequently accrued interest of $3 million), was adopted by the Court. The Company has appealed the amount of this judgment to the U.S. Court of Appeals for the Federal Circuit. In the opinion of special counsel to the Company, the decision of the lower court contains errors of law and erroneous findings of fact and accordingly the amount of the judgment should be substantially reduced.

Based on facts now known to the Company, management believes that the outcome of the above matters would not materially adversely affect the consolidated financial position of the Company.

LYNCH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H—Litigation

The Company is a defendant in a class action lawsuit filed by retired union employees of the Company's former Lynch Machinery Division in Anderson, Indiana. The union retirees allege the Company made a commitment to provide them certain health benefits for life. The lawsuit seeks relief requiring the Company to continue the health benefits, as well as mental anguish damages resulting from the discontinuance of the health benefits. If the Company were unsuccessful in its defense, the annual cost to continue the health benefits would be approximately $100,000 based on the cost of such benefits in 1984. The aggregate amount of the mental anguish damages claim exceeds $3,000,000. Management believes the claims of the union retirees are without merit, and intends to continue contesting vigorously this lawsuit. Management believes the ultimate resolution of these claims will not have a significant effect on the consolidated financial position of the Company.

During 1983, the Company reached an agreement to settle certain litigation which it had brought in connection with the purchase of a subsidiary. The amount of the settlement ($120,000), which includes interest, is reflected in 1983.

MONFORT OF COLORADO, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note J—Contingencies and Commitments

On May 26, 1983, Region 27 of the National Labor Relations Board ("NLRB") issued a Complaint against the Company based on unfair labor practice charges filed earlier by the United Food and Commercial Workers, Local No. 7. The Complaint alleged that (1) the Company failed to consider skill and experience in the meat packing industry as a criteria in determining the eligibility of applicants for employment, in violation of rights guaranteed to employees by Section 7 of the National Labor Relations Act; and, (2) that the Company instituted a hiring policy with criteria which inherently had the effect that former employees who applied for employment would not be hired in numbers sufficient to form a majority of unit employees. The Company has denied any violation as charged and is vigorously defending its position. On November 22, 1985, the Administrative Law Judge (ALJ) of the NLRB issued a Decision which was principally in favor of the Company's position; however, the decision of the ALJ is subject to appeal. It is the opinion of the Company's management that the ultimate disposition of this matter will not have a material adverse effect on the Company's financial position.

Estimated cost to complete all projects under construction amounted to approximately $4,000,000 at August 31, 1985.

POTLATCH CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 12. Legal Proceedings

During December the company and its directors were named defendants in three separate but similar lawsuits filed by certain stockholders. The complaints, which allege class action and derivative claims, charge violations of the Federal securities and Delaware corporate law related to an amendment, dated December 12, 1985, to the company's Restated Certificate of Incorporation. The complaints also allege that the company discriminated against certain stockholders and paid discriminatory dividends to First City Financial Corporation Ltd. and First City Trust Company. All three complaints request damages in excess of $48 million and injunctions against the amendment. The company believes that each stockholder action lacks merit and will vigorously defend against each complaint.

RUSS TOGS, INC. (JAN)

NOTES TO FINANCIAL STATEMENTS

Note L—Litigation:

The Company is one of several defendants in a product liability action seeking approximately $40,000,000 in damages. Plaintiffs also seek punitive damages in an amount equal to three times compensatory damages, as well as the trebling of compensatory damages under the Texas Deceptive Trade Practices Act. Although the Company's insurance carrier may attempt to disclaim liability for punitive damages, including any portion recoverable under the Texas statute, such carrier is continuing to defend the action. The Company believes that its insurance should cover any liability that it may have, notwithstanding that the damages sought exceed the limits of its insurance coverage.

THE RYMER COMPANY (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Commitments and Contingencies

In 1985, the Company received a notice asserting a claim for withdrawal liability of approximately $1,100,000 from a multi-employer pension fund. The Company has engaged legal counsel and is currently vigorously disputing the claim. The Company believes that it has meritorious defenses, and although the ultimate outcome cannot be determined at the present time, the Company believes, in the event of an unfavorable settlement, it will not materially affect the Company's financial position or results of operations.

The amounts of liability, if any, for all other claims and actions against the Company and its subsidiaries at October 26, 1985 are not determinable but, in the opinion of management, such liability, if any, will not have a material effect upon the Company's financial position or results of operations.

UNIVERSAL LEAF TOBACCO COMPANY, INCORPORATED (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11—Litigation

Following an administrative complaint filed by the Federal Trade Commission in January, 1985, private treble damage antitrust suits have been brought against six national title insurance companies, including Lawyers Title Insurance Corporation, a subsidiary, alleging restraint of trade by the joint filing of rates for title search and settlement services through rating bureaus provided by statutes in 13 states. Management of Lawyers Title believes there are valid defenses to these charges and the suits will be defended vigorously.

Certain Indian tribes have asserted claims arising from violations of treaties and also under the Indian Non-Intercourse Act of 1790 affecting millions of acres of land, title to some of which has been insured by Lawyers Title Insurance Corporation and other title insurance companies. Unsuccessful defense of these claims would have a materially adverse effect on the Company's financial position, and would have a similar effect on corporations, businesses, governments and individuals owning land in the affected areas. However, management believes that Congress will provide a resolution of this matter such that these claims will not have a materially adverse effect on the Company's financial position.

Guarantee of Indebtedness of Others

THE AMERICAN SHIP BUILDING COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Commitments and Contingencies:

The Company has unconditionally guaranteed up to $5 million in indebtedness of Ocean Carriers, Inc. (Ocean), the Houston ship operator which will charter to the Department of the Navy the T-5 Tankers which the Company is constructing. The Company is not aware of any failure on the part of Ocean to meet the terms of its obligations, and does not anticipate any losses to be incurred in connection with this guarantee.

ATLANTIC RICHFIELD COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Other Commitments and Contingencies

At December 31, 1985 and 1984, there were contingent liabilities with respect to guarantees of securities of other issuers of approximately $170 million and $120 million, respectively. Included in these amounts is a guarantee of approximately $70 million. Under an agreement reached in 1982, a third party is committed to reimburse the Company for any payment under this guarantee. Also, at December 31, 1985 and 1984, there were indirect guarantees of approximately $75 million and $85 million, respectively, of which $50 million and $60 million, respectively are indemnified.

CABOT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

O (In Part): Commitments and Contingencies

Contingencies

The Company is a defendant in various lawsuits and is involved in other disputes wherein substantial amounts are claimed. In the opinion of the Company, these suits and claims should not result in judgments or settlements which, in the aggregate, would have a material adverse effect on the Company's financial condition.

The Company, through its partnership interest in an intrastate gas pipeline system located in West Texas, is contingently liable for its share of partnership long-term debt. This share is approximately $31,000,000. The partnership interest is classified within net assets of discontinued operations.

FORD MOTOR COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 14 (In Part): Guarantees and Commitments

At December 31, 1985, the Company and its consolidated subsidiaries had guaranteed $234 million of debt of unconsolidated subsidiaries. This included $207 million of unsecured debt of Ford Leasing Development Company, a wholly owned unconsolidated subsidiary that owns and leases real properties, primarily for lease or sublease to Company-franchised vehicle dealers.

GOULD INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H (In Part): Debt and Credit Arrangements

As of December 31, 1985, the company had guaranteed approximately $43.4 million of debt of its wholly owned real estate subsidiary, Gould Florida Inc. The company intends to divest its real estate businesses. See Note C. In addition, the company is contingently liable under irrevocable letters of credit for $17.6 million at December 31, 1985.

McCORMICK & COMPANY, INCORPORATED (NOV)

NOTES TO FINANCIAL STATEMENTS

3 (In Part): Financing Arrangements and Long-Term Debt:

At November 30, 1985, the Company has unconditionally guaranteed credit lines for affiliates in amounts totalling $5,140,000 of which $3,505,000 had been borrowed at year end.

NORTEK, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Contingencies:

The Company and its subsidiaries are subject to legal proceedings and claims arising out of their businesses that cover a wide range of matters, including, among others, product liability, warranty and product recalls, and contract and employment claims. The amount of ultimate liability with respect to these proceedings and claims cannot reasonably be estimated. At December 31, 1985, the Company is contingently liable for obligations (approximately $19,000,000) under Industrial Revenue Bond agreements related to facilities which were sold. Management considers that any such liabilities would not materially affect the consolidated financial position of the Company nor its results of operations.

The Company has guaranteed a $1,000,000 term loan of the Nortek Foundation with a bank. Proceeds of the loan were used to purchase Nortek Common Stock.

PIONEER HI-BRED INTERNATIONAL, INC. (AUG)

NOTES TO FINANCIAL STATEMENTS

NOTE 7 (In Part): Contingent Liabilities

The Company has guaranteed the repayment of principal and interest on certain obligations of its unconsolidated subsidiaries. At August 31, 1985, such guarantees totaled approximately $10,800,000.

Guarantees Other Than Guarantees of Indebtedness

DEAN FOODS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments and Contingent Liabilities

At December 28, 1985, the Company was contingently liable for approximately $9,600,000, principally as a result of being guarantor, as a subfranchisor, of lease rental payments and executory costs for certain retail Baskin-Robbins ice cream stores. No significant loss from the contingent liabilities is anticipated.

FAIRCHILD INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 11 (In Part): Commitments, Contingencies and Other

The Company has an operating agreement with Fairchild Credit Corporation, a wholly owned unconsolidated finance subsidiary, under which it agrees to maintain certain minimum financial ratios of the finance company. In addition, the Company has guaranteed certain payments under Fairchild Credit Corporation operating leases aggregating $2,241,000 over the next two years.

MELVILLE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Discontinued Operations (In Part)

On March 29, 1985, the Company completed the sale of the Foxmoor division to BR Investors, Inc., a privately held corporation, for cash in the amount of $48,757,021. The transaction resulted in a gain of $646,366, net of income taxes of $251,000.

* * * * *

In addition, as part of the sale, Melville Realty Company, Inc., a wholly-owned subsidiary of the Company, continues to guaranty the rental and other lease related charges on 161 of the 614 retail stores sold to BR Investors, Inc., in the event BR Investors, Inc. defaults. Minimum rental payments under these leases totaled $25,100,000 of which approximately 65% of this guaranteed obligation will be eliminated during the five year period ended December 31, 1990. The present value of these minimum rental payments at December 31, 1985 was $17,800,000.

PANTRY PRIDE, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands except per share data)

B. Contingencies

During the third quarter of fiscal year 1985 the Company entered into a settlement with the Retail Clerks Tri-State Pension Fund, which originally filed a claim in December 1982 for approximately $21,000. The terms included a cash payment and note of $2,500 and $1,000 in Company common stock aggregating approximately 206,000 shares.

The Company and its subsidiaries are parties to claims and lawsuits arising in the normal course of operations and dispositions of real estate made during fiscal 1985. Management, after consultation with counsel, is of the opinion that these actions will not have a material adverse effect on the financial condition or results of operations of the Company.

In connection with the sales of supermarket assets and assignments of leases covering property and equipment that have taken place or are contemplated, the Company is contingently liable for approximately $69,000 of minimum lease payments over remaining initial terms through 2064.

LITTON INDUSTRIES, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note L (In Part): Litigation and Contingencies

As required under provisions of a contract between an affiliate of the Company and a customer, bank consortiums have issued two guarantees to the customer in the outstanding amounts at July 31, 1985 of $47,467,000, guaranteeing the return of the customer's advance payment (included under the caption "Customer deposits and contract liabilities" in the Consolidated Balance Sheets), if demanded, and $82,000,000, guaranteeing the performance of the contract. If the banks were required to make payments under either guarantee, the Company would be contractually obligated to such banks for the aggregate amount paid. As of July 31, 1985, time deposits and certificates of deposit included under the caption "Cash and marketable securities" in the Consolidated Balance Sheets totaling $47,467,000 were pledged to the banks as collateral for the advance payment guarantee agreement.

PACCAR INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(thousands of dollars)

Note K—Commitments and Contingencies

Under agreements with its unconsolidated finance and leasing subsidiaries, the Company is required to assure that these subsidiaries maintain specified levels of cash flow or ratios of earnings to fixed charges. In 1985, assistance in the amount of $46 was provided to a foreign finance subsidiary. No other assistance was required for any of the subsidiaries during the three years ending with 1985.

Receivables Sold With Recourse

BETHLEHEM STEEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

G (In Part): Commitments and Contingent Liabilities

We have agreements with several banks which enable us to sell up to $200 million of accounts receivable, on a continuing basis, subject to limited recourse provisions. Proceeds from the sale of accounts receivable averaged $98.5 million per month during 1985 and totaled $76.3 million during 1984. At December 31, 1985 and 1984, $100.0 million and $53.0 million of the receivables sold remained outstanding. In 1983, under a separate agreement, we sold a $21 million long-term note receivable at face value subject to certain recourse provisions. This note was outstanding at December 31, 1985.

FUQUA INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contingent Liabilities and Commitments (In Part):

In May, 1985 Fuqua, on behalf of its Snapper Power Equipment division, entered into an agreement with a financial institution which makes available to dealers, floor plan financing for Snapper products. Under the terms of the agreement, independent Snapper distributors are liable in the event of a default in payment by one of their dealer customers. In the event of a default in payment by both the dealer and distributor, Fuqua has agreed to indemnify the financial institution from any loss which it may incur. At December 31, 1985 there was approximately $9,000,000 outstanding under this floor plan financing arrangement.

In addition, Fuqua and several of its subsidiaries are contingently liable under various repurchase agreements and guarantees of debt secured by properties, manufactured merchandise (principally floor plans) and assets sold to others. These arrangements are made in the normal course of business and no material defaults exist on the related agreements.

ITT CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Commitments and Contingencies

The Corporation and its subsidiaries consolidated have guaranteed the borrowings of others of approximately $130,000,000 as of December 31, 1985 and are contingently liable for receivables discounted of approximately $1.6 billion (including $1.3 billion of receivables reflected in the statements of insurance and finance subsidiaries).

The Corporation and its subsidiaries also are involved in various legal actions, some of which involve claims for substantial sums. However, the ultimate liability with respect to these contingencies is not considered to be material in relation to the consolidated financial position.

INGERSOLL-RAND COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part) Commitments and Contingencies:

Receivables sold during 1985 with recourse amounted to $30,200,000. At December 31, 1985 $33,100,000 of receivables sold remained uncollected.

JLG INDUSTRIES, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Litigation and Other Contingencies

The Company is a party to personal injury litigation arising out of incidents involving the use of its products. The Company insures its exposure to such litigation in excess of an annual self-insured retention not exceeding $1,250,000. Amounts estimated to be payable with respect to existing claims for which the Company is liable under its self-insured retention have been accrued as liabilities.

As is customary in the heavy equipment industry, the Company has entered into limited recourse agreements with various commercial finance companies to provide equipment financing to its dealer organizations. Under these arrangements, the Company is required, in the event of a dealer's default, to reimburse such institutions for certain deficiencies resulting from the repossession and resale of the equipment. Although the Company was contingently liable at July 31, 1985 for approximately $7,100,000 under such arrangements, the Company does not anticipate any significant losses thereunder.

RALSTON PURINA COMPANY (SEP)

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions except per share data)

Commitments and Contingencies (In Part):

During 1985, the Company entered into an agreement under which it sells certain of its trade accounts receivable to others subject to defined limited recourse provisions. The Company is responsible for collection of the accounts, for which it receives a collection fee, and remits the proceeds to the purchaser on a monthly basis. Beginning in July 1985, the Company sold, on average, accounts totaling $50.0 each month. At September 30, 1985, $.3 of transferred receivables were outstanding and subject to recourse provisions.

THE SOUTHLAND CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Accounts and Notes Receivable:

	December 31	
(000s omitted)	1985	1984
Trade accounts and notes receivable	$243,636	$145,093
Franchisee accounts receivable.....	33,952	34,936
	277,588	180,029
Allowance for doubtful accounts ...	(12,665)	(11,962)
	$264,923	$168,067

On December 28, 1984, the Company sold $250 million of accounts receivable under an agreement in which the purchaser will reinvest the proceeds collected in new receivables for a period of five years. Throughout 1985, the rollover of proceeds collected and reinvested in new accounts receivable aggregated $4.6 billion. As of December 31, 1985, $251 million of receivables were outstanding under the agreement. The Company is contingently liable for the collection of up to $25.5 million of these receivables; however, management believes that the allowance for doubtful accounts will be adequate and no additional liabilities will accrue.

Possible Tax Assessments

CLARK EQUIPMENT COMPANY (DEC)

FINANCIAL REVIEW

Contingencies (In Part):

At December 31, 1985 the Company had received notices of assessments of Federal Income tax of approximately $30 million. The Company intends to vigorously contest the assessments which relate predominately to timing items that would ordinarily be deductible in subsequent periods. Because the Company is in a loss carryforward position it may not be appropriate to give accounting recognition to the tax benefit expected to be realized in the future for any items, and the interest thereon, that the Company is not successful in contesting.

ELI LILLY AND COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes (In Part):

On May 28, 1985, the United States Tax Court rendered an opinion with regard to proposed deficiencies of income taxes for 1971 through 1973 related to subsidiary operations in Puerto Rico. The Tax Court reduced the $34.2 million tax deficiencies proposed by the Internal Revenue Service to approximately $14.4 million for these years. The company is considering whether to appeal the results of the Court's opinion.

Proposed deficiencies totaling $24.4 million for 1974 and 1975 are being contested in the Tax Court. No trial date has been set. The company has also received from the Internal Revenue Service notices of proposed deficiencies totaling $28.5 million for 1976 and 1977 and $54.8 million for 1978 and 1979. The proposed deficiencies relate primarily to subsidiary operations in Puerto Rico, and for 1975 through 1979 include certain other issues. The deficiencies for 1976 through 1979 are being contested administratively.

In the opinion of the company, additional taxes that may ultimately result from the Tax Court opinion and other proposed deficiencies, and from possible proposed deficiencies related to the same issues for years subsequent to 1979, would not have a material adverse effect on the consolidated financial statements.

SUNDSTRAND CORPORATION (DEC)

FINANCIAL SUMMARY

Income Taxes (In Part):

Federal income tax returns have been examined and cleared by the Internal Revenue Service through 1976. The years 1977 and 1978 have also been examined, and all issues have been resolved, with the exception of two relating to intercompany transactions between Sundstrand Corporation and a foreign subsidiary for which the Internal Revenue Service has assessed the Company $7,500,000 (excluding interest). The Company does not agree with the Internal Revenue Service's position and has filed a petition with the United States Tax Court requesting redetermination of the deficiency. The Internal Revenue Service has issued its examination report for 1979 and 1980 which proposes assessments of $18.6 million and $23.8 million (excluding interest), respectively, with which the Company does not agree. Of these amounts $18.4 million would result in reduction of taxes in years after 1980 and $23.5 million represents a continuation of the intercompany pricing issue discussed above. Operations of this foreign subsidiary have grown significantly since 1980 and, following examination, the Internal Revenue Service may assess additional taxes for these years. The Company currently provides deferred taxes on a substantial portion of the undistributed earnings of this subsidiary due to its intent to repatriate these earnings in the future. Based on final resolution of this matter, the Company may revise its intentions with respect to the repatriation of these earnings and, accordingly, management believes that the ultimate resolution of this matter will not have a material effect on the financial position or earnings of the Company. In the opinion of management, adequate provision has been made for all income taxes.

Government Regulations

ALLIS-CHALMERS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments and Contingent Liabilities

There are various lawsuits pending against the Company and its subsidiaries arising in the normal course of business. Management believes, based on the opinion of counsel, that final disposition of these actions will not have a materially adverse effect on financial position or results of operations.

As described in the Termination of Pension Plans note on pages 20 and 21, the Company terminated pension plans which had unfunded vested benefits estimated at $170 million. The Company and the PBGC signed Agreements for Appointment of Trustee and Termination of Plan whereby the PBGC was appointed Trustee and assumed responsibility for payment of future benefits. The PBGC may assert a claim for up to 30 percent of the Company's net worth and has taken the position that for purposes of such claim net worth exceeds the amount shown on the Company's financial statements, which at December 31, 1985 was a negative $22.6 million. The Company's liability to the PBGC and the impact of the settlement on the Company's financial statements have not been determined.

ECHLIN INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15: Contingent Liability

The Federal Trade Commission (FTC) filed an Administrative Complaint in 1981 against the Company and Borg-Warner Corporation (Borg-Warner) alleging violations of Section 7 of the Clayton Act and Section 5 of the Federal Trade Commission Act in connection with the acquisition by the Company of the assets of the automotive aftermarket operations of Borg-Warner. The Complaint sought to require the Company to divest itself of said assets or, in the alternative, to rescind the entire transaction. An Administrative Law Judge for the FTC issued an Initial Decision concluding that the FTC staff failed to establish that the Company's acquisition of Borg-Warner's aftermarket assets was in violation of Section 7 of the Clayton Act or Section 5 of the Federal Trade Commission Act, as alleged in the Complaint. On June 28, 1985, the FTC issued a Final Order (which was released on July 8, 1985) dismissing the Complaint.

FANSTEEL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Commitments and Contingent Liabilities

Processing of certain ores results in residues which are subject to storage and disposal regulations of the Nuclear Regulatory Commission. The Company intends to continue to store these residues at one of its processing plants. Maximum disposal costs, if any, cannot be reasonably estimated, but management believes they would not have a material effect on the consolidated financial position of the Company.

THE FIRESTONE TIRE & RUBBER COMPANY (OCT)

NOTES TO FINANCIAL STATEMENTS

Dollars in millions, except per share amounts

Contingent Liabilities (In Part):

Governmental regulatory agencies have identified several Company sites and waste disposal locations for review or possible environmental cleanup. Estimated future cleanup activities at a former tire plant in Salinas, California will cost at least $8 and may increase depending upon the level of remedial actions required over the next several years.

THE VENDO COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Contingent Liabilities:

The Company has received a Notice of Violation under Section 113 of the Clean Air Act from the Environmental Protection Agency (EPA) involving the level of solvents emitted by the paint system at the Company's Fresno manufacturing facility for the period since January 1, 1985. Although local authorities have approved the Company's progress towards compliance, the EPA has independent enforcement authority in such matters, and can impose its own fines or sanctions which can be substantial. Informal meetings have taken place with EPA officials, but no compliance order has been issued, no fines have been imposed, and no legal proceedings commenced. In the opinion of management, based upon the advise of legal counsel as to the present status of the rules and regulations applicable to the Company, the effective dates of those rules and regulations, and proposed changes to those rules and regulations, it is not possible to predict with any certainty what, if any, fines may be imposed, or even to determine with certainty the period, if any, during which the Company may eventually be found to have been in violation of the emissions standards involved. Management anticipates that compliance will be achieved prior to August 1, 1986 with the completion of efforts which were underway prior to the receipt of Notice of Violation.

WHEELING-PITTSBURGH STEEL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note L (In Part): Commitments and Contingencies

Environmental Matters

The Corporation and other basic steel companies have in recent years become subject to increasingly demanding environmental standards imposed by federal, state and local environmental laws and regulations. It is the policy of the Corporation to endeavor to comply with applicable environmental laws and regulations. The Corporation is involved in administrative and judicial proceedings in which it is seeking relief from many of the environmental standards and regulations which it considers to be unreasonable or unnecessarily burdensome. The Corporation is also involved in a civil contempt proceeding concerning its environmental Consent Decree (entered into March 19, 1979) in which penalties in excess of $2 million are requested by the Justice Department. The Corporation has estimated that additional expenditures, subsequent to December 31, 1985, for environmental control facilities required to comply with the Consent Decree will approximate $5.1 million. In 1985, 1984 and 1983, aggregate capital expenditures for environmental control projects totalled approximately $8.5 million, $10.9 million and $8.2 million, respectively. Management believes, as a practical matter, that the outcome of these proceedings will not materially affect the overall operations of the Corporation. It is not presently known how the Chapter 11 petition will affect this proceeding.

THE LOUISIANA LAND AND EXPLORATION COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Contingencies

Department of Energy Proceedings

Until President Reagan's January 28, 1981 order removing all remaining price and allocation controls on crude oil and refined petroleum products, certain operations of the Company were governed by regulatory provisions of the Emergency Petroleum Allocation Act of 1973, as amended. Past compliance with those regulations continues to be investigated by the Department of Energy (DOE).

As reported in prior years, the DOE has issued a Proposed Remedial Order (PRO) to Texaco Inc., operator of certain properties in which the Company has interests, alleging violations of the DOE's crude oil pricing regulations. On November 27, 1985, the Office of Hearings and Appeals (OHA) of the DOE issued an order closing the record in the proceeding, and on January 28, 1986, oral argument was held before the OHA. Accordingly, the proceeding has been concluded before the OHA except for the issuance of a decision. The estimated alleged violations which may be attributable to the Company's interests now total, before tax effect and including interest from the date of the alleged violations, approximately $110 million.

Based on the opinion of management and the advice of counsel to the Company as to the status of these matters, the Company has not provided in the financial statements for the contingency that the alleged overcharges may be required to be refunded. Furthermore, with respect to the DOE compliance proceedings described above, the removal of price and allocation controls on January 28, 1981 eliminates the potential overcharge refund liability of the Company for sales of crude oil occurring after that date. As noted above, however, interest on the alleged pre-January 28, 1981 overcharges continues to accrue.

UNITED STATES STEEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25 (In Part): Commitments and Other Contingencies

On July 24, 1985, the Department of Energy and Marathon entered into a proposed consent order to resolve all pending and potential claims by the Department against Marathon with certain limited exceptions. Under the Order, Marathon would be obligated to pay $20 million, plus interest. On January 30, 1986, the consent order became final. Claims excluded from the consent order include a crude oil case before the U.S. District Court for Kansas and a claim of improper pricing to one of Marathon's wholesale customers which total approximately $16 million, plus interest, and potential liability under the Department of Energy's entitlements program, totaling approximately $25 million. Management believes that these claims will be resolved in a manner that will not materially affect the Corporation's consolidated financial position.

MOTOROLA, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Contingencies

The Company is a defendant in various suits and claims which arise in the normal course of business and is obligated under repurchase and other agreements principally in connection with the financing of sales.

The Company's Government Electronics Group (GEG) has been subpoenaed for records in connection with a federal criminal investigation. The investigation appears to involve whether the Company improperly charged labor expenses under certain government defense contracts. In addition, GEG is being audited by the Department of Defense with respect to government contract pricing, cost allocation and charging matters.

The Company is unable to predict the outcome of the investigation or audits at this time or to estimate the kinds or amounts of claims or other actions that could be instituted against the Company, its officers or employees as a result of such proceedings.

Under government procurement regulations, an indictment could result in a government contractor being suspended from eligibility for awards of any new government contracts for one year and a conviction also could result in debarment from government contracts for one year or more.

In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the business or financial position of the Company.

Inadequate Insurance Coverage

ABBOTT LABORATORIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10—Liability Insurance

The Company's liability insurance coverage (including product liability insurance coverage) for events occurring on and after January 1, 1986 will be substantially less than the insurance coverage available for events occurring prior to that date. The reduction in insurance coverage results from a general decline in the availability of liability insurance.

BROWNING-FERRIS INDUSTRIES, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Commitments and Contingencies

The Company is involved in various matters of litigation, including environmental matters relating to governmental actions resulting from the Company's involvement with certain hazardous waste sites, antitrust proceedings, personal injury and other civil actions, as well as other claims and disputes that could result in additional litigation. While the resolution of any matter may have an impact on the financial results of the period in which the matter is settled, management believes that the ultimate disposition of each of these matters will not have a materially adverse effect upon the business or consolidated financial position of the Company.

The Company is not able currently to purchase liability insurance in amounts or upon terms that have been available to it traditionally. This development, while not unique to the Company or its industry, is expected, at least in the near-term, to have adverse implications on the Company's costs of doing business.

On October 1, 1985, the Company's existing umbrella liability coverages expired, and the Company was forced to accept substantially reduced policy limits effective that date.

On October 1, 1985, the Company's existing policy of environmental impairment liability (EIL) insurance coverage expired. The Company exercised its option under that policy, by payment of an additional premium, to continue such insurance coverage for a one-year period starting October 1, 1985, for claims which are made during such period which relate to events occurring prior to October 1, 1985. In addition, in order to meet existing governmental requirements, the Company has been able to secure EIL insurance coverage issued by another insurance carrier in amounts which the Company believes are in compliance with the amounts required by federal law. Under this policy, the Company must either prefund or reimburse the carrier for losses. Except for this coverage, the Company has not been able to obtain comprehensive EIL insurance coverage on any terms.

The Company is continuing its efforts to obtain additional risk-transfer insurance coverage for certain types of risks, including umbrella liability coverage and EIL coverage from other insurers. If the Company is unable to secure adequate insurance coverages, the Company's business could be adversely affected and it is possible that the Company's net income could be adversely affected as a result of losses sustained.

DURR-FILLAUER MEDICAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Operating Lease Commitments and Contingent Liabilities

The Company is subject to claims and suits arising in the ordinary course of business. Management does not believe that the outcome of any pending claims or suits will have a material adverse effect on the Company's financial position or results of operations. During 1985, liability insurance market conditions resulted in products liability coverages becoming either unavailable or excessively expensive within the medical industry. In October 1985, the Company's products liability policy for its medical products expired and the Company is self-insuring this coverage.

GULF RESOURCES & CHEMICAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

7 (In Part): Commitments and Contingent Liabilities

Great Salt Lake Minerals & Chemicals Corporation (GSL)

GSL, a wholly owned subsidiary of GRE, operates a 19,500 acre solar pond system which provides feed to its processing plants for the production of sulfate of potash, common salt, sodium sulfate and magnesium chloride. The solar ponds are located on the shore of the Great Salt Lake and are separated from the lake by outer dikes. Precipitation during 1982 and 1983 was substantially above normal, resulting in near record lake levels. On May 5, 1984, the outer dike of the solar pond complex was breached, which resulted in severe flooding and damage to the complex. GRE's management presently believes that insurance proceeds will be adequate to provide for the full recovery of the losses incurred and that the carrying value of GRE's investment in GSL of approximately $36.4 million at December 31, 1985 is fully realizable. Advance payments totaling $22.8 million have been received from the insurance carrier as of December 31, 1985 towards the repair of physical damage and business interruption. The first claim year related to business interruption has been settled. As a consequence of the foregoing loss, GSL is currently unable to purchase, on terms deemed feasible, insurance to cover further such losses.

PFIZER INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Insurance

During 1985, the Company secured substantially less liability insurance than it had been able to obtain in prior periods. This reduction in available amounts of insurance reflects the current state of insurance markets and is affecting most major U.S. corporations. While the Company has never settled claims for amounts in excess of the reduced level of coverage now available, the present level of insurance represents a potential exposure for the Company.

WASTE MANAGEMENT, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 7 (In Part): Commitments

As a result of severe difficulties in the current insurance market, the policy limits of the Company's umbrella liability insurance coverage were sharply reduced upon renewal on December 31, 1985. Although the reduced limits still far exceed the largest insured loss ever incurred by the Company, there is no assurance that this will be the case in the future.

In addition, the Company's Environmental Impairment Liability (EIL) insurance expired on April 25, 1985. The Company exercised its option under terms of that policy, by payment of an additional premium, to continue insurance coverage under terms of that policy for a one-year period commencing that same date. The one-year policy extension will provide coverage for claims made during the extended policy period relating to events occurring prior to the effective date of April 25, 1985. To satisfy existing federal governmental requirements, the Company has also secured EIL insurance coverage in amounts believed to be in compliance with federal law. However, the Company must either prefund or reimburse the carrier for losses incurred under coverage of this policy. In the event the Company is unsuccessful in obtaining risk-transfer EIL insurance coverage, the Company's net income could be adversely affected in the future if uninsured losses were to be incurred.

Letter of Credit

BEMIS COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14—Contingencies:

The Company is defendant in lawsuits generally incidental to its business. However, the management of the company believes the disposition of these lawsuits will not have any material effect on the financial position and operating results of the Company. At December 31, 1985 the Company was contingently liable for a letter of credit in the amount of $1,500,000.

ELCOR CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments and Contingencies

The Company and its subsidiaries have entered into various lease agreements for office space, facilities, and equipment extending to 1996. Lease expense and obligations are not significant to the Company's operations.

The Company is contingently liable for approximately $4.3 million in irrevocable letters of credit issued to clients of the Engineering and Construction Group in lieu of the normal contract provisions for retainages on construction contracts and to the Company's insurance carrier as part of its self-insurance program.

The Company and its subsidiaries are involved in certain legal actions and claims arising in the ordinary course of business. Management believes that such litigation and claims will be resolved without material effect on the consolidated financial statements.

HARSCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Commitments and Contingent Liabilities:

As security for performance and advances on long-term contracts, the Company is contingently liable, in the amount of $120,350,000 under standby letters of credit and bonds.

The Company is party to various legal proceedings incidental to its business. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Company. In the opinion of management, all such matters are adequately covered by insurance or, if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the Company if disposed of unfavorably.

UNITED MERCHANTS AND MANUFACTURERS, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Commitments and Contingencies

(2) At June 30, 1985, sundry guarantees and other contingent liabilities approximated $9,400,000. Exclusive of $6,100,000 outstanding letters of credit of its foreign subsidiaries (referred to in Note 5 of Notes to Consolidated Financial Statements), the Company had outstanding letters of credit at June 30, 1985 in the approximate amount of $26,500,000.

Unasserted Claims

PANTASOTE INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Unusual Items—Restructuring of Domestic Operations

During 1985, the Company became aware of a potential problem with material sold by one of its divisions. The Company is conducting a joint technical investigation into this matter with the supplier of the major raw material used in the manufacturing process. Although the investigation has not yet been completed, in light of existing insurance coverage and potential recovery from that raw material supplier, the Company believes that claims which may be asserted would not result in a material adverse affect on the accompanying consolidated financial statements.

RAYMARK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000's omitted, except share data)

Note N (In Part): Commitments and Contingencies

On November 4, 1985, the Company established a trust fund of approximately $500 to assure funding of closure and post-closure costs for hazardous waste sites in accordance with the requirements of the Resource Conservation Recovery Act. Prior to this date, the Company was not in compliance with the financial requirements of the Act and may be subject to substantial penalties as a result. No claim for such penalties has been asserted and the amount of such penalties, if any, is not currently determinable.

Realization of Assets

GRUMMAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Commitments and Contingencies

In July 1983 the Company completed the sale of its bus business to The Flxible Corporation, and received as part of the selling price, $26,300,000 of notes and preferred stock of the Purchaser. It is the Company's opinion that the value of these securities is contingent upon future earnings of that company and of the general health of the mass transit bus manufacturing industry. The Company believes that at the present time, there has not been a permanent impairment in the value of its investment and therefore the notes and preferred stock of the Flxible Corporation are valued at cost.

IC INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. (In Part): Contingencies

While merger or sale of the ICG remains an important goal of the Company, no formal plan for disposition currently exists. No accurate prediction can be made as to whether the ICG will be involved in a consolidation or other transaction in the foreseeable future, nor the amount which would be realized. While several transactions and contracts involving sales of significant portions of trackage were announced in 1985, and are anticipated to result in a net gain upon disposition, such transactions should not necessarily be deemed indicative of the proceeds which may be realized from the sale of other portions of the ICG. Depending on many factors, the Company may realize amounts less than the book value of the net assets, which amounted to $661.7 million at December 31, 1985.

The Company and its subsidiaries have certain contingent liabilities arising from various pending claims and litigation on a number of matters. While the amount of liability that may result from these matters cannot be determined, in the opinion of the Company counsel, the ultimate liability will not materially affect the consolidated financial position or results of operations of the Company and its subsidiaries.

Sale of Tax Benefits

KAISER CEMENT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

J (In Part): Leases, Commitments and Contingencies

In connection with the sale in 1982 of federal income tax benefits, the Corporation is contingently liable to pay certain amounts if the buyer were to lose certain tax benefits contemplated by the sale. This contingent liability is supported by a bank standby letter of credit which amounted to approximately $44,000,000 at December 31, 1985.

GAIN CONTINGENCIES

Operating Loss or Investment Credit Carryforwards

AMERICAN MAIZE-PRODUCTS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Income Taxes

Income tax expense has been reduced by investment tax credits of $2,196,000 in 1985, $1,344,000 in 1984 and $955,000 in 1983. Since the initial public offering of AFC common stock (see Note 2), the Company and AFC are required to file separate consolidated tax returns. The following table summarizes net operating loss, investment tax and other credit carryforwards at December 31, 1985 for each taxable entity:

Dollars in thousands

	Company		AFC	
	Amount	Year of expiration	Amount	Year of expiration
Net operating loss carryforwards	$17,036	2000	$10,702	2000
Investment tax and other credit carryforwards	$ 1,321	1996	$ 882	1996
	1,044	1998	—	—
	800	1999	992	1999
	716	2000	1,664	2000
	$ 3,881		$ 3,538	

NIKE, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Income Taxes

The Company has operating loss carryforwards for income tax purposes available as deductions from future foreign taxable income expiring as follows:

Year Ending May 31,	Tax Basis	Book Basis
	(in thousands)	
1988	$ 569	$ 1,510
1989	334	296
1990	1,236	8,746
1991	—	—
1992	591	—
1993	82	68
unlimited	6,417	5,356
	$9,229	$15,976

The losses were principally generated by operations in Japan, Malaysia and Ireland. Utilization is contingent upon these operations attaining sufficient income.

PENTRON INDUSTRIES, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Income Taxes:

The Company has net operating loss carryforwards for Federal income tax purposes of $4,660,000 and financial statement purposes of $4,365,000. If not offset against taxable income, $903,000 of the net tax operating loss will expire in 1997, $1,252,000 will expire in 1998, $1,821,000 will expire in 1999 and $684,000 will expire in 2000. For financial statement purposes, net deferred tax credits have been eliminated based upon their expected amortization during the loss carryforward period. Upon realization of the tax benefits of the loss carryforward in subsequent periods, the amounts eliminated from the deferred tax accounts, to the extent they would not have reversed, would be reinstated.

Investment tax credit carryforwards of approximately $56,000 are available to reduce future Federal income taxes. The Company has also carried forward contribution deductions of $139,000 which will expire in the years 1986 through 1988. Tax credit and contribution deduction carryforwards will result in reductions of income tax in the periods utilized.

THE PITTSTON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Income Taxes

The Company has incurred net operating losses for U.S. Federal income tax purposes which along with investment tax credits are available as carryforwards to offset future taxable income. Future utilization of the tax carryforwards will result in the reinstatement of deferred tax credits. At December 31, 1985, such losses and investment tax credits aggregated approximately $163,900,000 and $29,400,000, respectively, and expire as follows:

Year	Net Operating Loss	Investment Tax Credit
	(In thousands)	
1995	$ —	6,000
1996	19,000	4,800
1997	55,800	5,800
1998	13,000	4,400
1999	49,500	5,300
2000	26,600	3,100
	$163,900	29,400

PRATT-READ CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G (In Part): Federal and State Income Taxes

The provision for income taxes is summarized as follows:

	1985	1984	1983
Current			
Federal	$(912,387)	$ 5,831	$(9,896)
State	38,887	64,685	49,174
Deferred federal and state income taxes	48,983	180,195	16,563
	$(824,517)	$250,711	$55,841

At June 30, 1985 the Corporation had unused State of Connecticut operating loss carryforwards of $3,498,000 available to reduce future taxable income, expiring as follows: $1,392,000 in 1989; and $2,106,000 in 1990. The potential tax benefit of the net operating loss carryforward has not been recorded for financial statement purposes because of the uncertainty of realizing those benefits in the foreseeable future. Investment tax credit carryovers of $40,000, expiring in 2000, have been recognized for accounting purposes, by a reduction of deferred tax credits. These credits will be reinstated as the respective investment tax credit carryovers are realized. Additionally the Corporation had charitable contribution carryforwards of $208,000 expiring in 1989 and 1990 available to reduce future taxable income.

TRIANGLE INDUSTRIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note K (In Part): Income Taxes

In connection with acquisitions, net operating loss carryforwards of National Can's foreign subsidiaries ($30,785,000) and Trafalgar Industries, Inc. ($19,649,000) expire as follows (In thousands):

1986	$ 3,649
1987	$ 2,524
1988	$ 5,167
1989	$ 4,638
Thereafter	$34,456

If such loss carryforwards can be utilized, any resulting benefit will be recorded as retroactive adjustments in accordance with the purchase method of accounting.

UNITED STATES SURGICAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note E (In Part): Income Taxes

Deferred taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes.

At December 31, 1985 the Company had a capital loss carryforward of $5,098,000 which expires in 1990, a net operating loss carryforward of $7,204,000 which expires in 1998 and an investment tax credit carryforward of $260,000 which expires in the year 2000, the benefits of which are available for financial reporting purposes.

A capital loss carryforward of $3,556,000, net operating loss carryforwards of $21,522,000 and investment tax and research credit carryforwards of $11,959,000 and $656,000, respectively, expire in the following years:

Dollars in thousands	Capital Loss	Net Operating Losses	Investment Tax Credits	Research Credits
Year Scheduled to Expire:				
1990	$3,556			
1994			$ 766	
1995			1,588	
1996			2,276	$ 38
1997		$ 7,000	1,921	
1998		7,137	1,647	172
1999		7,385	1,703	136
2000			2,059	310
	$3,556	$21,522	$11,959	$656

Plaintiff Litigation

THE DOW CHEMICAL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

(dollars in millions, except per share)

Q (In Part): Commitments and Contingent Liabilities

On July 14, 1983, the Company terminated the General Agreement with Consumers Power Company dated June 21, 1978, under which Consumers had agreed to supply process steam to Dow's Michigan Division upon completion of the Midland Nuclear Facility. Concurrently, Dow filed suit in Midland, Michigan Circuit Court seeking a declaratory judgment that all obligations of Dow with respect to the General Agreement are cancelled and discharged due to Consumers' wrongful conduct or, alternatively, if Dow's obligations have not been completely cancelled and discharged that any termination payment under the General Agreement be substantially reduced. Dow further seeks a declaration that it is owed damages arising from Dow's expenditures of more than $60 in reliance on Consumers Power's misrepresentations and nondisclosures as well as such additional relief as the Court deems proper. Consumers claims that Dow is obligated to pay a termination fee of $460, in addition to money damages for bad faith breach of contract. Trial commenced in Midland, Michigan Circuit Court on October 9, 1984, and with numerous scheduled recesses is still continuing. In the opinion of Dow and its legal counsel, the ultimate amount of any such liability is indeterminable at this time. Accordingly, Dow has not recorded any provision for possible loss on the contract termination.

THE GREYHOUND CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note J (In Part): Litigation and Claims:

A fidelity insurance claim was filed during 1985 for a foreign Financial Group subsidiary as a result of illegal acts by former employees. The claim is to compensate the subsidiary for loan losses and foregone revenues, as well as possible future revenue and loan losses related to its shipping loans. The primary insurers have acknowledged liability and agreed to pay their portion ($1,000,000) of the claim, and representatives of the excess insurers have the claim under review. Excess policies of Greyhound provide fidelity coverage for Greyhound and its subsidiaries of $49,000,000. Management believes that the ultimate recovery under this claim will be substantial. Results for 1985 include $21,000,000 (not subject to tax provision) or $.44 per share recorded as an insurance receivable, representing a portion of losses provided to date. Independent legal counsel of Greyhound has opined that the possibility of recovery of less than the recorded amount is remote.

ZENITH ELECTRONICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Litigation

On December 31, 1984, a fire damaged inventory and equipment at the company's monochrome display manufacturing facility in Taiwan. Losses due to business interruption resulting from the fire have been largely recovered under an insurance policy with the remaining amount claimed expected to be received in 1986. The company has brought suit to recover $13.5 million in damage to inventory and equipment against a property insurance carrier which has attempted to deny coverage under its policy. The ultimate resolution of this matter will, in the opinion of management, have no material effect on the company's financial position.

Contingent Receivable

AMAX INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

23 (In Part): Contingencies and Commitments

At December 31, 1985, AMAX had a contingent benefit to receive $30 million from BCL subject to certain conditions relating to BCL cash flow over the next five years as indemnification for certain cash costs arising from the termination of the matte purchase agreement and the resultant closure of AMAX's Port Nickel refinery. To the extent they exceed current and anticipated payments to BCL, receipts will be recorded as income when received.

COMMITMENTS

Obligations to Maintain Working Capital or Restrict Dividends

ASARCO INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

8 (In Part): Debt and Available Credit Facilities

(in millions)

The Company's revolving credit and long-term debt agreements contain covenants relating to maintenance of ratios for current assets to current liabilities, as defined under the terms of the agreements, declaration of cash dividends, limitation on the amount of debt and provisions requiring the reduction of commitments and/or outstanding borrowings in the event of the sale of stock of an associated company or a major asset, as defined under the agreements. The most restrictive of these covenants states that current assets must not be less than 110% of current liabilities. At December 31, 1985, as defined, current assets were 141% of current liabilities, no retained earnings were available for cash dividends on common stock and additional debt was limited to $113.2. Under terms of the agreements, the Company is permitted to pay dividends on preferred stock through 1986.

Under the terms of its borrowing agreements, the Company is required to maintain tangible net worth in excess of $675.0 through March 31, 1988, increasing slightly thereafter. The Company is also permitted to incur senior debt not to exceed the lesser of 75% of tangible net worth or $650.0 until March 31, 1988, and 65% of tangible net worth thereafter. Beginning October 1, 1985, the Company is not permitted to allow cumulative operating losses, as defined, less 50% of the proceeds from the sale of common or preferred stock, to exceed $70.0. Operating losses are defined as net losses (less net income), excluding foreign exchange translation gains or losses related to Asarco's equity interest in M.I.M. Holdings Limited, unusual items and extraordinary items. Through December 31, 1985, cumulative operating losses, as defined, amounted to $5.3.

The Company has also amended certain covenants contained in its 7⅞% Notes Agreement so that, through 1986, the restrictive provisions for limitations on indebtedness, tangible net worth, and operating losses will be the same as the restrictive provisions in the $350.0 Revolving Credit Agreement dated October 1985.

CRANE CO. (DEC)

FINANCIAL REVIEW

Long- and Short-Term Financing (In Part):

In the first quarter of 1985, following a tender offer, the company acquired UniDynamics (see Acquisition). To finance the acquisition, the company entered into a $170,000,000 bank loan. During October 1985, the company issued $75,000,000 of 8¾% Convertible Senior Debentures due 2005 and entered into a $75,000,000 revolving credit agreement of which $40,000,000 was drawn down. Total proceeds from these long-term obligations were used to refinance the remaining balance of the $170,000,000 bank loan which had been reduced by cash generated from operations and received from the pension reversion. Covenants contained in these long-term debt indentures (i) restrict payment of cash dividends (ii) require the company to maintain working capital of at least $150,000,000 (iii) require a minimum consolidated net worth of $100,000,000 which minimum will increase by at least 40% of the annual Consolidated Net Income (as defined) on a cumulative basis and (iv) restrict the amount of funded debt which may be outstanding at any time.

At December 31, 1985, the aggregate amount of subsidiary earnings available for dividends was $155,586,000.

THE FEDERAL COMPANY (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Long-Term Debt:

The retained earnings of The Federal Company are not restricted as to the payment of dividends. However, under the terms of certain loan agreements at June 1, 1985, approximately $110 million of the retained earnings of certain subsidiaries are restricted as to the payment of dividends to the parent company.

NL INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

(in thousands of dollars, except share amounts)

9 (In Part): Long-Term Debt

Under the terms of certain of the debt instrument agreements, increases in total debt and the amount of retained earnings available for cash dividend declarations are restricted. Under the terms of the most restrictive agreement, cash dividend declarations or increases in debt to finance tangible assets are limited to $530,600 or increases in debt to finance intangible assets and investments in partially-owned companies are limited to $265,300 at December 31, 1985.

In addition, the Company must maintain consolidated working capital of at least $150,000 and a current ratio (as defined) of 1.35.

WALGREEN CO. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long-Term Debt (In Part):

Under the most restrictive covenants of the Company's debt agreements: (a) $279,702,000 of the consolidated retained earnings at August 31, 1985 is available for payment of cash dividends, or for repurchase of the Company's stock, and (b) consolidated net working capital, as defined, must be at least $85,000,000. Consolidated net working capital, as defined, was $330,455,000 at August 31, 1985.

Capital Expenditures

BECTON, DICKINSON AND COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note J (In Part): Leases and Other Commitments

As of September 30, 1985, the Company had entered into certain commitments for future capital expenditures relating to an office building and site development in Franklin Lakes, New Jersey, aggregating $33,000,000 which will be expended over the next year.

CONSOLIDATED PAPERS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Commitments.

As of December 31, 1985, the company had capital expenditure purchase commitments outstanding approximating $99,395,000. This amount includes commitments associated with the construction of the company's new paper machine. The total cost of this machine is estimated to be $215 million.

HAMMERMILL PAPER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Plant Construction Commitments

In late 1984, the company began construction on a $255 million expansion project at its Riverdale plant in Selma, Alabama. The expansion is scheduled to be completed in stages through the spring of 1987. As of December 29, 1985, the company had entered into various purchase or construction commitments for this project, portions of which were not completed at that date and not reflected in the financial statements. These unrecorded commitments amounted to approximately $103 million at December 29, 1985, including commitments of $45 million which were entered into in 1985.

MEREDITH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Commitments and Contingencies

The Company is committed to spend approximately $4,300,000 on capital projects. Of this amount, $2,395,000 is committed to complete the remodeling of a Des Moines, Iowa, building and the installation of a new telephone system for all Des Moines-based operations. The remaining expenditures are for normal equipment replacements and equipment improvements at various Company facilities.

MURPHY OIL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note N (In Part): Commitments

Commitments for capital expenditures were approximately $190,000,000 at December 31, 1985. Commitments include $121,129,000 for the balance due under contracts and ancillary agreements between ODECO and a Korean shipyard for construction of two deep-water, semi-submersible drilling barges. The contracts provide for periodic payments during construction equal to 15% of the contract price and for long-term, post-delivery loans to be arranged by the shipyard for the remaining 85%. The loans will be repayable in 16 equal, semiannual payments beginning two and one-half years after delivery (presently scheduled for November 1986 and April 1987) and will bear interest at a fixed 10% annual rate payable semiannually commencing six months after delivery. Amounts financed may be prepaid without penalties. The agreements also provide for cash payment options in lieu of shipyard financing. In connection with the financing, ODECO entered into a credit agreement with banks which provides for issuance of letters of credit and requires payment of fees ranging from ¼% to ½% on outstanding commitments.

TOSCO CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

14 (In Part): Commitments and Contingencies

Tosco, as of December 31, 1985, had committed to spend approximately $560,000 for supply, refining and marketing projects now under construction. In addition, Tosco has committed to spend approximately $10,000,000 to upgrade facilities related to an $89,000,000 cogeneration plant and sludge drying facility at Tosco's Avon Refinery. The plant, which is currently under construction and is expected to be in operation in early 1987, will be built, owned and operated by a third party.

Unconditional Purchase Contracts

KAISER ALUMINUM & CHEMICAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Millions of dollars, except share amounts

13 (In Part): Commitments and Contingencies

The corporation also has long-term agreements negotiated as part of arranging financing for certain joint ventures of which it is a member. These contracts include agreements for the purchasing and tolling of bauxite into alumina by Queensland Alumina Limited (Australia) (28.3% owned); for the purchasing of alumina from Alumina Partners of Jamaica (50.0% owned); and for the purchasing and tolling of alumina into aluminum by Boyne Smelters Limited (Australia) (20.0% owned). These obligations expire in 2008, 2021, and 2007, respectively. Under the agreements, the corporation is unconditionally obligated to make payments sufficient to pay its proportional share of debt, operating, and certain other costs of those joint ventures. The aggregate minimum amount of required payments at December 31, 1985, is $329.0 ($23.1, 1986; $89.2, 1987; $17.4, 1988; $20.8, 1989; $40.9, 1990; $137.6 thereafter). The corporation's share of payments, including operating costs and certain other expenses under the agreements, was $146.9, $178.1, and $152.6 in 1985, 1984, and 1983.

THE QUAKER OATS COMPANY (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Leases and Other Long-Term Commitments

The Company is obligated by contract to purchase specified finished goods for resale. The contract expires in fiscal 1987. Aggregate amounts purchased under this contract were $20.1 million in fiscal 1985. The aggregate amount of future required payments as of June 30, 1985 is as follows:

Millions of Dollars...	1986	1987	1988	1989	1990	Later	Total
Total payments.......	$5.9	$6.3	$—	$—	$—	$—	$12.2

TENNECO INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

13 (In Part): Commitments and Contingencies

Purchase Obligations

At December 31, 1985, Tenneco had invested $56 million in certain joint ventures. In connection with the financing commitments of these ventures, Tenneco has entered into unconditional purchase obligations of $494 million ($275 million on a present value basis). Tenneco's annual obligations under these agreements are $35 million, $35 million, $34 million, $34 million and $33 million for the years 1986, 1987, 1988, 1989 and 1990, respectively. Payments under such obligations, including additional purchases in excess of contractual obligations, were $55 million, $71 million and $89 million for 1985, 1984 and 1983, respectively. In connection with the Great Plains coal gasification project, Tenneco has contracted to purchase 30% of the plant's estimated production of 125 million cubic feet per day of synthetic gas at prices tied to competitive fuels for a period of 25 years.

Other Purchase Contracts

ARMCO (DEC)

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions, except per share amounts)

Note 10 (In Part): Commitments and Contingencies

Armco has agreed to purchase approximately 15,600,000 tons of iron ore at competitive prices from a Brazilian iron ore company. Under this agreement, Armco will purchase its annual requirements of sinter feed ore and take annual minimum deliveries of 200,000 tons of iron ore pellets.

CAPITAL CITIES/ABC, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Commitments

The Company (excluding ABC and disposed operations) has entered into agreements for future delivery of syndicated and feature film programming for its television stations, which aggregate $10,881,000, payable from 1986 through 1990.

At December 28, 1985, ABC is obligated for payments for the purchase of broadcast rights to various feature films, sports events and other programming aggregating approximately $1.8 billion.

MOSINEE PAPER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Commitments, Contingencies, Litigation, and Related Party Transactions

The Company is committed under agreements with two executive officers to repurchase 62,510 shares of common stock including 12,100 shares purchased in 1981 at the prevailing market price less $6.20 per share and 50,410 purchased in 1979 at the prevailing market price less $5.17 per share. The repurchase commitment, if exercised on December 31, 1985, would have amounted to approximately $813,000. On January 22, 1986 an additional 5,000 shares were purchased by the Company at the prevailing market price less $5.17 per share.

SCM CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

Commitments and Other Matters:

To assure a long-term supply, SCM has committed to purchase a certain raw material used in the chemicals business during fiscal years 1988 through 1997, inclusive. At the base price as of June 30, 1985, this commitment would approximate $15,000 per year. The base price is subject to adjustment for price escalations, as defined in the contract, at the date of delivery.

In the ordinary course of business, SCM has litigation in process which management believes will not have a material effect on SCM's financial statements.

Hedge Contracts

WALT DISNEY PRODUCTIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Borrowings (in thousands)

Term Loans

During 1985, the Company refinanced its Japanese yen term loan, lowering the interest rate from 8.60% to 7.30% and extending it through 1995. In addition, the Company issued 9.125% ECU (European Currency Unit) notes due March 29, 1995 for ECU 80 million, or $62.4 million. Concurrent with the completion of this offering, the Company entered into a forward exchange agreement with a financial institution which effectively converts the ECU notes into Japanese yen equivalents. The resulting 6.565% yen borrowing is due March 29, 1995 and payable in semi-annual installments commencing March 29, 1990. The Company previously had entered into another forward exchange agreement which effectively converted $50 million of the $75 million 12.50% Eurodollar notes into yen equivalents. This 7.40% yen borrowing is due March 14, 1989 with interest payable annually. The Company has hedged all yen borrowings by designating its cumulative yen royalty receipts from Tokyo Disneyland and other Japanese royalty sources to service principal and interest yen payments, thus offsetting the impact of exchange rate fluctuations.

Term loans and notes payable, excluding Eurodollar notes, mature as follows: $20,900-1986; $7,600-1987; $7,800-1988; $18,900-1989; $8,100-1990; and $110,600 thereafter.

OWENS-CORNING FIBERGLAS CORPORATION

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign Operations

Forward exchange contracts are purchased to hedge against currency fluctuations affecting operations of certain foreign subsidiaries. Realized and unrealized gains and losses on these contracts are recorded in income currently except that gains and losses on contracts to hedge specific foreign currency commitments are deferred and accounted for as part of the commitment transaction.

SUN COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part):

Futures Contracts

Gains and losses on commodity and financial futures contracts are accounted for in accordance with Statement of Financial Accounting Standards No. 80, "Accounting for Futures Contracts." Sun periodically uses commodity futures contracts to hedge the impact of price fluctuations on its oil requirements and financial futures contracts to hedge the risk associated with interest rate fluctuations on its variable rate debt. Gains and losses on commodity futures hedge contracts are deferred until recognized in income when oil is sold while those hedge contracts related to interest rate fluctuations are deferred and recognized in income over the period being hedged.

TEXTRON INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Debt and Credit Facilities

Textron has entered into interest rate exchange agreements, over periods ranging from 1 to 6 years, which had the effect of fixing the rate of interest on approximately $423 million of variable interest rate borrowings at December 28, 1985 at approximately 10.9%. Net amounts due under these contracts increased interest expense by approximately $8.1 million in 1985. These agreements expire as follows: $190 million in 1986; $50 million in 1987 and $183 million thereafter.

Employment Contracts

ANADITE, INC. (OCT)

NOTES TO FINANCIAL STATEMENTS

(4) Commitments

The Company has an employment agreement with an officer which extends to March 31, 1989, that provides for a minimum annual salary (currently $134,000 through April 1, 1986) and annual increases of an amount equal to 10% of the prior year's salary level. The agreement also provides for the accrual of deferred compensation for the benefit of the officer in an amount equal to 50% of the salary paid to the officer each year. At the request of the officer, the 10% increases scheduled April 1, 1982, and April 1, 1983, were not effected (both with respect to the salary and the deferred compensation); a 10% increase was effectuated on both April 1, 1984 and 1985, bringing the officer's annual salary to $111,000. Further, the agreement provides for an incentive award equal to varying percentages of incentive earnings, as defined. There were no incentive awards earned in 1985, 1984 or 1983.

CONCORD FABRICS INC. (AUG)

NOTES TO FINANCIAL STATEMENTS

(Note J)—Employment Contracts:

(1) The Company's employment contracts with four officers, an officer of a subsidiary and a senior executive provide for basic annual salaries aggregating $725,000 a year plus additional compensation based on earnings (as defined); the contracts expire at various dates through 1989. Additional compensation earned for the years ended September 1, 1985, September 2, 1984 and August 28, 1983 aggregated $22,000, $555,000 and $220,000, respectively.

(2) In June 1982, one of the aforementioned officers extended the term of his employment agreement from 1985 to 1989 at no increase in salary. In consideration thereof, the Company loaned the officer $300,000 without interest. Annual repayments will be due through the expiration date of the employment agreement.

PALL CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Contingencies and Commitments

Since fiscal 1972, the Company has had employment agreements with its principal officers. Such agreements have been revised from time to time. The agreements provide for minimum salary levels, adjusted annually for cost-of-living changes, as well as for incentive bonuses which are payable if specified management goals are attained. The aggregate commitment for future salaries at August 3, 1985, excluding bonuses, was approximately $5,900,000.

Additional Payments Related to Acquisitions

ACME-CLEVELAND CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B—Acquisitions

On October 2, 1984, the Corporation acquired all of the outstanding common shares of Communications Technology Corporation and subsidiaries ("CTC") for $33,000,000 in cash. CTC, located in Los Angeles, California, is engaged in the business of developing, manufacturing and selling telecommunications equipment. The acquisition has been accounted for as a purchase and, accordingly, the purchase price of $33,300,000 (including other direct costs of $300,000 for the acquisition) was allocated to the assets and liabilities based on their fair values at acquisition date. The remaining unallocated purchase price was recorded as goodwill and is being amortized over 40 years using the straight-line method. In fiscal year 1985, the consolidated financial statements reflect CTC's operations since October 2, 1984. Assuming that the acquisition of CTC had occurred at the beginning of each period presented below, pro forma condensed consolidated results from continuing operations would have been as follows:

	(In thousands, except per share data)	
	1984	1983
Net sales	$196,000	$170,000
Earnings (loss)	511	(22,616)
Earnings (loss) per Common Share	$.04	($5.25)

The purchase agreement provides that the purchase price of CTC could be increased to a maximum of $38,500,000 in cash, (or $40,000,000 if such contingent amounts were paid with notes), if CTC consolidated net earnings for the year ended February 28, 1985 achieved a specific level. Management of the Corporation believes CTC consolidated earnings did not reach the specific level and that no additional purchase payment is due. However, this view is presently being disputed by certain selling shareholders of CTC. Any additional payout would increase goodwill.

CENTRONICS DATA COMPUTER CORP. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Commitments and Contingencies

Additional Shares

On January 17, 1985, the Company executed an Assets Purchase Agreement ("Agreement") pursuant to which it acquired certain assets with a net book value of approximately $1.5 million of Trilog, Inc. for approximately $1.8 million. The Agreement further provided for additional consideration equal to the amount by which the sum of 3.5% of the net sales by the Company of Trilog products and 50% of the royalties received by the Company related to Trilog products exceeds $200,000 during the four year period subsequent to the closing date; except that any additional consideration payable in excess of $700,000 shall equal the sum of 2.25% of the net sales of Trilog products plus 50% of the royalties. The maximum consideration payable to Trilog, Inc. is $5,000,000. The additional consideration, if any, shall be payable at the Company's option in cash or in marketable shares of the Company's common stock. Additional consideration, if any, will be recorded as an increase to tangible assets and goodwill.

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Satellite Business Systems

MCI Communications Corporation and IBM have signed an agreement under which MCI will acquire substantially all of the assets and operations of Satellite Business Systems in exchange for approximately 47 million shares of MCI common stock, which IBM agrees to retain for a minimum of three years. At December 31, 1985, the value of the SBS assets to be exchanged was $418 million. Completion of the transaction is subject to approval by the Federal Communications Commission and review under provisions of the Hart/Scott/Rodino Act. In addition, IBM has agreed that it will, under certain conditions, invest an additional $400 million in MCI between September 1, 1986 and December 31, 1988.

IBM and Aetna Life & Casualty had previously reached agreement for IBM to acquire Aetna's interest in SBS, effective June 30, 1985. In addition to certain cash payments and other considerations, Aetna may receive a future payment from IBM which is dependent on the market value of MCI common stock at the time the MCI transaction is concluded, up to a maximum of $98.6 million. Has this transaction taken place on December 31, 1985, the contingent payment would have been approximately $30 million.

IBM's investment in SBS is accounted for by the equity method, and is included in investments and other assets in the consolidated statement of financial position.

Sales Agreements

TONKA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions except share and per share data)

Note Six—Assets Identified for Sale

During 1984, the Tonka corporate offices and manufacturing facilities located in Spring Park and Mound, Minnesota were identified for sale. These facilities were sold in February, 1985, for approximately $5.0 in cash.

Under the sale agreement, the buyer has a conditional right to rescind the transaction with respect to the Mound, Minnesota property in the event certain terms and conditions are met. This conditional right to rescind exists until February, 1988. In the event the right to rescind is exercised, the Company will pay the buyer the sum of $2.0 and the buyer will transfer the Mound property back to the Company. No material gain or loss has been recorded in 1985 as a result of the sale.

THE TIMES MIRROR COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note S—Pending Dispositions of Assets

The company has agreed to sell the assets of television stations WHTM-TV, Channel 27, Harrisburg, Pennsylvania; WSTM-TV, Channel 3, Syracuse, New York; and WETM-TV, Channel 18, Elmira, New York, to Smith Acquisition Corp. The purchase price is $79 million in cash. The sale, which is expected to result in a gain, is subject to clearance with appropriate government agencies and the completion of certain contractual matters. It is expected to be completed in mid-1986.

Production Agreement

G. HEILEMAN BREWING COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Commitments and Contingent Liabilities:

Production Agreement—In connection with the 1983 acquisition of certain brewing facilities and other assets of Pabst Brewing Company (see Note 2), the Company entered into a five year contract brewing arrangement under which the Company is required to produce a specified number of barrels of beer for Pabst during the period from March, 1983 through March, 1988. On a calendar year basis, the required minimum number of barrels are as follows: 2,520,000 in 1983; 3,000,000 in 1984; 2,730,000 in 1985; 2,430,000 in 1986; 2,130,000 in 1987 and 420,000 in 1988.

Computer Services Agreement

CYCLOPS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note (In Part): Leases and Special Agreement

In 1985, the Silo Division entered into an agreement with a service company to provide computer services to the division through 1991. The agreement requires an approximate annual payment of $3,700,000. This service replaced internal computer services.

Facilities Agreement

TYSON FOODS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Lease Commitments and Facilities Agreement

Facilities Agreement

During 1984, the Company entered into an agreement to provide swine-rearing facilities, consisting of both owned and leased properties, to a syndicated limited partnership for a fixed annual fee; facility fee income for 1985 and 1984 amounted to $6,358,705 and $193,650, respectively. The agreement is for a three-year period ending in 1987. Remaining minimum fees to be received aggregate $12,802,800.

SUBSEQUENT EVENTS

Events or transactions which occur subsequent to the balance sheet date but prior to the issuance of the financial statements and which have a material effect on the financial statements should be either reflected or disclosed in the financial statements. Section 560 of *Statement on Auditing Standards No. 1* sets forth criteria for the proper treatment of subsequent events.

Table 1-12 classifies disclosures of subsequent events included in the 1985 annual reports of the survey companies.

Examples of subsequent event disclosures follow.

Debt Incurred, Reduced or Refinanced

AMERICAN STORES COMPANY (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Debt (In Part):

Subsequent to February 1, 1986, the Company entered into an agreement with a group of banks providing a $300,000,000 unsecured revolving credit facility which expires in 1989. This agreement can be extended by mutual consent. Interest rates are established at the time of borrowings through three different pricing options, one of which is the prime interest rate. Terms of the revolving credit facility provide for borrowings from the participating banks or borrowing through issuance of commercial paper supported by the facility. At February 1, 1986, there were $55,000,000 in short-term notes which the Company classified as long-term under this agreement.

CAMPBELL SOUP COMPANY (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Notes Payable and Long-Term Debt (In Part):

Subsequent to the fiscal year-end, on September 4, 1985, the Company issued $100 million of 10½%, 10-year notes payable in the Eurobond market. The proceeds will be used for general corporate purposes, which may include the repayment of existing debt.

INLAND STEEL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 2 (In Part): Borrowing Arrangements

In February, 1986, the Company negotiated an agreement in principle for a new bank credit facility which, when effective, will replace the lines of credit and revolving credit

TABLE 1-12: SUBSEQUENT EVENTS

	Number of Companies			
	1985	1984	1983	1982
Debt incurred, reduced or refinanced	61	39	42	42
Business combinations pending or effected	49	51	40	42
Capital stock issued or purchased	30	9	17	22
Litigation	27	15	25	29
Discontinued operations	26	37	24	32
Stock splits or dividends	15	6	12	17
Stock purchase rights	15	—	—	—
Other—described	58	38	43	41

agreement now in effect and would contain a convenant to maintain consolidated tangible net worth of at least $850 million. This agreement is expected to be documented and executed in March, 1986. While the Company can provide no assurance that the new credit arrangement will be consummated, management believes that the probability of the arrangement not being consummated is remote. This new five-year revolving credit/term loan arrangement between Joseph T. Ryerson & Son, Inc., a wholly owned subsidiary of the Company, and a group of banks will provide for borrowings of up to $200 million through December 31, 1986 and up to $150 million thereafter. It will provide for a lien on certain Ryerson inventories and receivables as well as a guarantee by the parent company. The revolving loan period will extend three years from the effective date and the loan will then be payable in four semi-annual installments. Interest on borrowings will not exceed the prime rate during the initial two years or prime rate plus ¼ percent in the last three years. There will be a commitment fee of ½ percent per annum on the unused amount of the facility. The agreement will limit certain transactions with members of the affiliated group and will include tangible net worth and indebtedness ratio covenants both for Ryerson and for the Company on a consolidated basis.

At December 31, 1985, $197 million of caster financing was outstanding (all classified as long-term) of which $125 million was being financed by supplier-provided construction loans, $55 million by bank loans, and $5 million by commercial paper, with the remaining approximately $12 million attributable to a lease of caster cranes. At December 31, 1985, the average interest rate on these borrowings was approximately 9 percent. The Company pays a commitment fee on the unused portion of the supplier-provided credit until the completion of the project. Borrowings are secured by a mortgage on the facility.

On March 7, 1986 the Company entered into a sale and leaseback arrangement for two continuous casters comprising the principal portion of the caster project which is expected to be completed in April 1986. Of the total project cost, approximately $190 million of the caster project is expected to be financed by the lease and approximately $57.5 million by an available supplier-provided long-term loan. The lease has a term of approximately 15 years and will require payments of approximately $10 million in 1986 and approximately $20 million annually thereafter. The long-term loan is payable in equal annual installments of principal and interest over a period of 15 years. In connection with these leveraged lease arrangements, the Company has undertaken separately to secure the owner-lessor by pledging certain Ryerson inventories. These arrangements are subject to the continued maintenance by the Company of a surety bond or letter of credit, in an initial amount of $105 million, declining over the life of the loan.

INTERNATIONAL HARVESTER COMPANY (OCT)

NOTES TO FINANCIAL STATEMENTS

2 (In Part): Subsequent Events

During 1985, the Company initiated actions designed to reduce further its private lender debt and to redeploy underutilized assets of the Company's wholly-owned nonconsolidated finance subsidiaries previously used principally to acquire receivables related to the Company's agricultural equipment business.

In November 1985, the Company registered $150 million of 14½% Senior Sinking Fund Debentures (Senior Debentures). The Company contributed $25 million principal amount of Senior Debentures to its pension plans and sold the remaining $125 million to the public. Of the net proceeds received by the Company from the sale of the $125 million principal amount of Senior Debentures, $100 million was used to permanently reduce the amount available under the Company's private lender revolving credit facility to $250 million. The remaining $25 million will be used for general corporate purposes.

INTERNATIONAL MINERALS & CHEMICAL CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Lines of Credit

IMC had unused short-term domestic and foreign bank lines of credit at June 30, 1985, totaling $147.6 million. Borrowings under these lines bear interest rates generally extended to prime borrowers, and the lines are cancellable at any time. In addition, IMC has a revolving credit agreement with a number of banks. Under the agreement, a maximum of $50 million could have been borrowed at the prime rate. A commitment fee was paid for the unused portion. There were no borrowings under this agreement through June 30, 1985.

Subsequent to June 30, 1985, IMC obtained commitments, subject to negotiation of definitive agreements, from groups of banks for committed credit facilities aggregating $700 million. The terms of the agreements are expected to be five years, with interest rates generally ranging from LIBOR plus approximately two-tenths of one percent to a U.S. bank's prime rate. A commitment fee will be payable for the unused portion. When final agreements are reached, IMC intends to cancel the aforementioned $50 million revolving credit agreement.

KAISER ALUMINUM & CHEMICAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

(Dollars in Millions)

16. Subsequent Financing Agreements

In March 1986, the corporation entered into a new credit agreement with banks holding approximately $1,008.0 of the corporation's outstanding debt, providing for an extension of the debt as a term loan maturing December 31, 1992, and the establishment of a $165.0 revolving credit facility which expires December 31, 1989. Under this refinancing which, subject to certain conditions, is expected to close in late March 1986, the corporation is required to make a term loan principal payment of $25.0 in 1986 and minimum quarterly principal payments of $12.5 during 1987, $18.8 during 1988, and $25.0 during 1989–1992. The maximum aggregate amount of loans under the above term loan and revolving credit facility may not exceed $825.0 and $725.0 on and after December 31, 1987 and 1988.

The amount of loans outstanding under the new agreement together with certain other obligations of the corporation will be secured by a pledge of collateral including principal domestic facilities, inventories, accounts receivable, and notes receivable. The capital stock of Kaiser Energy, Inc., and Kaiser Aluminum Europe Incorporated will be pledged as collateral, and commencing July 1, 1986, the capital stock of Kaiser Development Company, owned by the corporation and its affiliates, will also be pledged as collateral.

The loans bear interest according to a pricing formula, which gives the corporation the option of using either (or a combination of) a Prime rate or a Euro-rate. Under the formula, the average interest rate, assuming $1,008.0 outstanding, would be approximately ½% above Prime rate or 1.5% above the Euro-rate until December 31, 1987. The corporation must pay commitment fees of ½% per annum on the unused portion of the revolving credit amount.

Under the new agreement, the more restrictive provisions require that the corporation maintain: (i) consolidated working capital (amount by which current assets exceed current liabilities excluding any short-term payments required in excess of scheduled maturities under the agreement and the short-term portion of any revolving loans) of $310.0 (with credit given for unused revolving credit capacity); (ii) consolidated net worth of $1,000.0 through December 31, 1988, and $1,100.0 thereafter; (iii) total consolidated indebtedness (consolidated borrowings plus capitalized lease obligations and certain guarantees less any subordinated or nonrecourse debt) at less than $2,080.0, $2,060.0, $1,650.0, or $1,550.0 any time during the years ending on December 30, 1986, 1987, 1988, and 1989 and thereafter, respectively; and (iv) a ratio of consolidated indebtedness to consolidated total capital (consolidated indebtedness plus consolidated net worth) of not more than the following percentages: 66.0%, 63.5%, 60.0%, 55.0%, and 52.5% at the end of each fiscal quarter during 1986, 1987, 1988, 1989, and 1990–1992, respectively. There are restrictions on liens, mergers, transactions with affiliates, common stock dividends and stock repurchases, issuance of preferred stock, investments (including acquisitions), capital expenditures, and equipment leases.

In connection with the corporation's new credit agreement with its banks, it is expected that the First Mortgage Bond Indenture will be amended to: (i) provide that the First Mortgage Bondholders share in the proceeds of certain asset sales and financings; (ii) increase the interest rate on the bonds by 2% per annum; and (iii) generally conform the financial covenants of the First Mortgage Bond Indenture to those of the credit agreement. In addition, it is expected that the First Mortgage Bonds will share in the collateral to be granted to the banks pursuant to the new credit agreement.

The corporation is required to prepay debt and other obligations from the net cash proceeds of asset dispositions as follows: 85% of the first $200.0; 70% of the next $200.0; 55% of all subsequent amounts. This provision does not apply to sales of assets in the ordinary course of business. The corporation is also required to prepay debt and other obligations equal to 53.13% of the first $80.0 of net cash proceeds from the sale of equity and 53.13% of the net cash proceeds from the sale of subordinated debt. The aggregate required prepayment from sales of equity and subordinated debt will not exceed $58.8. The bank credit agreement provides, and the expected amendment to the First Mortgage Bond Indenture will provide, for the allocation of these prepayments among the corporation's bank debt, First Mortgage Bonds, and certain other obligations.

J.P. STEVENS & CO., INC. (OCT)

NOTES TO FINANCIAL STATEMENTS

Note G (In Part): Financing Arrangements and Debt

On December 10, 1985, the Company entered into a new Revolving Credit Agreement with Bankers Trust Company and Chemical Bank, as co-Agents, The Bank of New York, Citibank, N.A., and Manufacturers Hanover Trust Company. The agreement provides for revolving credit loans of up to $350,000,000, with each of the five banks lending an equal percentage of any outstanding loans. Such funds are available for general corporate purposes, except in the event of certain changes in stock ownership or Board membership; in such event, the banks may require outstanding borrowings to be repaid. The Company, at its option, may borrow at prime, Eurodollar or CD-based interest rates. The Agreement expires on December 10, 1988. This new Revolving Credit Agreement replaces the Company's previous $150,000,000 agreement, dated June 1, 1981, and amended on July 15, 1983, which was terminated at the Company's option on December 13, 1985.

TOSCO CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

15 (In Part): Subsequent Events

Restructuring of Long-Term Debt

In March, 1986, Tosco reached an agreement in principle with its Banks that provides for amendments to its present bank agreement. The agreement in principle provides, among other matters, that certain maturities of debt will be extended from January 1, 1987 to August 1, 1987; that cash interest payments through July, 1986 will not be required to be paid in cash; that Tosco will pay to the Banks a minimum of $33,000,000 from sales of assets and operating cash flows by July 31, 1986, including all of the proceeds from the projected sale of the Bakersfield Refinery; and that Tosco will pay to the Banks all proceeds derived from the note received in connection with the sale of the El Dorado Refinery (Note

2). In addition, the agreement in principle provides that the Banks will forgive interest accrued on the debt by an amount equal to principal payments made from excess cash flow from operations (not including asset sales proceeds) through July 31, 1986. While Tosco expects that the agreement in principle with its Banks will become effective, there is no assurance that all the conditions precedent to the closing of the agreement will be met.

In connection with the agreement in principle with the Banks, Tosco and Phillips have agreed to enter into an amended agreement which will reduce the Phillips credit line from $30,000,000 to $25,000,000 and provide Phillips with continued security interests in substantially all of the assets of Tosco. Phillips and the Banks have also agreed to amend their intercreditor agreement concerning their respective security interests in Tosco's assets.

TRIANGLE INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note R—Subsequent Event

In January 1986, the Company consummated a public offering of $172,500,000 of its 8⅝% Convertible Senior Subordinated Debentures due 2011 and 2,990,000 shares of its $2.22 Cumulative Convertible Preferred Stock. The Convertible Debentures are convertible into an aggregate of 9,324,324 shares of Common Stock at a price of $18.50 per share, and the Convertible Preferred Stock is convertible into an aggregate of 4,095,890 shares of Common Stock at a price of $18.25 per share, subject in each case to adjustment in certain events.

The net proceeds to the Company from the sale of such securities were $232,890,000. The Company used a portion of the net proceeds to repurchase, for an aggregate of $27,010,000, 200,000 shares of its $14.00 Preferred Stock and all the outstanding warrants to purchase an aggregate of 19.9% of National Can's common stock and to acquire from National Can $175,000,000 of 8⅞% Cumulative Preferred Stock of National Can. The balance of the net proceeds will be used by the Company for general corporate purposes.

As part of a general plan of recapitalization, the Company is in the preliminary stages of refinancing substantially all of the debt incurred in the acquisition of National Can, the "National Can Funded Debt." It is anticipated that such a refinancing will result in significantly lower interest costs and provide the Company with increased operating flexibility.

The indentures under which the National Can Funded Debt (other than the Increasing Rate Senior Notes) were issued prohibit the redemption of such debt prior to 1988. The Increasing Rate Senior Notes may be currently redeemed at par plus accrued interest to the redemption date. Accordingly, the Company and National Can will be required to reach negotiated terms for the repurchase of any National Can Funded Debt other than the Increasing Rate Senior Notes. The early retirement of such debt may result in an extraordinary charge against earnings.

Business Combinations

ADAMS-MILLIS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Events

On February 12, 1986, the Company signed a letter of intent to purchase Maro Hoisery Corporation for $36 million, in a transaction to be accounted for as a purchase. The acquisition, which is expected to be effected during the second quarter of 1986, is subject to a number of conditions common to transactions of this type such as the execution of a definitive purchase agreement and the approval of the required government agencies and the five shareholders of Maro. The Company plans to borrow the funds required for the acquisition from one or more financial institutions. For the fiscal year ended June 30, 1985 Maro had net sales of $73.7 million, and pretax earnings of $8.3 million which would equate to net earnings after taxes of $4.4 million.

AVON PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Proposed Merger

On January 22, 1986, the Company and The Mediplex Group, Inc. ("Mediplex") signed merger agreements under which Mediplex will become a wholly owned subsidiary of the Company. Under the agreements the Company will acquire all of the outstanding common stock of Mediplex for approximately $182 million in cash and $25 million in notes. Options to acquire approximately 650,000 shares of Mediplex common stock will be purchased for about $11 million. The merger agreements also provide for contingent payments of up to $61 million based on the annual earnings increases of Mediplex over the next three years.

The purchase is subject to the approval of the shareholders of Mediplex at a special meeting to be held during April 1986. The transaction will be accounted for as a purchase. Mediplex reported net revenues of $52.0 million and net earnings of $7.3 million in the nine months ended September 30, 1985.

BELL & HOWELL COMPANY (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

Note C (In Part): Acquisitions and Subsequent Event:

On January 2, 1986, the company, through its subsidiary, Bell & Howell Business Records Management Inc., acquired all the outstanding shares of the Bekins Records Management Companies from The Bekins Company, Inc., a subsidiary of Minstar Inc., for $42,000 in cash. The Los Angeles-based business is engaged in the off-site storage, retrieval and management of documents for professional corporate, financial and health care organizations. A majority of the cost of the acquisition will be allocated to property, plant and equipment.

The following table presents the unaudited pro forma results of combined operations of the company and the above acquisitions, which have been accounted for as purchases, as though the acquisitions took place on January 1, 1984:

	1985	1984
Net sales	$830,537	$776,017
Earnings before taxes	46,167	42,671
Net earnings	31,874	31,469
Earnings per common share	$ 3.03	$ 2.89
Earnings per common share, as reported	$ 3.06	$ 3.04

The unaudited pro forma financial information is not necessarily indicative of either the results of operations that would have occurred had the transactions been effected on January 1, 1984, or of future results of operations of the combined companies.

CUMMINS ENGINE COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Subsequent Event:

In January 1986, the company reached a definitive agreement with Cooper Industries, Inc., to acquire its 63-percent interest in Onan Corporation for $105.0 million. Onan, headquartered in Minneapolis, Minn., is a manufacturer of electric generator sets, gasoline and diesel engines and other equipment. The acquisition will be accounted for as a purchase. Accordingly, the company will include Onan's results of operations in Cummins' Consolidated Statement of Earnings for 1986.

EMHART CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

22. Subsequent Event

In January 1986 the Company completed the purchase of substantially all of the outstanding common stock of Technology Transitions, Inc. ("TTI") a high technology venture capital investment firm, for approximately $4.7 million. The agreement to acquire the common stock of TTI was entered into simultaneously with the employment agreement with Mr. Peter L. Scott, who became Chairman of the Board and Chief Executive Officer of the Company on December 1, 1985. Mr. Scott was the founder and a major shareholder of TTI. In addition to the consideration paid to Mr. Scott for his common stock interest in TTI, a substitute option was granted to him to purchase 109,550 shares of the Company's common stock at $3.19 per share, equivalent in value to an option he held to purchase shares of TTI.

THE PILLSBURY COMPANY (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Subsequent Event:

Subsequent to May 31, 1985, the Company acquired substantially all of the outstanding common stock of Diversifoods Inc. for cash. Diversifoods is a broad-based restaurant management company and the largest franchisee of Burger King restaurants.

The cost of the acquisition will approximate $390 million and will be accounted for as a purchase. Accordingly, the purchase price will be allocated to the acquired assets and liabilities based on their estimated fair market value at the date of acquisition, including approximately $165 million of intangibles. The results of operations of Diversifoods will be included in the consolidated statements of earnings from July 1, 1985. Diversifoods had net sales of $556 million and net earnings from continuing operations of $14.2 million for the twelve months ended March 31, 1985.

The following unaudited pro forma combined results of operations are adjusted for the amortization of estimated excess purchase price and interest on debt incurred in connection with the acquisition, as though the acquisition had occurred June 1, 1984.

	Year ended May 31 1985 (In millions except per share amount)
Net sales	$5,219.3
Net earnings	183.4
Net earnings per share	4.23

The pro forma financial information is not necessarily indicative either of results of operations that would have occurred had the merger been effected at June 1, 1984 or of future results of operations of the combined companies. The pro forma financial information has been prepared in accordance with Accounting Principles Board Opinion No. 16 and is based upon the hypothetical assumption that the purchase price would have been the same at the beginning of the period presented and the interest rate on money borrowed would have been the same throughout the period presented.

SPS TECHNOLOGIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Subsequent Event

On January 1, 1986, the Company acquired all of the capital stock of Cannon-Muskegon Corporation, Muskegon, Michigan from Johnson & Firth Brown, Plc., Sheffield, England. Cannon-Muskegon is a producer of master alloys in ingot form for the precision investment casting and powdered metal industries. Its principal product line is super-alloys for aerospace applications, primarily aircraft engines. Cannon-Muskegon also produces alloys for the industrial and health care markets, with uses ranging from chemical and energy to surgical and dental applications. The Company paid an initial purchase price of $13,250,000 in cash to purchase the stock and in consideration for an agreement not to compete. The Company is to pay additional consideration for the acquired company based on certain events as set forth in the acquisition agreement, which are immaterial in relation to the initial purchase price. The Company financed the acquisition through the use of available long-term lines under its existing Bank Credit Agreement described in Note 11.

The following summarizes the unaudited pro forma combined results of operations for 1985 and combined total assets at December 31, 1985 as though the acquisition had occurred on January 1, 1985.

Total assets	$222,994,000
Net sales	314,081,000
Net earnings	10,050,000
Net earnings per share	2.11

This acquisition will be accounted for under the purchase method and the operating results will be included in the consolidated financial statements beginning on January 1, 1986.

DEAN FOODS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Events and Acquisitions (In Part):

On January 16, 1986, the Company and The Larsen Company, a processor and marketer of canned and frozen vegetables, announced a merger agreement whereby, subject to the satisfaction or waiver of various conditions, including shareholder approval by both companies, Larsen will become a wholly-owned subsidiary of the Company. Under the terms of the agreement, the Company will exchange approximately 3,962,000 shares of common stock for all the outstanding Larsen common stock. It is intended that the acquisition of Larsen, if consummated, will be accounted for as a pooling-of-interests.

Larsen's fiscal year ends on May 31st. The following summary sets forth, on a proforma basis, the combined results of operations of the Company and Larsen, conformed to the Company's fiscal year, for 1985 and 1984 (in thousands except for per share amounts):

Unaudited (in thousands)	1985	1984
Net Sales	$1,207,077	$1,089,002
Net Income	$ 40,340	$ 35,593
Net Income Per Share (adjusted for additional shares)	$2.28	$2.02

UNITED STATES STEEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. Business Combination—Texas Oil & Gas Corp.

On February 11, 1986, a subsidiary of United States Steel Corporation (Corporation) merged with Texas Oil & Gas Corp. (TXO), with the result that TXO became a wholly owned subsidiary of the Corporation. The merger agreement provided for the exchange of each share of outstanding TXO common stock into .6333 of a share of Corporation common stock, resulting in issuance of 133 million shares of the Corporation's common stock. TXO operates principally in the gas gathering and drilling industries. The merger will be accounted for as a pooling of interests, and the Corporation's historical consolidated financial statements presented in future reports will be restated to include the accounts and transactions of TXO.

TXO has historically accounted for costs of oil and gas producing activities under the "full cost" method and amortized such costs using the gross revenue method. To conform to the Corporation's method of accounting for oil and gas producing activities, TXO's historical data will be adjusted to the "successful efforts" method with amortization based on units of production. In addition, certain items in TXO's historical financial statements will be reclassified to conform to the Corporation's reporting format.

The following pro forma data combines the results of operations for the Corporation and TXO, giving effect to the merger as if it had been consummated at the beginning of the period presented.

(In millions, except per share amounts)	1985(a)	1984(a)	1983(a)
Sales	$20,779	$21,092	$19,351
Total income (loss) before extraordinary gain and cumulative effect of change in accounting principle(b)	502	714	(906)
Net income (loss)(b)	598	793	(906)
Income (loss) per common share (after preferred stock dividends):			
Total income (loss) before extraordinary gain and cumulative effect of change in accounting principle:			
Primary	1.55	2.48	(4.20)
Fully diluted	1.61	2.49	(4.20)
Net income (loss):			
Primary	1.94	2.81	(4.20)
Fully diluted	1.98	2.81	(4.20)

(a) The Corporation's data is based on calendar years. TXO data for 1985, 1984 and 1983 is based on twelve month periods ended November 30, 1985, August 31, 1984, and August 31, 1983, respectively. The operations of TXO for the three months ended November 30, 1984, which resulted in sales of $457 million and net income of $70 million, are excluded from the pro forma data.

(b) Includes the change in accounting method for TXO's oil and gas producing activities which reduced income by $52 million, $46 million and $41 million for 1985, 1984 and 1983, respectively.

CHICAGO PNEUMATIC TOOL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Subsequent Events (In Part):

On March 19, 1986, DH Acquisition Corp., a Delaware corporation and a direct wholly-owned subsidiary of Danaher Corporation, a Florida corporation, together with DanWest Partners, a New York general partnership (collectively, the Bidder), made a unilateral tender offer to purchase all the outstanding shares of common stock, par value $8.00 per share, of Chicago Pneumatic Tool Company for $38.00 per share, net cash.

* * * * *

On March 25, 1986, the Board of Directors gave the Bidder an opportunity promptly to enter into an arrangement requiring proof on or before April 15 that the Bidder actually had the money to acquire the Company, in which event the Board would entertain a $38.00 a share merger. As was the case when it made its tender offer, the Bidder would not have access to the Company's books prior to the merger. If the Bidder didn't demonstrate financing it would have to agree not to acquire additional shares for 3 years, and to reimburse the Company's expenses. The Bidder did not accept the Company's offer.

CRADDOCK-TERRY SHOE CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I—Subsequent Events

On December 11, 1985, the Corporation signed an agreement in principle with H H Holdings, Inc. a Delaware corporation, for a cash merger in which Craddock-Terry shareholders will receive $20 cash per share. The agreement in principle is subject to H H Holdings completing a due diligence investigation within 40 days, and, following satisfactory completion of that investigation, execution of a definitive merger agreement. While management and the Board of Directors believe the proposed transaction provides a positive opportunity for Craddock-Terry shareholders, they are not in a position to ascertain the final outcome.

NATIONAL GYPSUM COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Event

On January 7, 1986, the Company entered into a definitive agreement providing for the Merger of the Company with Aancor Acquiring Corp., a wholly-owned subsidiary of Aancor Holdings, Inc., which will be owned by an investor group consisting of certain members of the Company's senior management and other investors. The transaction provides for public stockholders of the Company, excluding the investor group, to receive $41.00 in cash and $17.00 stated face amount (which will be recorded on the Company's balance sheet at a discount from stated face amount) of redeemable subordinated discount debentures for each share of Company Common Stock. The consummation of the Merger is subject to, among other things, stockholder approval of the Merger and obtaining financing necessary for the Merger.

Capital Stock Issued Or Purchased

AMERICAN CAN COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

(In millions of dollars except per share amounts)

18. Subsequent Event

On March 14, 1986, the Company completed a public offering of 3,625,000 shares, representing 15 percent of the common stock of its wholly-owned subsidiary, American Capital Management & Research, Inc. (formerly American Capital Corporation). The net proceeds to the Company of $69 will be used for general corporate purposes. As a result, the Company recorded an unusual after-tax gain of $42 ($1.56 per share).

CHESEBROUGH-POND'S INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Subsequent Event

In late February 1986, the company sold through an underwritten public offering 6,900,000 newly issued shares of common stock for a price, prior to underwriters' commissions, of $40.50 per share. The cash proceeds from the sale will be used to repay commercial paper and bank borrowings currently classified as long-term-debt.

The unaudited pro forma effect of issuing 6,900,000 shares of common stock as of January 1, 1985 would be to increase net income by $12,200,000 and decrease earnings per share by $.10.

AMAX INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

18 (In Part): Common Stock

On January 3, 1986, AMAX reacquired 1,639,911 shares of its common stock from Creditanstalt for approximately $42.8 million, or $26.12 per share. At December 31, 1985, these were reported as shares held in treasury. AMAX also repurchased 1,610,089 shares of its common stock from Creditanstalt for approximately $40 million, or $24.84 per share, in June 1985. Both of these transactions were effected under an agreement entered into in May 1984 that gave Creditanstalt the option of delivering shares of AMAX common stock in payment for molybdenum products sold by AMAX under a long-term supply contract with Treibacher Chemische Werke AG, a subsidiary of Creditanstalt and, under certain circumstances, of requiring AMAX to make cash repurchases of these shares. AMAX's obligation to repurchase shares of its common stock from Creditanstalt has now been satisfied.

CLAROSTAT MFG. CO., INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 6—Subsequent Events:

In 1986 the Company acquired 50,500 shares of its common stock for an aggregate purchase price of $1,931,600.

HUGHES SUPPLY, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8—Subsequent Event:

On February 21, 1986, the Company purchased 439,700 shares of its common stock, or approximately 13% of the outstanding shares, from a limited partnership which had been a principal shareholder. The shares were purchased for an aggregate purchase price of $10,552,800, or $24 per share, plus $160,000 in related costs. The closing market price of the Company's shares on February 20, 1986 was $24¾ per share. Funds for the purchase were provided from short-term borrowings.

NATIONAL INTERGROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M (In Part): Subsequent Events

On January 2, 1986, the Corporation completed the purchase of 1,367,475 shares of its common stock for an aggregate cash consideration of $32,819,400 ($24 per share) from

Leucadia National Corporation (Leucadia) and issued to Leucadia a warrant certificate expiring on September 10, 1988, evidencing warrants to purchase 1,367,475 shares of the Corporation's common stock at an exercise price of $30.75 per share.

The aforementioned transaction was executed pursuant to a Letter Agreement between the Corporation and Leucadia dated September 10, 1985. An additional 455,825 shares of the Corporation's common stock owned by Leucadia (Retained Shares) were not sold pursuant to the Letter Agreement, but are restricted under its terms.

The number or kinds of shares purchasable upon exercise of the warrants and the exercise price may subsequently be adjusted to prevent dilution of Leucadia's holdings, as outlined in the provisions of the warrant certificate. Additionally, the Letter Agreement imposed certain "standstill" provisions upon Leucadia with respect to its ownership of shares of the Corporation for a period of ten years.

THETFORD CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Subsequent Event

The Company has announced plans to repurchase up to 450,000 shares of its common stock on the open market. Subsequent to September 30, 1985, the Company repurchased an additional 192,500 shares of its common stock at a total cost of $2,056,723. Through November 15, 1985, 328,240 shares of common stock had been repurchased at an aggregate cost of $3,289,257.

Stock Splits

ETHYL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

17. Subsequent Events:

On February 27, 1986, the Company's board of directors declared a 2-for-1 split of the common stock effected in the form of a 100-percent stock dividend, subject to shareholder approval on April 24, 1986, of an Amendment of the Articles of Incorporation increasing the authorized common shares from 100 million to 200 million. The dividend is distributable on June 1, 1986, to shareholders of record on May 16, 1986.

If the December 31, 1985, balance sheet had been restated to reflect the stock split, common stock would have increased $62,795,000 and additional paid-in capital and retained earnings would have decreased $9,153,000 and $53,642,000, respectively.

If the per-common share data had been restated to reflect the split, the results for 1985 and 1984 would have been:

	1985	1984
Earnings	$ .91	$ .86
Equity	$6.21	$5.61
Average shares outstanding used to compute earnings per share	126,961,000	151,710,000

The board of directors voted to increase the regular quarterly dividend on the Company's existing common stock from 15 cents a share to 16 cents a share payable on April 1 to shareholders of record March 14, 1986.

The board also redeemed all the remaining outstanding shares of the 7¾% Series C stock at par effective April 1, 1986.

HUNT MANUFACTURING CO. (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Subsequent Event:

On December 11, 1985, the Board of Directors declared a 50% stock distribution in the nature of a three-for-two stock split that was made on January 9, 1986 to stockholders of record as of December 23, 1985. This stock split resulted in the issuance of 2,358,996 additional shares of common stock, par value $.10 per share (fractional shares were paid in cash), and was accounted for by the transfer of approximately $235,900 to the common stock capital account from capital in excess of par value. Retroactive effect has been given to the stock split in stockholders' equity accounts as of December 1, 1985 and in all share and per share data in the accompanying financial statements.

LEGGETT & PLATT, INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

M—Subsequent Event

On February 12, 1986, the Company declared a three-for-two split of its common stock in the form of a 50% stock dividend, effective March 14, 1986 to holders of record on February 24, 1986. Effect has been given to the split in the accompanying statements by a transfer of $5,093,000 from additional contributed capital to common stock at December 31, 1985. All share and per share amounts in the accompanying financial statements have also been adjusted to give effect to the split.

THE SHERWIN-WILLIAMS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2—Stock Split

On February 18, 1986, the company's board of directors authorized a two-for-one split of the common stock effected in the form of a 100 percent stock dividend to be distributed on March 31, 1986, to holders of record on February 28, 1986. Accordingly, all numbers of common shares and per share data have been restated to reflect the stock split. The par value of the additional shares of common stock issued in connection with the stock split will be credited to common stock and a like amount charged to other capital in 1986.

Spin Off

THE PENN CENTRAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

23. Subsequent Event (Unaudited)

In February 1986, the Company announced that its Board of Directors had authorized management to develop a plan to spin off to shareholders a new company that would consist principally of Marathon Manufacturing Company ("Marathon"). The completion of this plan is subject to Board of Director approval and contemplates a spin-off in mid-1986.

Marathon is a diversified manufacturing company that has a significant industrial equipment business as well as marine construction activities. Its products include heavy materials handling equipment, specialty steel, industrial batteries, decorator blinds, nickel-cadmium and magnesium batteries and off-shore drilling vessels and related marine products.

The following table presents Marathon's condensed financial data:"

Income Statement Information For the years ended December 31,	1985	1984	1983
Net sales	$289.5	$363.2	$467.9
Costs and expenses	291.9	312.5	408.5
Operating income (loss)	$ (2.4)	$ 50.7	$ 59.4

Balance Sheet Information December 31,	1985	1984	1983
Total current assets	$150.7	$166.9	$155.6
Total noncurrent assets	317.2	338.6	314.7
Total current liabilities	65.0	69.1	105.7
Total noncurrent liabilities	39.5	33.0	18.0

Litigation

BAUSCH & LOMB INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

Provision For Income Taxes (In Part):

During the first quarter of 1986, the Internal Revenue Service completed an examination of the company's operations for the period 1980 to 1982 and has proposed adjustments to the company's previously filed income tax returns, the most significant of which relates to income earned by the company's operations in Ireland. Taxes and accrued interest associated with the proposed adjustments amount to approximately $16 million, which exceeds the company's tax provision for the years in question. The company is vigorously opposing the proposed adjustments, and a petition contesting the alleged deficiency has been filed with the U. S. Tax Court. Management believes that any tax liability which may arise for the periods in question or for subsequent years will not have a material adverse effect on the financial position of the company.

DSC COMMUNICATIONS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Litigation

In October 1985, the Company was served with complaints filed in the United States District Court in Dallas, Texas by four persons purporting to be shareholders of the Company. In January 1986, the plaintiffs filed an Amended and Consolidated class action complaint naming as defendants the Company, certain of its executive officers, each member of its Board of Directors, its independent public accountants and its investment banking firm. The amended complaint purports to be a class action on behalf of a class of persons who purchased securities of the Company during certain periods of 1984 and 1985, alleges that the Company's financial statements issued during portions of 1984 and 1985 were materially false and misleading and seeks compensatory and punitive damages in unspecified amounts. The Company has filed an answer to the Amended Complaint asserting certain affirmative defenses and denying the material allegations of the Amended Complaint. The Company intends to defend the suit vigorously and, although discovery has not yet begun, based upon its present understanding of the law and the facts, believes it has meritorious defenses to the claims alleged.

FLEMING COMPANIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Contingency

In early 1986, a retail customer filed suit against the company alleging fraud, misrepresentation, breach of contract and state antitrust violations arising out of the purchase of three retail grocery stores through the company from a third party. Damages sought range up to $45 million in actual or treble damages and over $45 million in punitive damages. The company intends to vigorously defend the action and management believes there will be no adverse financial effect.

GENERAL DYNAMICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions except per share data)

L (In Part): Contingencies

The Corporation is under investigation by several Congressional committees and Federal agencies as a result of allegations concerning the propriety of cost overrun claims on certain nuclear submarine contracts, the appropriateness of certain expenses in overhead charges against Government contracts, the disclosure of delays in delivery schedules on certain nuclear submarine contracts, the private use of corporate aircraft and the propriety of certain payments in connection with foreign military sales contracts.

On 2 December 1985, a Federal Grand Jury returned an indictment against the Corporation and three of its current employees and one former employee for alleged fraudulent mischarging of work relating to the development of the Division Air Defense (DIVAD) prototype gun system for the Army. The Corporation denies and intends to defend against the charges, as do the named individuals.

On 7 February 1986, the Corporation reached an agreement with the Department of Defense which ended the contract suspension that had been in effect since 3 December 1985. The agreement gives the government authority to monitor, over a five-year period, more than seventy corporate actions in the areas of contract compliance, business ethics, accounting policy and administrative policies and procedures. In addition, the Corporation agreed to establish a $50 escrow account to cover potential liabilities resulting from the indictments mentioned in the preceding paragraph and other ongoing investigations. The Corporation believes that there will be no material financial impact on the Corporation as a result of any of the foregoing investigations.

GENESCO INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14: Environmental Proceedings

On March 5, 1986 an administrative order was issued against the Company by the Tennessee Department of Health and Environment under the State's Hazardous Waste Management Act. The order directs the Company to submit investigative and remedial action plans relating to a chemical waste site in a rural area near Nashville, Tennessee. The chemical waste material was generated by one of the Company's operating divisions. On March 21, 1986 the Company filed an appeal of that order before the State Solid Waste Disposal Control Board. The extent of damage to the environment in the vicinity of the disposal site is not known at the present time, and the full extent of the Company's potential liability arising therefrom is not determinable. However, the Company has recorded as a liability in its financial statements for Fiscal 1986 an amount it believes adequate, based on information currently available, to cover the costs of any remedial actions it will likely be required to take. This provision does not include any costs associated with private actions which may be asserted. The Company has been notified by a property owner in the vicinity of the disposal site of his intention to initiate an action against the Company for personal injury and property damages. Management has no reason to believe that such threatened action or any other actions by private individuals which may be asserted will result in any additional material liability.

HUGHES TOOL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Litigation and Subsequent Events

Smith International, Inc. filed suit against the Company in the United States District Court for the Central District of California in June 1972, seeking a Declaratory Judgment that Hughes Tool's journal bearing o-ring seal patent was invalid. The Company filed counterclaims in the suit alleging that Smith had infringed upon the journal bearing o-ring seal patent and a pressure relief valve patent relating to the operation of such rock bits. In 1978, the District Court ruled in favor of Smith and the Company appealed to the United States Ninth Circuit Court of Appeals. On January 7, 1982, the Court of Appeals ruled that the Company's patents were valid and on February 22, 1982 denied a motion for rehearing. In December 1983, the District Court enjoined Smith from manufacturing, using or selling rock bits which infringed the journal bearing o-ring seal patent.

On January 2, 1986, the trial to determine the extent of infringement and damages began. At the completion of the trial, the District Court ruled from the bench that the sales infringing the journal bearing o-ring patent totaled $1,345,000,000 and that a reasonable royalty of 10% was appropriate for both tungsten carbide insert bits and steel tooth bits. Only nominal damages were determined for infringement of the pressure relief valve patent. The formal judgment has not yet been entered. The total award, including prejudgment interest, is approximately $207 million plus interest accruing from February 14, 1986. Smith is likely to appeal the decision.

On March 7, 1986, Smith reported that it had filed a petition in United States Bankruptcy Court in Los Angeles for relief under Chapter 11 of the Federal Bankruptcy Code.

In 1976, the Company filed suit against Dresser Industries, Inc. in the United States District Court for the Northern District of Texas alleging infringement of the same patents involved in the litigation with Smith. This District Court entered its judgment on March 1, 1985 that the journal bearing o-ring seal patent is valid, that Dresser infringed it, and awarded damages equivalent to a 25% royalty on sales of infringing tungsten carbide insert bits and a 5% royalty on sales of infringing steel tooth bits totaling $121.5 million plus interest accruing from February 6, 1984. On January 7, 1986, the United States Court of Appeals for the Federal Circuit heard the appeal and is expected to issue a ruling in 1986.

Discontinued Operations

CABOT CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B. Restructuring Program

On October 15, 1985, the Company's Board of Directors approved a restructuring program designed to enhance the value of the Company's common stock through the sale of selected businesses which were not meeting financial performance objectives and the repurchase of up to five million shares through a combination of a self-tender offer, open market purchases and other means. Accordingly, the Westar natural gas transmission business acquired in 1984 (see Note C), the liquefied natural gas (LNG) importation and terminalling operations, and all the specialty metals businesses except tantalum are presented as "discontinued operations" in the financial statements. Net sales and other operating revenues of these businesses were $810,364,000, $501,381,000 and $431,847,000 in fiscal years 1985, 1984 and 1983, respectively. As of September 30, 1985, the net assets of these businesses have been classified as net assets of discontinued operations, current and non-current, at their estimated net realizable values. The Company recorded a provision for the estimated loss on disposal of discontinued operations, including costs associated with disposal and estimated operating results until the assumed date of sale, of $145,000,000, net of tax effects of $101,000,000. The Consolidated Statements of Income, Consolidated Statements of Changes in Financial Position and Notes to Consolidated Financial Statements have been restated as a result of the Company's decision to discontinue these operations. Segment information has been restated to reflect the realignment of the Company's remaining businesses into two continuing business segments: Energy, and Specialty Chemicals and Materials.

Under the self-tender offer, the Company purchased at a price of $26.75 per share 3,324,556 of its outstanding shares tendered during the period from October 21, 1985 to November 8, 1985. The stock repurchase was financed through the sale of rights to future revenues from certain of the Company's oil and gas properties (the production payments). The stock repurchase and sale of production payments will be recorded in the first quarter of fiscal year 1986. Under terms of the sale of production payments the Company may draw advances totalling up to $130,000,000 prior to May 16, 1986. On November 14, 1985, the Company was advanced $90,000,000 which will be recorded as long-term debt (see Note H). The amount advanced will be repaid from the revenues from the producing properties and has an expected maturity of November 15, 1993. Minimum repayments during the next five years, assuming the full amount is advanced, are as follows: 1986—$6,000,000; 1987—$21,000,000; 1988—$18,500,000; 1989—$18,000,000; 1990—$18,000,000. Advances bear interest at one of three alternative rates as determined by the Company at the time of borrowing or at the end of each interest period: the prime rate, a certificate of deposit rate or a Eurodollar rate, all with certain additional margins which vary over the loan term. The Company may repurchase the production payments without penalty at the end of any interest period.

CLEVELAND-CLIFFS INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note L—Subsequent Event

On February 27, 1986, the Company sold its iron ore interests in Western Australia to Peko-Wallsend Ltd., an Australian company, for U.S. $54 million, effective January 1, 1986. The Company will recognize a gain on the sale of approximately $12 million and an increase in shareholders equity of approximately $25 million due to the gain and recovery of $13 million of foreign currency translation losses previously charged against equity.

GULF & WESTERN INDUSTRIES, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B (In Part): Acquisition and Disposition of Businesses

Dispositions

In September 1985, the Company announced the completion of the sale of its Consumer and Industrial Products Group to Wickes Companies, Inc. for approximately $1 billion cash and a five-year option to purchase ten million shares of Wickes common stock at $6.00 per share. The Consumer and Industrial Products Group was comprised of the Company's Apparel and Hosiery, Manufacturing, Bedding and Home Furnishings, and Automotive Parts Distribution segments. At July 31, 1985, the net assets of this group consisted primarily of working capital ($502 million), property, plant and equipment ($269 million), other assets ($67 million) and deferred liabilities and long-term debt ($89 million). It is estimated the sale will result in a gain, net of taxes payable, of approximately $120 million. However, the elimination of previously deferred foreign exchange losses and tax benefits applicable to such businesses will reduce the gain for accounting purposes to approximately $15 million, which will be recognized in fiscal 1986.

IPCO CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7—Subsequent Event

On July 31, 1985, the Company sold its plasmapheresis centers to Immuno-U.S., Inc. for $6,500,000, of which $4,000,000 was received in cash at closing. The remaining balance of $2,500,000, which is secured by an irrevocable bank letter of credit, is payable on July 31, 1987 and carries an interest rate of 11%. The resulting pretax gain on the sale of these assets of approximately $4,400,000 will be reflected in income in the first quarter of fiscal 1986.

Revenues and pretax operating profit for these centers in fiscal 1985 was $7,521,000 and $549,000, respectively.

RALSTON PURINA COMPANY (SEP)

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions except per share data)

Subsequent Event

On October 21, 1985, the Company completed the sale of its Foodmaker, Inc. restaurant subsidiary to a holding company owned by institutional investors, including partnerships managed by Gibbons, Green, van Amerongen, and members of Foodmaker's senior management. The Company acquired a 20 percent interest in the holding company. The sales price of approximately $450.0 was primarily cash and a junior subordinated note with a fair value of $34.4. The estimated gain on sale, to be recognized in the Company's first quarter, is $158.6 before taxes of $45.2. The pre-tax gain on sale includes $20.2 related to the settlement of pension liabilities for terminated employees transferred to the purchaser's plans.

REICHHOLD CHEMICALS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Event

In February, 1986, the Company signed a letter of intent to sell the domestic portion of its Specialty Phenolics Division, except for the Sterling and treated fiber product lines, to a Canadian company. The sale includes four manufacturing locations and the division headquarters. The business to be diverted had 1985 sales of approximately $80.0 million. The sale is subject to final negotiations and approval of both Boards of Directors.

THE TIMES MIRROR COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE T (In Part): Subsequent Events

On December 5, 1985, the company and Jefferson Smurfit Corporation (JSC) reached an agreement in principle whereby JSC would acquire an 80 percent interest in the company's wholly owned subsidiary, Publishers Paper Co. (Publishers), for approximately $150 million. The transaction was completed on February 21, 1986. Proceeds were used to repay portions of the company's commercial paper borrowings.

At December 31, 1985, the company recorded an estimated loss provision on the sale of approximately $13,131,000 before income taxes and $12,170,000 ($.18 per share) after applicable income taxes. This amount is included in "Gain on sales of assets."

For the year ended December 31, 1985, Publishers' sales, excluding timberlands, were $387 million (of which $205 million were intercompany sales eliminated in consolidation) and income before income taxes and interest was $32 million. At December 31, 1985, Publishers' total assets were $303 million, of which $227 million were depreciable assets.

To assure a long-term supply of newsprint for its Western newspapers, the company has agreed to purchase specified quantities of newsprint from Publishers each year through 2026. The specified quantities currently represent a majority of the Western newspapers' newsprint requirements and will generally be purchased at prices equal to market value. Publishers has agreed to purchase specified quantities of logs from the company in 1986 and 1987. The logs to be provided represent a substantial portion of Publisher's estimated log requirements for the two years and will be sold at prices approximating market value.

UNITED BRANDS COMPANY (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 (In Part): Divestitures

In June 1985, the Company entered into an agreement to sell its international telecommunications subsidiary (TRT) for approximately $56 million in cash. The closing is subject to FCC approval. The Company intends to sell certain additional operations as part of the plan. Operating income of these businesses, including TRT, aggregated approximately $10 million for each of the fiscal years ended March 31, 1985 and 1984 and for the nine months ended March 31, 1983. The Company estimates that the reduction in interest expense resulting from the application of proceeds to be received from the divestiture of these businesses would not differ materially from their operating income contribution.

Stock Purchase Rights

ALLEGHENY INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Preferred Stock Purchase Rights

On March 6, 1986, Allegheny's Board of Directors adopted a Preferred Stock Purchase Rights Plan in which one preferred stock purchase right will be issued for each share of Common Stock outstanding as of March 17, 1986. Each right allows the holder to purchase one one-hundredth of a share of a new Series B Preferred Stock of Allegheny at an exercise price of $60.00. Rights are exercisable if a person or group either acquires 20% or more of the voting power of all Allegheny shares or announces a tender or exchange offer after which such person or group would own shares with 30% or more of the voting power of all Allegheny shares. The rights, which do not have the right to vote or receive dividends, expire on March 18, 1996 and may be redeemed by Allegheny at a price of $.05 per right at any time until the tenth day following public announcement that a person or group has acquired 20% or more of the voting power, unless such period is extended by Allegheny's Board of Directors while the rights are redeemable.

If any person becomes the owner of shares representing 30% or more of the voting power, or if Allegheny is the surviving corporation in a merger with a shareholder owning shares representing 20% or more of the voting power and Allegheny's shares are not changed or converted, the rights owned by such person or related parties may not be exercised and each right not so owned will entitle its holder to purchase, at the exercise price, common shares of Allegheny having a value of twice the exercise price.

In the event Allegheny is involved in a merger or other business combination transaction in which its common shares are changed or converted, or sells 50% or more of its assets or earnings power, each right that has not previously been exercised will entitle its holder to purchase, at the exercise price, common shares of the acquirer having a value of twice the exercise price.

LAMAUR INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

J. Subsequent Event

On February 20, 1986, the Board of Directors adopted a "Shareholder Rights Plan" to deter hostile takeover attempts. The plan is contingent on approval by shareholders of an increase in the number of authorized shares of common stock, at the annual meeting on April 21, 1986. The plan calls for shareholders to receive a dividend distribution of one right for each share of Lamaur's common stock they own. Each right will permit shareholders, other than the shareholder attempting the hostile takeover, to acquire $100 worth of stock in Lamaur or in the acquiring company for $50.

The rights, which expire after 10 years, are exercisable only if a new stockholder acquires 20 percent or more of the Company's common stock, or if a tender offer for 30 percent or more of the outstanding common stock is announced. The rights are also redeemable by Lamaur for 5 cents each at any time until 20 percent or more of the Company's common stock is acquired or until a 30 percent tender offer is announced.

In addition, the Board of Directors also approved termination benefits for certain key executives in the event of a takeover.

MONSANTO COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Capital Stock

At December 31, 1985, there were 5,631,994 common shares reserved for employee stock options.

In January 1986, the Company's Board of Directors declared a dividend to shareowners consisting of one Common Stock Purchase Right on each outstanding share of Monsanto common stock. A right will also be issued with each share of Monsanto common stock that becomes outstanding prior to the time the rights become exercisable or expire. If a person or group acquires a beneficial ownership of 20 percent or more, or announces a tender offer that would result in a beneficial ownership of 30 percent or more, of Monsanto's outstanding common stock, the rights become exercisable and each right will entitle its holder to purchase one share of Monsanto common stock for $150. If Monsanto is acquired in a business combination transaction, each right will entitle its holder to purchase, for $150, common shares of the acquiring company having a market value of $300. Alternatively, if a 20 percent holder were to acquire Monsanto by means of a reverse merger in which Monsanto and its stock survive or were to engage in certain "self-dealing" transactions, each right not owned by the 20 percent holder would entitle its holder to purchase, for $150, common shares of Monsanto having a market value of $300. The Company can redeem each right for 5 cents at any time prior to its becoming exercisable. The rights expire in 1996. These rights may cause substantial ownership dilution to a person or group who attempts to acquire the Company without approval of Monsanto's Board of Directors. The rights should not interfere with a business combination transaction that has been approved by the Board of Directors. As of the close of business on February 3, 1986, 76,783,448 rights were outstanding.

SQUARE D COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

N. Subsequent Event

In January, 1986, the Company declared a dividend distribution of one common stock purchase right on each share of the Company's common stock outstanding on January 21, 1986. Under certain conditions, each right may be exercised to buy one-half of one newly-issued share of the Company's common stock at an exercise price of $60 per one-half share. The right will be exercisable only if a person or group acquires 20% or more of the Company's common stock or announces a tender offer for 30% or more of the common stock. The rights, which do not have voting power, expire on January 21, 1996 and may be redeemed by the Company at a price of $.10 per right prior to the public announcement that 20% or more of the Company's shares have been accumulated by an individual or group.

If the Company is acquired in a merger or other business combination transaction or 50% or more of its assets or earning power are sold at any time after the rights become exercisable, the rights entitle a holder to buy a number of shares of common stock of the acquiring company having a market value of twice the exercise price of each right. If a 20% holder merges with the Company and the common stock is not exchanged in such merger, or engages in self-dealing transactions with the Company, each right not owned by such holder becomes exercisable for the number of shares of the Company having a market value of twice the exercise price of the right.

TESORO PETROLEUM CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note O—Subsequent Event

On November 27, 1985, the Company's Board of Directors declared a distribution of one preferred stock purchase right for each share of the Company's common stock. Each right will entitle the holder to buy 1/100 of a share of a newly authorized Series A Participating Preferred Stock at an exercise price of $35 per right. The rights become exercisable on the tenth day after public announcement that a person or group has acquired 20% or more of the Company's common stock. The rights may be redeemed by the Company prior to becoming exercisable by action of the Board of Directors at a redemption price of $.05 per right. If the Company is acquired by any person after the rights become exercisable, each right will entitle its holder to purchase stock of the acquiring company having a market value of twice the exercise price of each right. The rights will be issued to shareholders of record at the close of business on December 16, 1985, and will expire in ten years.

Employee Benefits

CHICAGO PNEUMATIC TOOL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Subsequent Events (In Part):

On March 12, 1986, the Company transferred 300 thousand shares of treasury stock to its Employee Stock Ownership Plan (ESOP) at a market value of $26.25 per share. On March 18, 1986, the Company transferred an additional 700 thousand shares of treasury stock to the ESOP at a market value of $35.00 per share. At January 3, 1986, the average cost of the treasury stock was $26.56 per share.

The transfers were made pursuant to an earlier authorization to fund the ESOP with up to one million shares of Company stock. This followed more than a year's study of how best to implement a previous management determination that the Company ought to take advantage of the ESOP (a concept encouraged by Congress), including the productivity benefits of substantially increased employee stock ownership. The shares will be allocated to employees' accounts, and the cost of such benefits will be amortized, in annual level amounts over a period of twenty years. As of the respective transfer dates, the shares will be treated as outstanding in computing the net earnings (loss) per share. In addition, the Company received authorization from the Board of Directors to transfer to the ESOP up to 400 thousand shares of Company common stock in addition to the one million shares now held by the ESOP.

* * * * *

On March 20, 1986, a civil action was commenced against the Company and each of the members of the Board of Directors relating to the transfers of treasury stock to the ESOP. A description of this action is included in the Litigation footnote.

LUCKY STORES, INC. (JAN)

FINANCIAL REVIEW 1985

Employee Benefit Plans (In Part):

Stock Options:

In March 1986 the Board of Directors adopted the 1986 stock option plan subject to approval by the shareholders at the June 1986 annual meeting. The number of shares which may be granted under this plan may not exceed 3,500,000. The plan permits the granting of both incentive stock options (ISO's) and nonstatutory stock options (NSO's). ISO's are not exercisable while any previously granted ISO remains outstanding, but are exercisable thereafter at such times in such instalments as the Management Compensation Committee of the Board of Directors shall determine at the time of grant. The option price of the shares shall not be less than the fair market value at the date of grant in the case of ISO's and not less than 85 percent of that value in the case of NSO's. Options expire at such time as the Committee shall determine at the time of grant, but in the case of ISO's no later than ten years from the grant date. Options terminate upon cessation of employment other than by retirement or death or unless an option agreement otherwise provides.

Strike

CHAMPION SPARK PLUG COMPANY (DEC)

FINANCIAL REVIEW

Employment Levels and Labor Relations

The Company employed about 12,450 persons at the end of 1985 and 12,600 at the end of 1984.

A substantial number of production workers worldwide are covered by union contracts.

At midnight on January 31, 1986, the labor contract with the United Auto Workers (UAW) covering production workers in the United States and Canadian spark plug and ceramic plants expired. On February 1, 1986, the employees covered by this expired contract went on strike and an agreement has not been reached at March 21.

The DeVilbiss Company Division and Baron Drawn Steel Corporation have three year contracts with the UAW which expire May 1, 1989, and November 1, 1988, respectively.

Tender Offer

DYNAMICS CORPORATION OF AMERICA (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14—Subsequent Event

On March 10, 1986, the Company announced its intention to commence a cash tender offer at $43 per share for 1,000,000 shares of common stock of CTS Corporation. The offer will not be conditioned upon any minimum number of shares being tendered, but each tender will be conditioned upon the tender of an irrevocable proxy from a stockholder of record as of the close of business on March 10, 1986, and certain other conditions set out in the offer. The offer will be financed from internally generated funds and available credit resources. If 1,000,000 CTS shares are tendered and purchased pursuant to the offer, the Company will own 1,554,600 shares or approximately 27.2% of CTS' outstanding shares.

The Company also announced its intention to solicit proxies to elect its slate of directors at CTS' annual meeting of stockholders presently scheduled for April 25, 1986.

Recapitalization

FMC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19: Event subsequent to date of accountants' report (unaudited)

On February 23, 1986, the Board of Directors announced it had approved a recapitalization of the company, subject to the arrangement of satisfactory financing and other customary conditions. Under the plan, public stockholders will receive $70 in cash and one new common share of the recapitalized company in exchange for each share presently held. All management-owned shares and shares in company employee stock ownership plans will convert into 5⅔ new shares. Each employee Thrift Plan share will be exchanged for $25 in cash plus four new shares.

As part of the recapitalization, the company also expects to redeem its outstanding convertible debt and preferred stock. Approximately $250 million of FMC's existing debt will remain outstanding after the refinancing. This debt consists primarily of industrial revenue bonds and publicly traded debentures. New debt, consisting of $1.3 billion in bank debt and $400 million in subordinated debentures, will be incurred to finance the plan.

After recapitalization, the newly issued shares, together with presently outstanding deferred plan share awards and stock options, will total approximately 36 million shares on a fully diluted basis.

The plan is subject to approval by the stockholders at the annual meeting on May 29, 1986. More complete information will be contained in the proxy statement to be furnished to stockholders prior to the annual meeting.

Reorganization

INTERLAKE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15—Subsequent Event (Unaudited)

On February 27, 1986, the Board of Directors of Interlake approved in principle a proposed reorganization. This reorganization will establish Acme Steel Company (Acme) as a wholly-owned subsidiary of The Interlake Corporation, which will be the newly created holding company of the subsidiaries and operations presently owned by Interlake. The businesses of Acme will consist of the iron, steel and domestic U.S. steel strapping businesses now being conducted by

Interlake. The remainder of Interlake's businesses will be held in other subsidiaries of The Interlake Corporation. The reorganization is subject to certain conditions including approval by the shareholders of Interlake.

The Interlake Board of Directors on February 27, 1986 also indicated Interlake's intent to distribute, tax-free, the shares of Acme to the shareholders of Interlake. The proposed distribution is subject to certain conditions and final approval by the Board of The Interlake Corporation following the reorganization. The management of Interlake anticipates that no charges to income would result if the proposed distribution is completed.

The following pro forma condensed financial information presents the results of operations of Acme and The Interlake Corporation for 1985 (assuming the reorganization had occurred at the beginning of 1985) and the financial position of these entities at December 29, 1985.

Statement of Income
For the Year Ended December 29, 1985

		Pro Forma (Unaudited)	
	As Reported	Acme Steel Company	The Interlake Corporation
		(in thousands)	
Net Sales of Continuing Operations	$850,173	$239,861	$635,327
Cost of Products Sold	680,516	225,810	479,721
Gross Profit	169,657	14,051	155,606
Selling and Administrative Expense	122,194	18,082	104,112
Net Interest Expense	4,509	—	4,509
Non-operating (Income) Expense	(7,329)	(1,184)	(6,145)
Income (Loss) from Continuing Operations Before Taxes on Income	50,283	(2,847)	53,130
Income Tax Provision (Benefit)	19,690	(1,451)	21,141
Minority Interest in Net Income of Subsidiaries	2,412	—	2,412
Net Income (Loss) for the Year	$28,181	$(1,396)	$29,577

Balance Sheet
December 29, 1985

		Pro Forma (Unaudited)	
	As Reported	Acme Steel Company	The Interlake Corporation
		(in thousands)	
Current Assets	$371,105	$ 58,837	$315,031
Property, Plant and Equipment	253,286	88,806	164,480
Other Assets	105,006	23,562	81,444
Total Assets	$729,397	$171,205	$560,955
Current Liabilities	$191,267	$ 46,745	$146,849
Long-Term Obligations	186,377	13,986	172,391
Shareholders' Equity	351,753	110,474	241,715
Total Liabilities and Shareholders' Equity	$729,397	$171,205	$560,955

The pro forma financial information includes intercompany transactions and balances which were eliminated from the consolidated financial statements of Interlake as reported.

The pro forma financial information does not anticipate changes including prospective benefits or costs which may result from the proposed actions.

Product Withdrawal

JOHNSON & JOHNSON (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Subsequent Event

As a result of criminal tampering with TYLENOL Extra-Strength Capsules in February 1986, the Company announced the withdrawal of all capsule products made directly available to the consumer. The Company also announced that it will no longer manufacture or sell these capsule products and that it has no plans to reenter this business in the foreseeable future. The costs associated with these decisions are estimated at $150 million ($85 million after income taxes), and include customer returns, inventory handling and disposal costs, and communication expenses to reassure consumers of the safety of non-capsule TYLENOL products. The one-time cost will be provided by the Company in the First Quarter of 1986.

Interest Rate Swap Agreement

LONE STAR INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

13 (In Part): Long-term Debt

In January 1986, the company entered into interest rate swap agreements with a bank and financial institution totaling $100,000,000 in order to reduce its exposure to floating interest rates on a portion of its variable rate borrowings. The agreements expire in January 1989 and provide for the company to make fixed interest payments of 9.0% per year and receive payments based on the floating six-month London Interbank offered rate. Payments are based on the nominal $100,000,000 face amount of the agreements; no funds were actually borrowed or are to be repaid. The company will record net interest expense or income related to this transaction on a monthly basis.

Purchase Of Assets

PRAB ROBOTS, INC. (OCT)

NOTES TO FINANCIAL STATEMENTS

13. Subsequent Event:

On November 1, 1985, the Company purchased certain assets, principally inventory and patents, of the FAB-TEC automated equipment product line from Lamb Technicon Corp. at a cost of $1,421,527. Consideration paid consisted of $500,000 cash, a $309,027 10% promissory note due April 30, 1986 and 100,000 shares of the Company's common stock valued at $612,500.

RELATED PARTY TRANSACTIONS

Effective for financial statements for fiscal years ending after June 15, 1982, *Statement of Financial Accounting Standards No. 57* specifies the nature of information which should be disclosed in financial statements about related party transactions. *SFAS No. 57* restates "without significant change" the disclosure requirements previously stated in *Statement on Auditing Standards No. 6*. In 1985, 165 survey companies disclosed related party transactions. Examples of related party disclosures follow.

Transactions Between Affiliated Companies

ENGELHARD CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Related Party Transactions

The Company, in the ordinary course of business, purchases raw materials from entities in which it is informed Anglo American Corporation of South Africa Limited (Anglo American) has a material interest. Anglo American holds indirectly a significant minority interest in the common stock of the Company. The Company's purchases from such entities amounted to $171 million, $220 million and $198 million for 1985, 1984 and 1983, respectively, and were transacted upon terms no less favorable to the Company than those obtained from other parties.

Transactions Between Company and Major Stockholders

HARNISCHFEGER CORPORATION (OCT)

FINANCIAL NOTES

Note 6: Transactions with Kobe Steel, Ltd. and ASEA HARNCO Inc.

In October 1983, the Corporation concluded an agreement with Kobe Steel, Ltd. of Japan ("Kobe"), which provides that primary responsibility for the manufacture of P&H construction cranes will be shifted from the Corporation to Kobe and that, until 1993, the Corporation will be the sole distributor in the United States for P&H construction cranes manufactured by Kobe.

The agreement also involves a joint research and development program for construction equipment under which the Corporation has agreed to spend at least $17 million over a three-year period (of which approximately $15.2 million was spent through October 31, 1985), for which it is being reimbursed by Kobe. Kobe has been a licensee of the Corporation since 1955, has owned certain Harnischfeger Japanese construction equipment patents and technology since 1981, currently owns 1,030,000 shares or 8.4% of the Corporation's Common Stock (See Note 13) and has one representative on the Corporation's Board of Directors. Kobe also owns 25% of the capital stock of Harnischfeger of Australia Pty. Ltd., a subsidiary of the Corporation.

Under agreements expiring in December, 1990, Kobe pays technical service fees on P&H mining equipment produced and sold under license from the Corporation, and trademark and marketing fees on sales of construction equipment outside the United States and Japan. Net fee income received from Kobe was $2.8 million in 1985, $4.3 million in 1984 and $3.1 million in 1983.

The Corporation's purchases from Kobe of construction and mining equipment and components amounted to approximately $68.0 million, $33.7 million and $15.5 million during the three years ended October 31, 1985, 1984 and 1983, respectively. The sales to Kobe, principally components for mining and construction equipment, excluding the R&D expenses discussed above, approximated $9.6 million, $5.2 million and $10.5 million during the three years ended October 31, 1985, 1984 and 1983, respectively. Accounts receivable from Kobe approximated $7.7 million at October 31, 1985 and $6.1 million at October 31, 1984; accounts payable to Kobe were approximately $39.0 million at October 31, 1985 and $140 million at October 31, 1984.

The Corporation owns 49% of ASEA HARNCO Inc., an electrical control equipment company controlled by ASEA AB of Sweden and a successor to a company organized in 1981. During the three years ended October 31, 1985, 1984 and 1983, the Corporation's purchases of electrical equipment from ASEA HARNCO and its predecessor aggregated $10.2 million, $11.2 million and $6.1 million, respectively, and its sales to ASEA HARNCO approximated $1.7 million, $2.6 million and $3.8 million, respectively.

The Corporation believes that its transactions with Kobe and ASEA HARNCO were competitive with alternative sources of supply for each party involved.

MACK TRUCKS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Relationships with Renault and Signal

As of December 31, 1985, Regie Nationale des Usines Renault ("Renault"), through its wholly-owned subsidiary, Renault Holding, S.A. ("Renault Holding"), owned 12,350,000 shares (41.9%) and Allied-Signal Inc. ("Signal") owned 3,113,334 shares (10.6%) of the Company's outstanding common stock. Renault could, after exercise of all of the rights under agreements described below, own more than 50% of the outstanding shares.

* * * * *

During the three years ended December 31, 1985, the following transactions by the Company, and the year-end balances between the Company and Renault, have been reflected in the financial statements:

	1985	1984	1983
		in thousands	
Purchases of medium-duty trucks and service parts	$119,627	$140,700	$70,815
Interest earned on investments	167	2,108	1,268
Sales of engines and parts	1,474	1,585	396
Short-term investments	—	20,000	20,000
Accounts receivable (including interest on investments)	920	1,740	1,041
Trade accounts payable	16,326	27,471	21,259

During the three years ended December 31, 1985, the following transactions by the Company, and the year-end balances between the Company and Signal, have been reflected in the financial statements:

	1985	1984	1983
		in thousands	
Purchases of raw materials	$28,379	$27,176	$18,155
Accounts receivable	1,554	1,784	—
Accounts payable—current	5,062	6,340	6,924
Accounts payable—long-term	4,394	7,170	5,696

Transactions Between Company And Investees

AFG INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Related Party Transactions

The Company leases an aircraft from an affiliate. This lease required annual payments of $232,000 for the years ended December 31, 1985, 1984, and 1983.

The Company has an engineering consulting contract with a 50% owned affiliate. During 1985, the Company paid fees of approximately $1,602,000 to this affiliate. The affiliate is indebted to the Company in the amount of approximately $132,000 as of December 31, 1985.

CLARK EQUIPMENT COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

VME Group N.V. (In Part):

The accompanying consolidated financial statements of Clark Equipment Company and its consolidated subsidiaries and Clark Equipment Credit Corporation and its consolidated subsidiaries include transactions with the 50% owned nonconsolidated company, VME Group N.V. The major related party transactions are described as follows for 1985:

	Clark	Credit
Product sales	$62	$—
Net interest income	2	—
Parts distribution service fees	13	—
Dealer financing and factoring reimbursements	—	6
Product purchases	35	—
Commission expense	3	—
Other services	3	—
Accounts receivable (payable) at December 31, 1985	30	(7)

The above described transactions are generally charged on the basis of normal commercial relationships and prevailing market prices.

Transactions Between Company And Officers/Directors

ARDEN GROUP, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

14. Related Party Transactions:

Two directors of the Company are associated with law firms that render various legal services for the Company. The Company paid these firms, in the aggregate, approximately $377,000, $206,000 and $137,000 during 1985, 1984 and 1983, respectively, for their legal services.

The Company presently holds two notes receivable for a total of $516,250 from an officer/director of the Company. These notes arose from transactions in 1979 and 1980 whereby the Company loaned the officer/director money to purchase an aggregate of 200,000 shares of the Company's Common stock at the then fair market value. These notes, which bear interest ranging from 6–9%, are due in full on January 4, 1991 and are collateralized by a second lien on real property.

See Note 13 regarding ownership interest in property leased by the Company and Note 15 regarding employment agreements with officers and directors.

CAESARS WORLD, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Related Party Transactions

Caesars Brookdale

In March 1983, the Company acquired the Brookdale Resort in the Pocono mountains of Pennsylvania from certain officers of a subsidiary. Of the total purchase price of $4,274,000, the Company assumed $2,419,000 in liabilities and committed to issue a total of 119,516 shares of the Company's common stock in three equal installments in January 1985, 1986 and 1987. The purchase agreement provides that upon demand by the sellers, the Company will reacquire the shares issued each year for $15.52 per share, subject to increase if legalized gaming is adopted and placed in operation at the Brookdale Resort prior to March 1987. The increase up to a maximum of $23.89 per share depends upon the date gaming operations may commence. During 1985 the Company paid $618,000 in lieu of issuing common stock.

Travel Services

Certain travel services are purchased through two companies, a principal of which is related to a director of Boardwalk Regency Corporation, a wholly owned subsidiary of Caesars New Jersey, Inc. The Company paid $1,839,000, $2,397,000 and $4,554,000 to the travel companies in 1985, 1984 and 1983, respectively.

Lease Payments

Two directors of Boardwalk Regency Corporation are partners in a partnership which owns property on which the Caesars Atlantic City hotel/casino is situated. The Company provided for lease payments of $6,124,000, $9,329,000 and $7,149,000 to the partnership during 1985, 1984 and 1983, respectively.

HOLLY SUGAR CORPORATION (MAR)

NOTES TO FINANCIAL STATEMENTS

7. Related Party Transactions:

During fiscal 1985, 1984 and 1983, the Company purchased raw material (sugarbeets) grown under Holly's Standard Sugarbeet Contract from one of its Directors. These sugarbeets were purchased under the same terms and conditions applicable to other growers, and the raw material cost of approximately $1,126,000, $1,131,000 and $864,000, respectively, was included in cost of sales.

Arcanum I Partners (a limited partnership, of which one partner is a Director of the Company) subleases a portion of office space under lease by the Company. Under the provisions of the sublease, Arcanum I Partners agreed to pay a fixed minimum annual rental of approximately $36,000 during the first five years and $46,000 during the remaining term of the lease.

IROQUOIS BRANDS, LTD. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Related Party Transactions

The advertising of certain of the Company's products was handled by an advertising agency in which a former director of the Company had a substantial interest. The billing by the agency to the Company for advertising and expenses totalled $729,000, $963,000 and $1,078,000 in 1985, 1984 and 1983 and included fees for the placement of advertising billed directly to the Company. In addition, certain media buying services were handled by a company in which a former director has a substantial interest. The fees paid by Iroquois during 1985 amounted to $180,600.

A subsidiary of the Company has an option which began April 16, 1981 and expires on May 16, 1986 to purchase the building housing one of its facilities at fair market value (approximately $2 million). The landlord has the option during such period and on such terms to require the subsidiary to purchase the facility. In the event the subsidiary does not elect to exercise such option, the owner has advised the subsidiary that it intends to exercise its right to require the subsidiary to purchase the property. The building is owned by a partnership of which the partners are officers of such subsidiary.

JOHNSON PRODUCTS CO., INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Transactions With Related Parties:

The Company has a land-lease agreement with officers of the Company, George E. Johnson and Joan B. Johnson, under which the Company has constructed and furnished a residence in Jamaica for use principally by distributors and customers.

The annual land rental paid by the Company is $500 and the expiration date of the lease is June 6, 1986. George E. and Joan B. Johnson have the option to purchase the house and furnishings from the Company at depreciated value, as defined by the lease, upon expiration of the lease. The lease will be automatically renewed for a further term of 20 years if the lessors fail to purchase the house from the Company. The annual rental for the renewal period will remain at $500. All leasehold improvements and operating expenses of the facility are paid by the Company.

An officer, who is a major shareholder, and an employee of the Company, serve as directors of the George E. Johnson Foundation, Inc. (an organization exempt from taxation). No contribution was made to the foundation in 1985 or 1984. In 1983, $100,000 was contributed to the foundation.

The Company has an investment in the common stock of Indecorp, Inc., a holding company, which owns Independence Bank of Chicago. Indecorp, Inc. is controlled by certain officers and directors of the Company. At August 31, 1985, the Company had on deposit at the bank $373,000 in demand deposits.

Under seven lease agreements, Debbie's School of Beauty Culture, Inc. leases from a director of the Company and a director of Debbie's seven properties out of which the schools operate. One lease provides for $6,400 of monthly rental payments for a three year lease term with the remaining leases providing for total monthly rental payments of $8,000 for a five year lease term. The lessee is responsible for all real estate taxes, maintenance and insurance expenses.

INFLATION ACCOUNTING

Statement of Financial Accounting Standards No. 33, as amended by *SFAS No. 82*, requires that companies with inventories and gross properties aggregating more than $125 million or with total assets amounting to more than $1 billion disclose current cost information. 475 survey companies disclosed current cost information in their 1985 annual reports to stockholders. 5 survey companies disclosed constant dollar information, rather than current cost information, because there was no material difference between constant dollar amounts and current cost amounts.

Statement of Financial Accounting Standards No. 39, a supplement to *SFAS No. 33*, requires that mining companies disclose certain quantity and price information for mineral reserves as specified in paragraphs 13 and 14 of *SFAS No. 39*.

Examples of disclosures of current cost and mineral reserve information follow.

Current Cost Information

CROWN CORK & SEAL COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

N. Inflation and Changing Prices (Unaudited)

The following information presents the effects of inflation and price changes on the Company's operations. This information, required by the Financial Accounting Standards Board's Statement 33, as revised by their Statement 82, is supplementary and does not in any way change the primary financial statements of the company.

Depreciation expense and cost of products sold are recalculated from historical dollars into "current cost" to reflect specific price changes encountered by the Company. Depreciation expense is restated to incorporate the greater cost of replacing production plant and equipment. Cost of products sold is recalculated to include the restatement of machinery inventories which have a low turnover. Can, crown and closure inventories as expressed in the historical financial statements have a high turnover and are considered to be equivalent to current cost. Other items of income and expense in any year are transacted in the current year's dollars and accordingly are not restated.

Current costs have been determined for the fixed assets of the company by the indexation method. The index for machinery and equipment in the United States was obtained from a major insurance company and is based on the inflation component of higher prices for machinery in the sheet metal fabrication industry. A parallel index was used for land and buildings. Overseas, each subsidiary has sought to use the most specific available index for its assets. To report units of equivalent purchasing power, the U.S. Consumer Price Index for All Urban Consumers has been applied to foreign current costs after translation to U.S. dollars.

Income tax is not adjusted which results in a higher effective tax rate on income measured by the current cost method over the statutory tax rate applied to historical dollar income.

As with most manufacturing companies, our data indicates that inflation results in higher costs of replacing equipment and higher effective tax rates which in turn reduce the funds available from income for expansion.

Comparative Historical Dollar and Current Cost Income Statement

(In Million Dollars)	As Reported	Current Cost (In average 1985 dollars)
Net sales	$1,487	$1,487
Cost of products sold excluding depreciation	1,260	1,262
Selling and administrative expense	43	43
Depreciation	44	65
Interest	12	12
Total	1,359	1,382
Income before taxes	128	105
Provision for taxes on income	56	56
Net income	$ 72	$ 49
Increase in current cost of inventory and net fixed assets held during the year*		$ 13
Effect of increase in general price level		26
Excess of increase in general price level over increase in current cost		$ 13

*At December 31, 1985 the current cost of inventory was $196 million and the current cost of net fixed assets was $495 million.

Five Year Summary—Constant Dollar and Current Cost Financial Data

(In million dollars, except per share—constant dollar and current cost in average 1985 dollars)

	1985	1984	1983	1982	1981
Net Sales					
Actual Reported	$1,487	$1,370	$1,298	$1,352	$1,374
Constant Dollars	1,487	1,419	1,402	1,507	1,625
Net Income					
Actual Reported	72	60	52	45	65
Current Cost	49	46	32	23	36
Earnings per Common Share					
Actual Reported	6.52	4.78	3.83	3.15	4.45
Current Cost	4.42	3.66	2.41	1.59	2.50
Cash Dividends declared	—	—	—	—	—
Market price per Common Share at year end					
Actual Reported	89⅝	45¼	36⅜	29½	30
Constant Dollars	88¼	46¼	38⅝	32½	34⅜
Net Assets at year end					
Actual Reported	532	498	544	560	567
Current Cost	706	709	815	870	949
Unrealized gain from decline in purchasing power of net amounts owed	3	2	1	1	5
Excess of increase in General Price Level over increase in Current Cost	13	41	23	43	17
Equity adjustment from foreign currency translation on the current cost basis (cumulative)	171	208	152	107	53
Average Consumer Price Index (1967 equals 100)	322.2	311.1	298.4	289.1	272.4

BECTON, DICKINSON AND COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note O—Supplementary Financial Data Adjusted for the Effect of Changing Prices (Unaudited)

General Background

In 1982, the Company adopted the provisions of Statement of Financial Accounting Standards No. 70 (SFAS No. 70), "Financial Reporting and Changing Prices: Foreign Currency Translation," which amended Statement of Financial Accounting Accounting Standards No. 33 (SFAS No. 33), "Financial Reporting and Changing Prices." Current cost amounts since 1982, computed in functional currencies other than the U.S. Dollar, have been adjusted to reflect the effects of general inflation based on functional currency general price level indexes (the restate-translate method). The "Translation Adjustment" in the following schedules results from differences between U.S. rates of inflation and rates existing in foreign countries, and from changes in functional currency exchange rates, as those two factors affect the computation of current cost information. The current cost data for 1981 has been prepared in accordance with SFAS No. 33, and results for that year are therefore not comparable to subsequent years.

The current cost information presented in the following schedules on pages 34 and 35 has been prepared using numerous assumptions, approximations, and estimates; therefore, the resulting measurements should be viewed in that context and not as precise indicators of the effect of inflation on the Company.

Current Cost Method

The prices of most goods and services increase in an inflationary period but not necessarily at the same rate. Therefore, under this measurement method, the Company has estimated the current cost of inventories and property, plant and equipment and the related cost of products sold and depreciation expense by estimating the change in prices of the specific goods and services that the Company uses.

Since the Company uses the LIFO method of inventory valuation for substantially all domestic inventories, the cost of products sold related to these inventories in the historical financial statements approximates that on a current cost basis. Inventories not determined using the LIFO method have been adjusted to current cost by use of indexes. The current cost of property, plant and equipment was determined by applying external price indexes related to the assets measured or obtaining specific price quotations from vendors, and then adjusting the derived current cost for capacity and operating cost savings to arrive at the same service potential as the assets owned. Depreciation expense has been computed using the same method and depreciation lives as used in the historical cost financial statements.

Income taxes have not been adjusted since present tax laws do not allow deductions of inflation-adjusted depreciation expense. Accordingly, cash flow and income required to finance replacement of existing facilities and equipment to maintain present operating capability is further eroded.

Management Analysis

Although these schedules indicate that inflation over time has caused an erosion of net income, it has been partially offset by the unrealized purchasing power gain resulting from the Company's net monetary liability position. Inflation affects monetary assets, such as cash and receivables, and monetary liabilities, such as debt, payables, and deferred taxes. Since the Company is in a net monetary liability position, it benefits during periods of inflation because dollars with less purchasing power will be used to satisfy its obligations in future years. Lenders attempt to eliminate purchasing power losses during a period of inflation by increasing the interest rate charged. Interest expense in the borrowers' historical cost financial statements reflects this inflation component. Therefore, the purchasing power gain may be viewed as an offset against actual interest expense.

There are various means available to the Company and programs are in place to help reduce the detrimental effects of inflation. The Company has attempted over the years to adjust selling prices to maintain profit margins. Competitive conditions permitting, the Company modifies its selling prices to recognize cost changes as incurred. The change to the LIFO method of accounting for substantially all of the domestic inventories in 1980, whereby the most current costs are charged against current revenues for both financial reporting and income tax purposes, resulted in improved cash flow due to lower income taxes paid. Further, improving productivity is one of the best methods the Company utilizes to minimize the impact of inflation. There is an ongoing review of productivity by management for all of the Company's operations. Employees are encouraged to suggest methods or techniques for productivity improvement which reduce operating costs. Over the years our capital expenditure program was intended not only for additional capacity but also for productivity improvements. As of September 30, 1985, over thirty-five percent of the historical cost of property, plant and equipment had been acquired within the last three years.

Consolidated Income Adjusted for Changing Prices

Year Ended September 30, 1985 Thousands of dollars, except per share data	As Reported in the Primary Statements (Historical Cost)	Adjusted for Changes in Specific Prices (Current Cost)
Net Sales	$1,143,789	$1,143,789
Cost of products sold*	577,312	582,768
Selling and administrative expense*	311,983	311,983
Depreciation	56,913	58,200
Research and development expense	59,934	59,934
Other expense	6,678	6,678
Income before income taxes	130,969	124,226
Income tax provision	42,967	42,967
Net income	$ 88,002	$ 81,259
Purchasing power gain from holding net monetary liabilities during the year		1,483
Total		$ 82,742
Earnings per share	$ 4.20	$ 3.88
Purchasing power gain per share		.07
Total		$ 3.95
Increase in the cost of inventories and property, plant and equipment held during the year due to specific prices		$ 43,668
Less: Increase in the cost of inventories and property, plant and equipment held during the year due to general inflation		24,476
Excess of increase in specific prices over increases in general inflation		$ 19,192
Translation adjustment		$ 10,754

*Excluding depreciation.

At September 30, 1985, current cost of inventories was $219,907 and current cost of property, plant and equipment, net of accumulated depreciation, was $538,878.

Five-Year Comparison of Selected Financial Data Adjusted for Effects of Changing Prices

Years ended September 30

Thousands of average 1985 dollars, except per share data	1985	1984	1983	1982	1981
Net Sales					
As reported	$1,143,789	$1,126,845	$1,119,520	$1,113,921	$1,066,093
In constant dollars	1,143,789	1,168,174	1,208,431	1,244,009	1,279,151
Net Income					
As reported	$ 88,002	$ 63,403	$ 35,930	$ 76,692	$ 75,863
At current cost	81,259	55,650	23,354	67,368	74,874
Earnings Per Share					
As reported	$ 4.20	$ 3.03	$ 1.71	$ 3.63	$ 3.61
At current cost	3.88	2.66	1.12	3.19	3.57
Net Assets at Year-End					
As reported	$ 681,052	$ 606,775	$ 597,710	$584,360	$ 565,896
At current cost	778,117	748,422	806,396	966,334	815,559
Excess of Increase in Specific Prices of Inventories and Property, Plant and Equipment Over Increase in General Inflation	$ 19,192	$ 13,517	$ 8,029	$ 1,171	$ (5,733)
Purchasing Power Gain From Holding Net Monetary Liabilities During the Year	$ 1,483	$ 3,227	$ 1,951	$ 9,385	$ 11,533
Translation Adjustment	$ 10,754	$ (10,419)	$ (3,379)	$ (3,135)	
Dividends Per Share					
As reported	$ 1.20	$ 1.16¼	$ 1.15	$ 1.10	$ 1.00
In constant dollars	1.20	1.21	1.24	1.23	1.20
Market Price Per Share at Year-End					
As reported	$ 55.25	$ 37.38	$ 40.75	$ 41.00	$ 38.50
In constant dollars	54.38	37.96	43.25	44.64	44.03
Average Consumer Price Index	319.4	308.1	295.9	286.0	266.2

INTERCO INCORPORATED (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

16. Inflation Accounting (Unaudited)

The accompanying inflation-adjusted financial information is presented in accordance with the requirements of the Financial Accounting Standards Board (FASB). The FASB requires that certain historical financial information be adjusted for the effects of specific price changes (current cost). Other information, such as historical dollar sales, dividends and common stock prices, is required to be adjusted for general inflation by applying the Consumer Price Index for All Urban Consumers (CPI-U). As acknowledged by the FASB, the methods used to prepare this data are experimental and, because of necessity, are based on assumptions, estimates and subjective judgments.

The "current cost" method measures the effect of specific price changes on inventory, and property, plant and equipment as a result of inflation. The current cost of inventories owned is the current cost of purchasing the goods concerned or the current cost of the resources required to produce the goods concerned. The current cost of inventories was determined utilizing the first-in, first-out method of inventory valuation adjusted for unrecognized price increases through application of the Bureau of Labor Statistics Producer Price Index (BLS-PPI) for those inventory items applicable to the company.

The current cost of property, plant and equipment was determined using the appropriate BLS-PPI, other externally available indices, and management's estimates and appraisals. The current cost of property measures costs of assets having the same productive efficiency as those owned by the company. Current cost does not consider the efficiencies or cost savings that might be realized by replacing existing assets with new, more efficient or more technologically advanced assets.

The purpose of current cost restatement is to provide an estimate of the impact of price changes on net earnings and cash flow. However, current cost data does not reflect specific plans for replacement of property, nor does it purport to represent precise measurement of assets and expenses. The adjustment to cost of sales reflects the change in beginning and ending inventory levels as adjusted for increases in specific prices of inventory. The adjustment to depreciation reflects the increased expense associated with the current cost valuation of property, plant and equipment. Depreciation was computed using the company's normal depreciation methods and depreciable life assumptions.

In accordance with FASB requirements, inflation adjusted net earnings do not reflect an adjustment to historical income tax expense, because present tax laws do not allow deductions for increased depreciation and cost of sales due to inflation. As a result, the adjustments made for inflation are not tax effected. Thus, the effective tax rates and net earnings on an inflation adjusted basis are distorted.

The summary consolidated statement of earnings adjusted for inflation for the year ended February 28, 1985, is as follows:

	As Reported in the Consolidated Statement of Earnings	Adjusted for Specific Price Changes (Current Cost)
Net sales and other income	$2,657,598	$2,657,598
Cost of sales (excluding depreciation)	1,795,826	1,796,020
Selling, general and administrative expenses (excluding depreciation)	611,616	611,616
Depreciation expense	44,643	72,926
Interest expense	26,400	26,400
Asset redeployment expenses	35,010	35,010
Income taxes	71,940	71,940
	2,585,435	2,613,912
Net earnings	$ 72,163	$ 43,686
Earnings per share	$4.45	$2.69
Effective income tax rate	49.9%	62.2%
Purchasing power gain on net monetary assets held		$201
Increase in general inflation of inventories and net property, plant and equipment during the year		$ 58,426
Effect of increase in specific prices (current cost)		58,727
Excess of general inflation over specific price increases		$(301)

The current costs of inventories and net property, plant and equipment were $647,753 and $651,437, respectively.

The following five-year comparison shows selected historical financial data adjusted for the effects of changing prices:

	1985	1984	1983	1982	1981
Current cost data:					
Net earnings	$ 43,686	$ 92,632	$ 60,976	$ 82,824	$ 62,251
Earnings per common share	2.69	5.59	3.71	5.05	3.81
Net assets at year end	1,347,595	1,386,916	1,384,509	1,324,563	1,205,824
Increase in general inflation over increase in specific prices of inventories and net property, plant and equipment	(301)	74,563	42,987	2,933	20,507
Other information adjusted for general inflation:					
Net sales and other income	2,657,598	2,835,857	2,793,710	3,064,985	2,981,906
Purchasing power gain on net monetary assets held	201	1,949	5,391	14,063	11,063
Dividends paid per common share	3.03	3.00	3.10	3.27	3.29
Market price of common stock at year end	$ 62.00	$ 61.57	$ 67.79	$ 46.21	$ 61.46
Average consumer price index	312.9	300.5	290.8	275.9	251.4

McDERMOTT INTERNATIONAL, INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12—Effects of Changing Prices (Unaudited)

In compliance with FASB Statement No. 33, "Financial Reporting and Changing Prices" (as amended by FASB Statement No. 82), certain supplementary information relating to the effects of changing prices is presented below. The information adjusted for changes in specific prices is calculated by adjusting cost of sales and depreciation expense for changes in those prices that relate to property, plant and equipment, and inventory being used in the activities of the business. No other items of revenue or expense in the Condensed Consolidated Statement of Income are adjusted.

Depreciation expense included in income adjusted for changes in specific prices is computed using the same depreciation methods and depreciable lives as are used for conventional financial statements.

Any comparison between the conventional financial statements and the required supplemental disclosures must be viewed with caution. The amounts shown adjusted for changes in specific prices include the use of estimates and assumptions. Changes in individual prices are caused in part by changes in the general purchasing power of the dollar and in part by other supply and demand factors including technological change.

The benefit from income taxes remains unchanged because tax laws do not allow McDermott International to claim tax deductions related to these adjustments.

The gain from the decline in purchasing power of net amounts owed reflects the fact that total liabilities having a future fixed cash settlement exceeded total assets with similar characteristics. This unrealized gain theoretically represents the fact that net liabilities can be repaid with dollars having a lesser value than at the beginning of the year due to inflation.

The increase (decrease) in specific prices of inventories and property, plant and equipment represents the difference between the current cost amounts at the beginning of the year and the end of the year. Part of the difference is attributable to inflation in general and part is attributable to economic factors affecting the individual prices of the particular assets owned. To the extent that the difference has been realized by a sale during the year, it is included in income from operations on a current cost basis. The unrealized portion does not represent receipt (disbursement) of cash and should not be considered as providing (reducing) funds for reinvestment or dividend distribution in the current period.

The net assets shown under changes in specific prices are adjusted only for changes in inventory and property, plant and equipment.

Condensed Consolidated Statement of Income Adjusted for Effects of Changing Prices Fiscal Year Ended March 31, 1985

(In thousands except for per share amounts)

	As Reported in the Conventional Financial Statements	Adjusted for Changes in Specific Prices (Current Costs)
Revenues	$3,233,871	$3,233,871
Cost and Expenses		
Cost of operations	2,892,930	2,898,588
Depreciation and amortization	148,946	193,952
Selling, general and administrative expenses	300,774	300,774
Other Income	53,486	53,486
Income (Loss) Before Provision for Income Taxes, Minority Interest and Extraordinary Items	(55,293)	(105,957)
Benefit from Income Taxes	89,613	89,613
Minority Interest	(15,340)	(15,340)
Extraordinary Gain	11,687	11,687
Net Income (Loss)	$ 30,667	$ (19,997)
Income (Loss) per common and common equivalent share (Primary)	$ 0.83	$ (0.54)
Gain from decline in purchasing power of net amounts owed		$ 15,861
Increase in current cost of inventory and property, plant and equipment held during the year (based on specific price changes)*		$ 147,028
Effects of increase in general price level		$ (63,962)
Increase in current cost of inventory and property, plant and equipment held during the year (based on specific price changes) net of changes in the general price level		$ 83,066
Net assets at year end	$1,202,909	$1,537,865

*At March 31, 1985, current cost of Inventory was $265,067 and current cost of Property, Plant and Equipment, net of accumulated depreciation was $1,476,850.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

(In thousands except for indices and per share amounts)

(In average for the year dollars)

	For Fiscal Year Ended March 31,				
	1985	1984	1983	1982	1981
	Adjusted for Changes in Specific Prices (Current Costs)				
Net income (loss)	$ (19,997)	$ 32,588	$ (9,157)	$ 97,756	$ (21,551)
Net income (loss) per common and common equivalent share	(0.54)	.95	(0.25)	2.64	(0.58)
Net assets at year end	1,537,865	1,675,363	1,792,880	1,929,862	1,881,891
Increase (Decrease) in current cost of inventory and property, plant and equipment held during the year, (based on specific price changes) net of changes in the general price level	83,066	(1,136)	(29,055)	30,427	17,705
Other information:					
Gain from decline in purchasing power of net amounts owed	15,861	23,282	25,290	52,313	83,977
Cash dividends per common share	1.80	1.87	1.94	1.85	1.78
Market price per common share at year end	25¾	32¾	20	25	44⅞
Average consumer price index	313.9	301.7	291.7	277.4	253.4

NATIONAL SERVICE INDUSTRIES, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Supplementary Information on Changing Prices (Unaudited)

The accompanying tables set forth selected financial data adjusted for the changes in specific prices (current cost) in accordance with the Financial Accounting Standards Board's Statement No. 33 "Financial Reporting and Changing Prices" as amended by Statement No. 82. Current cost estimates are necessarily based upon numerous assumptions and subjective judgements. Although management believes that the estimates have been developed in a reasonable manner, in compliance with the requirements of Statement No. 33, it should be recognized that they may be of only limited value because of the high degree of imprecision inherent in the estimation process. Thus, the data presented herein should be viewed in the context of Statement No. 33 and not as precise indicators of the effects of inflation on the Company.

Description of Computations

Current Cost

Current cost estimates for property, plant, and equipment were developed primarily using historical costs that were specifically indexed for the increased cost of purchasing or replacing them during 1985. Where more representative values were available from independent appraisals or recent additions of comparable facilities, these values were used and similarly adjusted by appropriate indices.

The current cost of inventories and linens in service was estimated based on the Company's current material, labor, and overhead rates. No adjustment was made to reflect restated depreciation in inventory as the effect of such adjustment would not be material.

Depreciation and amortization were recalculated based on property, plant, and equipment restated at current cost, and cost of sales was recalculated based on the current cost amounts of inventory and linens in service over their average carrying period.

Purchasing Power Gain (Loss)

In periods of inflation, companies that hold cash and receivables lose in terms of general purchasing power because these monetary assets will buy less at the end of the period than at the beginning. On the other hand, those that have debt and payables during inflation will gain because these amounts will be repaid with dollars of lower purchasing power. The net gain or loss in purchasing power, which is shown separately in the accompanying supplemental data, has been calculated based on the Company's average net monetary assets and liabilities for the year multiplied by the change in the CPI-U for the year. It is a theoretical gain or loss only and does not represent a change in funds available for investment in the business or distribution to shareholders.

General Comments on Inflation

For the year ended August 31, 1985, net income as reported was $67.7 million. As a result of adjustments to reflect changes in specific prices, net income was $64.5 million.

The adjustments as prescribed by Statement No. 33 represent an attempt to estimate what it would cost in terms of today's prices to replace currently existing facilities regardless of whether the funds to do so are available or such replacements are necessary or physically possible. In calculating the impact on income, no consideration is given to the possible cost savings from reduced manpower requirements, lower maintenance costs, and reduced energy consumption that would be realized if new facilities were made available.

In the normal course of business, the Company replaces its plant and equipment over an extended period of time. Each replacement decision is evaluated in terms of general business conditions and specific factors of cost including the effect of tax incentives, cash flow, and rate of return on investment.

For income tax purposes, the adjustment of income for the effect of inflation is not a deductible expense, and therefore, the provision for income taxes is reported only in historical dollars. As a result, the effective income tax rate for 1985 rises from 39.4% on a historical cost basis to 40.6% on a current cost basis. This increase in the effective income tax rate highlights the hidden tax burden borne by companies and their stockholders as a result of inflation.

Five-Year Comparison of Selected Financial Data Adjusted for Effects of General Inflation

	1985	1984	1983	1982	1981
	(Dollar amounts stated in average 1985 dollars) (In thousands, except per-share data)				
Sales and service revenues	$1,191,205	$1,113,883	$1,010,322	$990,157	$1,030,087
Historical cost information adjusted for changes in specific prices:					
Net income	64,454	55,993	52,676	42,868	40,426
Net income per share*	2.62	2.27	2.14	1.73	1.59
Net assets at end of year	456,022	436,473	414,668	394,276	391,791
Excess of increase (decrease) in general price level of inventories, linens in service, and property, plant, and equipment over increase in specific prices	14,171	4,873	(7,276)	8,295	9,485
Gain (loss) from change in purchasing power of net monetary amounts	(1,341)	(1,522)	(805)	(929)	145
Cash dividends declared per share*	.97	.89	.85	.81	.78
Market price per share at end of year*	31.64	27.23	26.26	15.16	14.62
Average consumer price index (1967 equals 100)	318.6	307.0	295.3	284.8	263.9

*Adjusted for stock splits of 3-for-2 effective January 12, 1984, and 4-for-3 effective December 27, 1982.

Selected Financial Data Adjusted for Effects of Changing Prices

For the Year Ended August 31, 1985

	As Reported (Historical Cost)	Adjusted for Specific Prices (Current Cost)
	(In thousands, except per-share data)	
Sales and service revenues	$1,191,205	$1,191,205
Cost of sales and services*	752,676	751,425
Depreciation and amortization expense	22,939	27,397
Selling and administrative expenses*	304,118	304,118
Interest expense	3,376	3,376
Other income, net	(3,565)	(3,565)
Provision for income taxes	44,000	44,000
Total expenses	1,123,544	1,126,751
Net income	$ 67,661	$ 64,454
Net income per share	$ 2.75	$ 2.62
Loss from decline in purchasing power of net amounts held		$ (1,341)
Net assets at end of year	$ 417,958	$ 456,022
Increase in specific prices (current cost) of inventories, linens in service, and property, plant, and equipment held during the year		$ 1,032
Effect of increase in general price level		13,139
Excess of increase in general price level over increase in specific prices		$ 14,171

*Excludes depreciation and amortization.

RAYTHEON COMPANY (DEC)

Note P: Supplementary Financial Information (Unaudited)

Financial Reporting and Changing Prices: Current Cost Information

The Financial Accounting Standards Board in its Statement No. 33, Financial Reporting and Changing Prices, as amended by Statement No. 82, Financial Reporting and Changing Prices: Elimination of Certain Disclosures, requires certain large entities to disclose as supplementary information the effects of current cost (specific inflation) upon selected income statement, balance sheet and other financial items.

Current cost accounting adjusts historical costs for estimated specific price changes for inventory, property, plant and equipment and related accounts. The objective is to match the estimated current costs or lower recoverable amount of the assets actually used in the company's operations against current revenues. The adjusted earnings then include the current cost of replacing those assets rather than the historical cost actually expended to acquire them.

The following methods were used in the determination of estimated current cost amounts: inventories were restated using indices representative of the cost-mix and product-mix for each inventory account; property, plant and equipment were restated by applying index numbers derived from published sources for the appropriate classifications of assets, and verified by comparing the index values of a sample of items of historical asset costs with vendor quotations and construction cost estimates of the items in the sample; cost of sales was restated to reflect the impact of inventories stated at current cost; and depreciation and amortization expense was restated to reflect the excess of current cost over that of historical cost using the same useful lives and depreciation methods employed in preparing the historical cost financial statements.

Purchasing power gain or loss reflects the effect of inflation on monetary assets, such as cash, marketable securities and receivables which lose purchasing power during inflationary periods as these assets will purchase fewer goods and services in time. Conversely, holders of liabilities benefit during inflationary periods as less purchasing power will be required to satisfy their obligations in the future.

As shown in the table below, adjustments to cost of sales and depreciation and amortization expense for current costs result in a reduction of historical net income. During inflationary periods, these adjustments will always result in lower net income as compared with historical net income. As required by the Financial Accounting Standards Board, historical income tax expense has not been adjusted for the increase in costs determined under this method. Accordingly, the effective tax rate of 37.3% for historical earnings in 1985 becomes 39.8% for current cost results. The impact of specific price changes on activities performed under long-term contracts has generally been minimal because contract prices are based upon detailed cost estimates which include anticipated future increases in the costs of material, labor and overhead.

Following are the disclosures prescribed by Statement No. 33 and Statement No. 82:

Statement of Income Adjusted for Changing Prices for the Year Ended December 31, 1985

	(In millions)	
Net income as reported in the income statement		$376
Adjustments to restate costs for the effect of current costs (specific inflation)		
Cost of sales	$(11)	
Depreciation and amortization expense	(26)	(37)
Net income adjusted for current costs		$339
Loss from decline in purchasing power of net monetary assets		$(27)
Increase in general inflation in excess of increase in current costs of inventories and net property, plant and equipment		
Effect of increase in general price level (inflation component)		$ 78
Effect of increase in current costs		35
Increase in general price level in excess of increase in current costs		$ 43

Current cost of inventories and property, plant and equipment, net

	Current Cost	Historical Cost	Difference
Inventories	$ 780	$ 636	$144
Property, plant and equipment, net	1,279	1,081	198

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

	1985	1984	1983	1982	1981
	(In millions except per share amounts of average 1985 dollars)				
Net sales					
In constant dollars	$6,409	$6,212	$6,081	$5,817	$6,369
Income from continuing operations					
In current costs	339	313	286	279	309
Earnings per common share—continuing operations					
In current costs	4.15	3.70	3.38	3.31	3.68
Cash dividends declared per common share in constant dollars	1.60	1.50	1.51	1.56	1.48
Net assets at December 31					
In current costs	2,271	2,409	2,374	2,261	2,140
Loss from decline in purchasing power of net monetary assets	(27)	(33)	(28)	(21)	(40)
Increase in general price level in excess of increase in current costs	43	44	19	10	58
Market price per share at December 31, in constant dollars.	52.71	41.01	45.80	49.31	42.80
Average consumer price index (1967 equals 100)	322.3	311.1	298.4	289.1	272.4

WHITTAKER CORPORATION (OCT)

NOTES TO FINANCIAL STATEMENTS

Note 14. Supplemental Information on the Effects of Changing Prices (Unaudited)

Introduction

The following supplementary information is presented in accordance with the requirements of the Financial Accounting Standards Board. The disclosures are intended to provide information concerning the effects of inflation on certain elements of financial statements utilizing the current cost method of measurement.

Current cost data addresses the effect of specific price changes related to the individual assets used by the Company. This method involves assumptions, approximations and estimates and, therefore, the results obtained by applying this method should not be taken as any precise measure of the effect of inflation.

The information presented does not reflect a comprehensive application of inflation accounting, but rather focuses on those items most affected by changing prices, namely: (1) the effect of specific price changes on inventories and properties and related costs of sales and depreciation expense, and (2) the effect of general inflation on monetary assets and liabilities.

Income Statement

The accompanying supplemental information presents income and expense data under the following two measurement methods:

a) As reported in the primary financial statements—These amounts are those reported in the primary financial statements on the historical cost basis of accounting in accordance with generally accepted accounting principles.

b) Adjusted for changes in specific prices (current costs)—The current cost method adjusts historical financial data to reflect the changes in specific prices of resources used in the Company's operations. Current costs of Property, Plant and Equipment were determined by applying appropriate published indices to historical costs. Current cost of depreciation was calculated on a straight-line basis using the same estimated useful lives as utilized in the primary financial statements.

The current costs of inventory and costs of sales (exclusive of depreciation) were calculated utilizing various methods, including the updating of standard costs to reflect current costs and the application to historical costs of internally constructed indices based upon price movements of representative elements of inventory and cost of sales.

All amounts related to inventories and property, plant and equipment of foreign subsidiaries were translated into dollars at exchange rates in effect at year-end; amounts related to cost of sales and depreciation expense were translated into dollars using annual average exchange rates.

The current cost amounts reported are the results of the estimating procedures described above and are by their nature imprecise and not necessarily indicative of either the amounts for which the assets could be sold or management's intention to replace such assets. Current costs are not necessarily indicative of costs which would actually be incurred if existing assets were in fact replaced, since total replacement in kind would be unlikely. Moreover, the calculations do not reflect the economic benefit which would be realized by replacing existing assets with technologically superior assets.

Adjustments to the current cost information to reflect the effects of general inflation for both domestic and foreign operations are based upon the United States Consumer Price Index—Urban (CPI-U).

In accordance with the requirements of the Financial Accounting Standards Board, net income, as restated for the effect of inflation, does not reflect any adjustment for reduced income taxes resulting from the increase in cost of sales and depreciation expense.

Purchasing Power Gain From Holding Net Monetary Liabilities

During periods of inflation, the holding of monetary assets such as cash and receivables results in a loss of general purchasing power. Likewise, monetary liabilities such as payables and debt generate a gain in general purchasing power because the settlement of such liabilities will be with dollars of diminished purchasing power. During the current year, Whittaker was in a net monetary liability position and, as a result, experienced a purchasing power holding gain.

Statement of Income Adjusted for Changing Prices

Year Ended October 31, 1985 (In millions of dollars, except per share data)

Net income, as reported in primary financial statements		$ 19.9
Adjustments to restate costs for the effect of changes in specific prices (current costs)—		
Cost of sales	$(.3)	
Depreciation	4.4	4.1
Net income adjusted for changes in specific prices		$ 15.8
Net income per share		
As reported in primary financial statements		$ 1.40
Adjusted for changes in specific prices		$ 1.10
OTHER INFORMATION		
Purchasing power gain from holding net monetary liabilities during the year		$ .5
Increase in general price level of inventory and property, plant and equipment held during the year		$ 14.2
Effect of increase in specific prices (current cost)*		1.6
Excess of increase in general price level over increase in specific prices		$ 12.6
Net assets at year-end		
As reported in primary financial statements		$390.2
Adjusted for changes in specific prices		$449.2
Aggregate translation adjustment		$ (6.4)
Depreciation expense		
As included in primary financial statements		$ 20.0
Adjusted for changes in specific prices		$ 24.4

*At October 31, 1985, current cost of inventory was $196.1 million and current cost of property, plant and equipment, net of accumulated depreciation, was $216.2 million.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for the Effects of Changing Prices

All amounts in the five-year comparison are stated in terms of average (constant) 1985 dollars as measured by the CPI-U. Accordingly, the data reported for prior years have been adjusted upward by a factor representing subsequent general inflation. In accordance with the requirements of the Financial Accounting Standards Board, the aggregate translation adjustment is not reported for years prior to 1982.

Years Ended October 31, (In millions of dollars, except per share data)	1985	1984	1983	1982	1981
Sales	$1,130.5	$1,488.6	$1,729.7	$1,865.8	$1,993.6
Current Cost Data					
Net income	15.8	27.3	25.4	48.1	72.1
Net income per share	1.10	1.85	1.71	3.08	4.59
Increase in specific prices of inventory and property, plant and equipment over (under) increases in general price level	(12.6)	5.5	(.2)	(8.0)	(54.5)
Net assets at year-end	449.2	435.3	455.1	464.8	522.0
Aggregate translation adjustment	(6.4)	10.0	6.9	19.6	—
Purchasing power gain from holding net monetary liabilities during the year	.5	2.7	2.3	3.6	8.3
Dividends per common share	.60	1.40	1.73	1.78	1.67
Market price per common share at fiscal year-end	19.86	19.47	31.29	27.17	45.75
Average consumer price index	320.2	309.1	296.7	287.1	268.4

Mineral Reserve Information

ALUMINUM COMPANY OF AMERICA (DEC)

SUPPLEMENTAL FINANCIAL INFORMATION

Bauxite Reserve Data (unaudited)

Shown below are Alcoa's estimated commercially recoverable bauxite reserves at year-end and other related data.

(metric tons in thousands)	1985	1984	1983	1982	1981
Reserves, consolidated (1)	116,600	136,100	174,300	191,700	210,200
Aluminum content	20%	20%	21%	20%	20%
Activity during year:					
Reserves acquired, net	—	—	—	—	169,000
Reserves transferred (2)	—	—	—	—	(426,400)
Bauxite mined (3)	5,887	6,291	5,635	5,820	7,349
Primary aluminum produced	1,170	1,387	1,238	1,089	1,327
U.S. average market price of aluminum (cents/lb.)	$.488	$.611	$.683	$.468	$.598
Alcoa's share of equity companies' reserves (4)	527,800	558,600	648,500	660,500	663,400
Total reserves, including shares of equity companies	644,400	694,700	822,800	852,200	873,600

(1) Includes a reduction in 1984 of approximately 31,900 resulting from a joint venture agreement in Suriname and the shutdown of Dominican operations. Reevaluations of estimated reserves resulted in reductions of 13,600 in 1985 and 12,000 in 1983 and 1982.

(2) Transferred from consolidated to equity company reserves upon sale of a 40 percent interest in a wholly owned Brazilian subsidiary.

(3) For production and sale of bauxite, alumina, chemicals and aluminum.

(4) Includes a reduction of approximately 20,900 in 1985 and 76,700 in 1984 due to changes in ownership interest of a Brazilian subsidiary.

JIM WALTER CORPORATION (AUG)

NOTES TO FINANCIAL STATEMENTS

Note 13 (In Part): Supplementary Information on Changing Prices (Unaudited)

Mineral Reserves:

The following schedule provides information (in thousands of tons) on the principal proven mineral reserves (owned and leased) of the Company:

	1985	1984	1983	1982	1981
Gypsum:					
Recoverable reserves at year end (3)	47,000	51,000	52,000	53,000	53,000
Production during year	610	913	590	444	484
Average market price per ton (1)	—	—	—	—	—
Coal:					
Recoverable reserves at year end (2)	292,000	302,000	270,000	275,000	280,000
Production during year	7,900	6,700	5,200	5,300	3,000
Average market price per ton	$44.77	$46.09	$50.65	$51.14	$45.49
Reserves leased to others for strip mining	37,000	39,000	40,000	42,000	44,000
Stone products:					
Recoverable reserves at year end	276,000	284,000	291,000	296,000	300,000
Production during year	8,100	6,900	5,311	4,345	4,924
Average market price per ton (1)	—	—	—	—	—

(1) Gypsum and stone products market prices are not disclosed since these products are not sold in their mineral form and any compilation derived from the large quantity of reserves would not be meaningful.

(2) Includes reserves leased during 1985 and 1984 of 1 million and 46 million tons, respectively, and adjustments of 3 million tons in 1985 due to a mine closing and 7 million tons in 1984 for decreased recoverability.

(3) Adjusted for decreased recoverability in 1985 of 3 million tons.

DIAMOND SHAMROCK CORPORATION (DEC)

SUPPLEMENTARY FINANCIAL INFORMATION (unaudited)

(Data is as of December 31 of each year or for the year then ended and dollar amounts in tables are in millions, except per share, unless otherwise indicated.)

Coal Reserves

Proved reserves are recoverable and merchantable reserves substantiated by adequate information, including that derived from drilling, current and previous mining, outcrop data and knowledge of mining conditions. Probable reserves are generally considered to extend beyond proved reserves and are based on more preliminary or limited information.

The Company's estimated quantities (in thousands of tons) of recoverable proved and probable coal reserves (excluding lignite) at December 31, 1985, 1984, 1983, 1982 and 1981 and changes in such estimated quantities and average realized price in those five years were as follows:

The Company	1985	1984	1983	1982	1981
January 1,	764,802	758,838	654,209	630,623	475,204
Purchase of reserves in place	350	5,716	111,756	31,907	190,008
Revisions of previous estimates	10,487	7,712	—	—	(3,434)
Production	(6,041)	(6,857)	(6,506)	(6,719)	(6,029)
Sale of reserves in place	(723)	(607)	(621)	(1,602)	(25,126)
December 31,	768,875	764,802	758,838	654,209	630,623
Associated Companies	1985	1984	1983	1982	1981
January 1,	389,258	389,648	389,918	382,418	202,955
Purchase of reserves in place	56,636	—	—	—	179,701
Revisions of previous estimates	911	(74)	(40)	8,041	—
Production	(1,080)	(316)	(230)	(541)	(238)
December 31,	445,725	389,258	389,648	389,918	382,418
Average realized price (per ton)	$36.60	$36.52	$36.92	$36.70	$34.77

Average realized price reflects sales of both steam and metallurgical coal (excludes sub-bituminous coal, none of which was sold) at a wide range of prices.

Geothermal Reserves

Proved reserves are the geothermal energy in megawatt hours remaining to be produced from the dedicated leaseholds for generating plants now operating or under construction. Probable reserves are the geothermal energy in megawatt hours to be produced from dedicated leaseholds where power plant construction is under application, but not yet approved.

The Company's estimated quantities (in thousands of megawatt hours of electricity) of proved and probable geothermal reserves at December 31, 1985, 1984 and 1983 and changes in such estimated quantities and average realized price in 1985, 1984 and 1983, were as follows:

Associated Company	1985	1984	1983
January 1,	42,758	88,312	—
Purchase of reserves in place	—	—	89,143
Revisions of previous estimates	6,677	—	—
Production	(1,489)	(2,796)	(831)
Sale of reserves in place	—	(42,758)	—
December 31,	47,946	42,758	88,312
Average realized price (per megawatt hour)	$39.41	$39.60*	$37.04

*Excludes the sale of reserves in place of 42,758 thousand megawatt hours which were sold for $285.0 million or $6.67 per megawatt hour. (See "Sale of Geothermal Interest".)

The Company estimates that its proved and probable geothermal reserves at December 31, 1985 will be produced over a period of approximately 35 years. The Company also estimates that in 1986 its share of the cost to maintain the productivity of the wells making up such reserves will approximate $18.6 million and that approximately $3.7 million will be spent to develop new reserves.

Section 2: Balance Sheet

BALANCE SHEET TITLE

Table 2-1 summarizes the titles used to describe the statement of assets, liabilities and stockholders' equity.

TABLE 2-1: BALANCE SHEET TITLE

	1985	1984	1983	1982
Balance Sheet	550	553	549	546
Statement of Financial Position	37	35	39	42
Statement of Financial Condition	13	12	12	12
Total Companies	**600**	**600**	**600**	**600**

BALANCE SHEET FORMAT

Balance sheet formats include the account form, the report form, and the financial position form. The account form shows total assets on the left-hand side equal to the sum of liabilities and stockholders' equity on the right-hand side. The report form shows a downward sequence of either total assets minus total liabilities equal to stockholders' equity or total assets equal to total liabilities plus stockholders' equity. The financial position form, a variation of the report form, shows noncurrent assets added to and noncurrent liabilities deducted from working capital to arrive at a balance equal to stockholders' equity.

Table 2-2 summarizes the balance sheet formats used by the survey companies. Since the early 1970's, when most of the survey companies presented an account form balance sheet, there has been a steady increase in the number of survey companies presenting a report form balance sheet. The change from account to report form has been so pervasive that, as shown in Table 2-2, a majority of the survey companies are currently presenting a report form balance sheet.

TABLE 2-2: BALANCE SHEET FORMAT

	1985	1984	1983	1982
Account form	336	291	302	320
Report form	261	306	294	276
Financial position form	3	3	4	4
Total Companies	**600**	**600**	**600**	**600**

TABLE 2-3: CASH—BALANCE SHEET CAPTIONS

	1985	1984	1983	1982
Cash	233	266	293	321
Cash and Equivalents	106	89	86	75
Cash includes certificates of deposit or time deposits	55	60	59	62
Cash combined with marketable securities	206	185	162	142
Total Companies	**600**	**600**	**600**	**600**

CASH

As shown in Table 2-3, many survey companies present the balance sheet caption *Cash* but, in recent years, the number of survey companies presenting such a balance sheet caption has decreased materially. Of the 206 companies showing a balance sheet caption combining cash and marketable securities, 71 disclosed separate amounts either parenthetically on the balance sheet or in a note to the financial statements. Examples of captions for cash and cash items follow.

AFG INDUSTRIES, INC. (DEC)

	1985	1984
	(In thousands)	
Current assets:		
Cash and certificates of deposit	$ 2,301	$ 7,759
Marketable securities, lower of cost or market	64,292	
Accounts and notes receivable (less allowance for doubtful accounts of $3,838 and $2,333)	39,942	38,589
Inventories	38,263	43,049
Prepaid expenses	3,062	2,269
Total current assets	147,860	91,666

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Cash and Certificates of Deposit

Cash and Certificates of Deposit include certificates of deposit totaling $2,000,000 and $11,150,000 at December 31, 1985 and 1984, respectively.

AMAX INC. (DEC)

	1985	1984
	(In thousands)	
Assets		
Restricted cash and equivalent	$ 46,700	$7,100
Receivable from sale of Iron ore assets	274,200	

NOTES TO FINANCIAL STATEMENTS

9. Restricted Cash and Equivalent

At December 31, 1985, AMAX had on deposit with commercial banks a total of $43 million of cash and equivalent which is restricted as to use. Of that amount, $15 million was held for the January 3, 1986 repurchase of common shares from Creditanstalt (see Note 18, Common Stock). The remainder represents a time deposit which is restricted to repayment of a short-term foreign currency loan.

AMERICAN STORES COMPANY (JAN)

	1986	1985	1984
	(In thousands of dollars)		
Current Assets			
Cash and short-term cash investments	$29,999	$75,908	$134,697

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash and Short-Term Cash Investments

Short-term cash investments consist primarily of certificates of deposit, treasury bills and notes, bankers acceptances, repurchase agreements and commercial paper which are carried at cost, which approximates market value. At February 1, 1986, February 2, 1985 and January 28, 1984, short-term investments amounted to $16,679,000, $40,910,000 and $31,853,000, respectively, and certificates of deposits and other securities with a maturity over 90 days amounted to $50,641,000 on January 28, 1984.

BROWN GROUP, INC. (OCT)

	1985	1984
	($000)	
Current Assets		
Cash and cash investments	$ 25,943	$ 4,157
Receivables, net of allowances of $6,302 in 1985 and $5,956 in 1984	126,704	126,077
Inventories, net of adjustment to last-in, first-out cost of $71,986 in 1985 and $72,661 in 1984	308,949	308,627
Net current assets of discontinued operations	—	54,667
Prepaid expenses and other current assets	17,916	19,248
Total Current Assets	479,512	512,776

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note K (In Part): Supplementary Information

Balance Sheet

Cash investments of $18,000,000 at November 2, 1985 are stated at cost which approximates market.

INSILCO CORPORATION (DEC)

	1985	1984
	In Thousands of Dollars	
Current Assets		
Cash, including time deposits of $3,395 (1984—$11,199)	$ 36,788	$ 25,278
Marketable securities, at cost, which approximates market	175	9,889
Trade receivables, less allowance for doubtful accounts of $1,920 (1984—$1,908)	80,016	101,333
Other receivables	21,750	20,027
Inventories		
Raw materials and supplies	48,184	51,566
Work in process	21,112	24,954
Finished goods	51,075	94,890
	120,371	171,410
Net assets of tableware operations held for sale	—	3,182
Deferred income tax benefit	3,483	747
Prepaid expenses	6,252	6,307
Total current assets	268,835	338,173

McGRAW-HILL, INC. (DEC)

	1985	1984	1983
	(Thousands of dollars)		
Current assets			
Cash (includes certificates of deposit: 1985—$22,436; 1984—$32,391; 1983—$72,864)	$ 36,184	$ 43,001	$ 77,441
Short-term investments—at lower of cost or market	100,828	64,959	49,311
Accounts receivable (net of allowance for doubtful accounts: 1985—$44,482; 1984—$35,017; 1983—$33,955)	352,667	326,653	294,604
Inventories:			
Finished goods	118,665	106,550	104,827
Work-in-process	39,799	36,880	30,922
Paper and other materials	15,660	19,173	12,568
Total inventories	174,124	162,603	148,317
Prepaid and other current assets	31,014	24,483	21,711
Total current assets	694,817	621,699	591,384

NL INDUSTRIES, INC. (DEC)

	1985	1984
	(in thousands)	
Current assets:		
Cash (including equivalents of $35,771 in 1985 and $58,165 in 1984)	$ 53,435	$ 83,994
Receivables less allowance of $10,623 in 1985 and $10,638 in 1984	251,659	310,578
Inventories	261,826	236,015
Prepaid expenses	13,072	10,637
Total current assets	579,992	641,224

THE PARKER PEN COMPANY (FEB)

	1985	1984
	(thousands of dollars)	
Current Assets:		
Cash	$ 7,616	$ 8,586
Certificates of deposit	13,564	18,084
Marketable securities, at cost which approximates market	1,552	3,273
Accounts receivable, less allowances of $5,063 in 1985 and $4,827 in 1984	117,059	131,055
Refundable income taxes	3,001	5,702
Inventories	40,982	44,927
Future income tax benefits	3,514	—
Prepaid expenses	10,427	8,720
Total current assets	197,715	220,347

PREMIER INDUSTRIAL CORPORATION (MAY)

	1985	1984
	(in thousands of dollars)	
Current assets:		
Cash (including temporary investments of $39,103 and $31,780 in 1985 and 1984, respectively)	$ 45,694	$ 35,500
Receivables (less allowance for doubtful accounts of $966 and $1,003 in 1985 and 1984, respectively)	66,817	62,470
Inventories	66,408	58,591
Prepaid expenses	14,008	11,427
Total current assets	192,927	167,988

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

(c) Temporary Investments

Temporary investments are stated at cost which approximates market.

SHELLER-GLOBE CORPORATION (SEP)

	1985	1984
	(In thousands)	
Current assets:		
Cash and cash equivalents	$ 96,618	$ 55,151
Accounts receivable, less allowance for doubtful accounts of $1,438,000 ($1,308,000 in 1984)	121,837	118,130
Inventories:		
Work in process and finished goods	50,802	53,245
Raw materials	38,809	41,541
Manufacturing supplies and customer tooling	12,057	16,508
Prepaid expenses, including deferred income taxes of $8,193,000 (7,427,000 in 1984)	11,489	11,074
Total current assets	331,612	295,649

MARKETABLE SECURITIES IN CURRENT ASSETS

Chapter 3A of *ARB No. 43* states in part:

9. The amounts at which various current assets are carried do not always represent their present realizable cash values. . . . However, practice varies with respect to the carrying basis for current assets such as marketable securities and inventories. In the case of marketable securities where market value is less than cost by a substantial amount and it is evident that the decline in market value is not due to a mere temporary condition, the amount to be included as a current asset should not exceed the market value . . . It is important that the amounts at which current assets are stated be supplemented by information which reveals, for temporary investments, their market value at the balance sheet date . . .

FASB *Statement of Financial Accounting Standards No. 12* requires that marketable equity securities (as defined in the Statement) be carried at lower of aggregate cost or market value. *SFAS No. 12* also specifies information which the financial statements should disclose about marketable equity securities.

Table 2-4 shows the valuation bases at which marketable securities are included in the balance sheet. Examples of marketable security presentations follow.

TABLE 2-4: MARKETABLE SECURITIES—VALUATION

	Number of Companies			
	1985	1984	1983	1982
Cost				
Approximates market	253	252	255	254
No reference to market	15	17	21	20
Market value disclosed	6	6	3	5
Lower of cost or market	40	40	34	35
Market value	5	5	3	4

Cost Which Approximates Market

AMERICAN PETROFINA, INCORPORATED (DEC)

	1985	1984
	(Thousands of dollars)	
Current assets:		
Cash	$ 9,321	15,278
Temporary investments, at cost which approximates market	21,000	22,155
Accounts and notes receivable, less allowance for doubtful receivables of $14,286 in 1985 and $7,118 in 1984	352,881	309,110
Inventories	319,679	229,434
Prepaid expenses and other current assets	10,574	10,707
Total current assets	713,455	586,684

ANDERSON, CLAYTON & CO. (JUN)

	1985	1984
	(In thousands of dollars)	
Current assets:		
Cash	$ 7,338	$ 7,274
Marketable securities at cost which approximates market (note 7)	106,980	36,474

Note 7. Marketable Securities Consist of:

(In thousands of dollars)	June 30	
	1985	1984
Commercial paper	$ 15,456	$14,424
Eurodollar deposits	77,560	—
Foreign temporary investments	4,038	9,867
Certificates of deposit	9,926	12,183
	$106,980	$36,474

HARNISCHFEGER CORPORATION (OCT)

	1985	1984
	(Dollar amounts in thousands)	
Current Assets		
Cash and temporary investments	$204,616	$96,007

FINANCIAL NOTES

Note 3: Cash and Temporary Investments

Cash and temporary investments consisted of the following (in thousands of dollars):

	October 31, 1985	1984
Cash—in demand deposits	$ 7,742	$ 2,155
—in special accounts principally to support letters of credit	268	4,516
Temporary investments	196,606	89,336
	$204,616	$96,007

Temporary investments consisted of short-term U.S. and Canadian government obligations, time and certificates of deposit, commercial paper, banker's acceptances, repurchase agreements and money market funds. Temporary investments are stated at cost plus accrued interest, which approximates market value.

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

	1985	1984
	(Dollars in millions)	
Current Assets:		
Cash	$ 896	$ 600
Marketable securities, at cost, which approximates market	4,726	3,762
Notes and accounts receivable—trade, net of allowances	9,737	7,393
Other accounts receivable	809	718
Inventories	8,579	6,598
Prepaid expenses and other current assets	1,303	1,304
	$26,070	$20,375

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marketable Securities

	1985	1984
	(Dollars in millions)	
U.S. Government securities	$ 917	$ 616
Time deposits and other bank obligations	2,183	1,837
Non-U.S. government securities and other fixed-term obligations	1,626	1,309
Total	$4,726	$3,762
Market value	$4,729	$3,774

JAMES RIVER CORPORATION OF VIRGINIA (APR)

	1985	1984
	(in thousands)	
Current assets:		
Cash and short-term securities	$32,090	$24,978

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Supplemental Balance Sheet Information:

A. Short-Term Securities:

Short-term securities with a cost, which approximates market, of $32.1 million at April 28, 1985 and $25.0 million at April 29, 1984, consist primarily of U.S. Treasury Bill repurchase agreements with banks.

M/A-COM, INC. (SEP)

	1985	1984
	(dollars in thousands)	
Current assets:		
Cash and marketable securities	$ 52,628	$ 70,313
Accounts receivable, less allowances for doubtful accounts of $8,039 and $8,406, respectively	183,869	177,477
Unbilled revenue under customer contracts	89,628	52,920
Inventories	194,668	134,909
Other current assets	16,394	14,473
Total current assets	537,187	450,092

Note 1 (In Part): Summary of Significant Accounting Policies:

Marketable Securities

Marketable securities are stated at cost, which approximates market value, and consist of short-term investments in Repurchase Agreements, European Time Deposits and Certificates of Deposit in the aggregate amounts of $48,319,000 and $65,665,000 at September 28, 1985 and September 29, 1984, respectively.

NATIONAL DISTILLERS AND CHEMICAL CORPORATION (DEC)

	1985	1984
	(dollar amounts in millions)	
Current assets		
Cash	$ 29.1	$ 38.9
Short-term investments (Note 9)	18.2	20.9
Receivables—less allowance for doubtful accounts of $6.7—1985, $5.4—1984	335.9	272.5
Inventories	416.9	438.4
Prepaid expenses and other assets	12.8	27.6
Total current assets	812.9	798.3

Note 9: Investments and Marketable Securities

Short-term investments include:

	December 31	
	1985	1984
Government obligations	$ 4.0	$ 4.1
Certificates of deposit and other debt securities	14.2	16.8
	$18.2	$20.9

Short-term investments are stated at cost which approximates market.

Noncurrent marketable securities are stated at cost; at December 31, 1985 market value exceeded the cost of such securities by $19 million.

RUSS TOGS, INC. (JAN)

	1986	1985
Current assets:		
Cash (including certificates of deposit of $11,280,000 in 1986 and $13,902,000 in 1985)	$ 13,529,000	$ 15,663,000
Short-term notes (at cost, which approximates market)	4,769,000	1,010,000
Accounts receivable (less estimated discounts and doubtful accounts of $3,809,000 in 1986 and $3,679,000 in 1985)	41,618,000	48,416,000
Inventories	59,186,000	51,740,000
Prepaid expenses and other current assets	5,790,000	5,697,000
Total current assets	124,892,000	122,526,000

TELEDYNE, INC. (DEC)

	1985	1984
	(In millions)	
Current Assets:		
Cash and marketable securities	$67.3	$198.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Supplemental Balance Sheet Information

Cash and marketable securities at December 31, 1985 and 1984 were as follows (in millions):

	1985	1984
Cash	$46.9	$ 47.2
United States Treasury notes, at amortized cost, which approximates market	11.2	66.6
United States Treasury bills, at cost plus accrued interest, which approximates market	5.1	—
Common stocks, at cost (market: 1984—$126.3)	—	78.9
Other marketable securities	4.1	5.3
	$67.3	$198.0

Cost—Market Value Disclosed

ELECTROSPACE SYSTEMS, INC (MAR)

	1985	1984
Current Assets		
Cash (includes certificates of deposit, treasury bills and commercial paper of $26,755,390 in 1985 and $23,989,328 in 1984)	$24,673,895	$22,869,895
Preferred stocks with redemption provision—at cost (market value: 1985—$3,139,031; 1984—$2,214,708) (Note 1)	3,557,485	2,329,371

Note 1 (In Part): Summary of Significant Accounting Policies

Marketable Securities

The preferred stock portfolio (with redemption provisions) is not deemed a marketable equity security; therefore, it is valued at cost in the absence of a permanent decline in market value. Dividends are recorded as income when declared.

The Corporation invests in futures contracts to hedge its redeemable preferred stock portfolio against interest rate fluctuations. Gains and losses on hedging transactions are deferred as an adjustment of the carrying amount of the hedged investment and will be recognized in income when the related investments are disposed of or when it is determined that the hedge is no longer effective.

GAF CORPORATION (DEC)

	1985	1984
	(Thousands of Dollars)	
Current Assets		
Cash	$ 7,862	$16,186
Short-term investments (Note 5)	209,298	53,367

Note 5: Marketable Securities

During 1985, the Company acquired 6,961,000 shares of Union Carbide (Carbide), or 9.9% of the total outstanding shares, at an average cost of approximately $51 a share. In December 1985, the Company announced its intention to commence a cash tender offer for all the remaining outstanding shares of Carbide. However, the Company withdrew its tender offer in January 1986, and exchanged 3.5 million shares of Carbide pursuant to Carbide's exchange offer. GAF will report the gain resulting from that transaction in the first quarter of 1986. The Company remains a major Carbide shareholder, retaining 3,228,187 shares or approximately 10.6% of Carbide's outstanding shares, which is classified as Marketable Securities, a non-current asset.

After the sale of 233,000 shares in December, the Company at December 31, 1985, held 6,728,000 shares of Carbide at a total cost of $405.4 million, including approximately $60 million in costs relating to the Company's tender offer. At that date, the market value of such shares was $476.8 million, based on $70⅞ per share. The cost basis of the 3.5 million shares exchanged in January, $203.2 million, has been classified as a current asset at December 31, 1985. The remaining $6.1 million of short-term investments at December 31, 1985, and $53.4 million at December 31, 1984, are stated at cost which approximates market.

Income on investments for 1985 includes $8.9 million in net realized gains, $10.6 million in dividends and $2.9 million in interest income. Income on investments for 1984 and 1983 represents interest income. The determination of cost in computing realized gains and losses on investments is based on the first-in first-out method.

Lower of Cost or Market

SCOPE INDUSTRIES (JUN)

	1985	1984
Current Assets:		
Cash	$ 267,211	$ 237,273
Short-term investments, at cost which approximates market	100,000	160,000
Treasury bills (Par value $22,500,000 in 1985 and $24,500,000 in 1984)	22,140,978	23,929,115
Marketable securities, at cost (Market $5,735,888 in 1985 and $4,040,004 in 1984—Note 2)	5,252,471	3,733,860
Accounts and notes receivable, less allowance for doubtful accounts of $281,715 in 1985 and $224,780 in 1984	2,032,291	3,760,134
Inventories	686,125	425,347
Prepaid expenses and other	197,112	148,390
Total current assets	30,676,188	32,394,119

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

Marketable Securities:

The current and non-current portfolios of marketable securities are each stated at the lower of aggregate cost or market at the balance sheet date and consist of common and preferred stocks and notes. Dividend and interest income are accrued as earned.

Unrealized losses on current marketable securities are charged to income. Unrealized losses on non-current marketable securities are recorded directly in a separate shareowners' equity account. Realized gains or losses are determined on the specific identification method and are reflected in income.

Note 2: Marketable Securities

In fiscal year 1983, the Company sold its entire non-current portfolio of marketable securities on the open market for cash and reported an extraordinary gain of $22,391,178 (net of applicable income taxes of $11,120,527) from the sale.

In fiscal year 1984, the Company transferred its current holdings in various banks' common stocks to non-current marketable securities. A $932,908 unrealized loss resulting from the transfer was charged against income.

Non-current marketable securities reflected an unrealized loss of $1,564,832 (net of applicable income taxes of $706,675), reported as a charge against shareowners' equity at June 30, 1984, and this entire unrealized loss was recovered and reversed during fiscal year 1985.

Included in revenues is a net gain of $1,866,656 (1985); $617,879 (1984); $1,148,314 (1983) realized on the sales of marketable securities.

At June 30, 1985 gross unrealized gains and losses on marketable securities were as follows:

	Current	Non-Current
Gross unrealized gains	$1,127,029	$3,309,402
Gross unrealized losses	(643,612)	(1,222,702)

Subsequent to June 30, 1985 net gains of $1,125,358 were realized on the sale of marketable securities.

RECEIVABLES

Table 2-5 summarizes both the descriptive titles used in the balance sheet to describe trade receivables and the type of receivables, other than trade receivables, which the survey companies most frequently showed as current assets.

Not listed in Table 2-5 are 25 receivables relating to pension plan terminations, leases, insurance claims, and other described transactions which occur less frequently than those listed on Table 2-5. Examples of receivables shown as current assets follow.

TABLE 2-5: CURRENT RECEIVABLES

	1985	1984	1983	1982
Trade Receivable Captions				
Accounts receivable	222	210	207	199
Receivables	168	171	162	152
Accounts and notes receivable	106	115	118	112
Trade accounts receivable	104	104	113	137
Total Companies	**600**	**600**	**600**	**600**
Receivables Other Than Trade Receivables	Number of Companies			
Tax refund claims	84	73	91	112
Contracts	48	44	44	47
Investees	34	38	35	36
Installment notes or accounts	18	21	20	20
Sale of Assets	11	16	9	6
Employees	6	9	10	7

Income Tax Refund Claims

H.H. ROBERTSON COMPANY (DEC)

	1985	1984
	(Thousands)	
Current assets:		
Cash	$ 816	$ 1,092
Temporary investments—at cost	5,451	12,999
Accounts and notes receivable, less allowance for doubtful accounts: 1985, $5,352; 1984, $3,840	163,364	157,248
Inventories:		
Finished products	11,664	13,098
Work in process	26,080	29,611
Materials and supplies	39,672	53,254
Total inventories, at current costs	77,416	95,963
Less excess of current costs over LIFO stated values	1,003	7,429
Inventories—net	76,413	88,534
Refundable income taxes	18,608	2,901
Other	13,747	8,664
Total current assets	278,399	271,438

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Taxes on Income

At December 31, 1985, certain consolidated foreign subsidiaries had accumulated deficits aggregating approximately $9,000,000 for which no income tax benefit was reflected in the consolidated income statements. The potential tax benefit to the consolidated group resulting from these deficits could not be reasonably estimated as the benefit was dependent upon the subsidiaries achieving a profitable status and upon the limitations of the tax laws in the respective countries where the subsidiaries are domiciled.

Undistributed earnings of consolidated foreign subsidiaries at December 31, 1985 amounted to $46,000,000. Provisions are made for income taxes on such undistributed earnings only when taxes payable cannot be substantially offset by tax credits when the earnings are remitted. No provision is made when the Company intends to invest such earnings permanently.

Refundable income taxes at December 31, 1985 included in the consolidated balance sheets represent primarily the tax loss carryback benefits resulting from 1985 operating losses. The refundable income taxes at December 31, 1984 represent foreign and investment tax credits carried back to prior years as permissible under federal regulations.

TEMPLE-INLAND INC. (DEC)

	1985	1984
	(in thousands)	
Current Assets		
Cash and cash equivalents	$ 82,490	$ 75,468
Other short-term investments	—	6,616
Receivables less allowances of $4,134,000 in 1985 and $5,290,000 in 1984	122,957	126,163
Refundable federal income taxes—Note G	8,946	—
Inventories—at lower of cost or market:		
Work in process and finished goods	42,639	48,263
Raw materials	52,649	60,598
	95,288	108,861
Prepaid expenses	19,000	23,235
Total Current Assets	328,681	340,343

Note G (In Part): Taxes on Income

At December 31, 1985, the Company was eligible for income tax refunds of $8.9 million, primarily from a carryback of investment tax credits.

Contracts

AEL INDUSTRIES, INC. (FEB)

	1985	1984
	Dollars in thousands	
Current assets:		
Cash and short-term investments	$33,194	$13,857
Receivables, including unbilled amounts of $14,426 at February 22, 1985 and $10,749 at February 24, 1984:		
U.S. Government	20,201	15,115
Other	2,360	4,134
	22,561	19,249
Inventories	4,320	3,749
Other current assets	1,912	260
Total current assets	61,987	37,115

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Receivables. Receivables include unrecovered costs and estimated profits subject to future negotiation. Unbilled receivables represent costs and profits in excess of billed amounts on contracts accounted for on the percentage-of-competition method. Such amounts are generally billed and collected within one year.

DOVER CORPORATION (DEC)

	1985	1984	1983
		($000)	
Current Assets:			
Cash and cash equivalents	$184,494	$ 71,986	$ 85,407
Receivables (less allowance for doubtful accounts of $6,113 in 1985, $6,359 in 1984 and $5,671 in 1983)	265,352	260,372	182,590
Inventories	201,815	223,237	148,994
Prepaid expenses	5,484	4,891	3,902
Total current assets	657,145	560,486	420,893

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Accounts Receivable:

Accounts receivable include retainage which has been billed, but which is not due pursuant to retainage provisions in elevator construction contracts until completion of performance and acceptance by the customer. This retainage aggregated $26,086,000 at December 31, 1985, $22,004,000 at December 31, 1984 and $18,324,000 at December 31, 1983. Substantially all retained balances are collectible within one year.

THE LTV CORPORATION (DEC)

	1985	1984
	(in millions)	
Current Assets		
Cash and cash equivalents	$ 11.9	$ 52.8
Receivables, less allowance for doubtful accounts of $38.1 in 1985 and $36.3 in 1984	921.3	931.2
Inventories:		
Products	1,051.3	1,174.6
Contracts in progress, less progress payments received of $547.7 in 1985 and $509.6 in 1984	249.6	189.9
Materials, purchased parts and supplies	442.3	602.7
Total	1,743.2	1,967.2
Less—Amount to reduce certain inventories to LIFO value	(315.0)	(404.9)
Total inventories	1,428.2	1,562.3
Prepaid expenses and other current assets	65.0	143.9
Total Current Assets	2,426.4	2,690.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Current Assets (In Part)

Receivables

Approximately $171 million and $162 million of receivables at December 31, 1985 and 1984, respectively, relate to long-term contracts, of which no amount is due or billable after one year. Unbilled receivables at December 31, 1985 and 1984, nearly all of which were billed subsequent to year-end, were not significant. There were no significant amounts included in receivables for claims subject to uncertainty as to realization.

SPERRY CORPORATION (MAR)

	1985	1984
	(in millions of dollars)	
Current Assets		
Cash, including interest-bearing deposits: 1985, $98.4; 1984, $155.1	$ 137.3	$ 166.8
Accounts and notes receivable:		
United States Government contracts, direct and indirect	135.4	103.3
Sales-type leases, less allowance for unearned income: 1985, $120.1; 1984, $173.8	368.2	438.3
Commercial, less allowance for doubtful accounts: 1985, $24.1; 1984, $26.3	549.0	415.0
Due from wholly-owned finance company	428.8	243.6
	1,481.4	1,200.2
Inventories	1,567.1	1,180.2
Prepaid expenses	123.8	91.9
Total Current Assets	3,309.6	2,639.1

Receivables from Investees

CLARK EQUIPMENT COMPANY (DEC)

	1985	1984
	Amounts in thousands	
Current Assets:		
Cash	$ 8,134	$ 16,490
Short-term investments, at cost plus accrued interest	76,198	14,120
Accounts and notes receivable, less allowance for doubtful accounts of $3,015 and $2,588 at respective dates	37,056	23,891
Accounts receivable from associated companies	30,611	22,683
Inventories	138,084	148,993
Prepaid expenses	5,628	5,495
Total current assets	295,711	231,678

INTERNATIONAL HARVESTER COMPANY (OCT)

	1985	1984
	($000)	
Current assets		
Cash and cash equivalents	$ 17,660	$ 12,184
Marketable securities, at cost which approximates market	305,563	400,786
Dividend receivable from IHCC (Note 12)	250,000	—

Note 12 (In Part): Investments and Long-Term Receivables

Equity in and Advances to Nonconsolidated Companies consists primarily of the Company's investment in its ongoing wholly-owned sales finance and insurance subsidiaries. (See Notes 25 and 26.) The Company plans to sell its Canadian sales finance subsidiary IHCC Canada. As of October 31, 1985, the Company's investment in and advances to IHCC Canada were recorded in the Statement of Financial Condition at $114 million.

IHCC declared a cash dividend of $250 million on October 31, 1985 which is recorded as Dividend Receivable from IHCC on the Statement of Consolidated Financial Condition. On November 1, 1985, the dividend was received in cash. (See Notes 2 and 23.)

LEE ENTERPRISES, INCORPORATED (SEP)

	1985	1984	1983
		($000)	
Current Assets			
Cash and temporary cash investments	$11,087	$33,968	$26,736
Trade receivables, less allowance for doubtful accounts 1985 $1,700; 1984 $1,900; and 1983 $1,800	22,337	20,489	17,453
Receivables from associated companies	937	981	2,641
Inventories, film rights and other	10,312	9,320	7,393
Total current assets	$44,673	$64,758	$54,223

REYNOLDS METALS COMPANY (DEC)

	1985	1984
	(In millions)	
Current assets		
Cash and short-term investments	26.6	$ 23.3
Receivables		
Customers, less allowances of $16.9 (1984—$17.0)	389.9	420.7
Unconsolidated subsidiaries and associated companies	28.6	7.0
Other	48.6	63.8
Total receivables	467.1	491.5
Inventories	775.2	795.4
Prepaid expenses	6.9	10.7
Total current assets	1,275.8	1,320.9

Installment Receivables

HARRIS CORPORATION (JUN)

	1985	1984
	(In thousands)	
Current Assets		
Cash (including time deposits of $13,743,000 in 1985 and $21,823,000 in 1984)	$ 45,059	$ 54,028
Short-term securities at lower of cost or market	11,246	90,083
Trade accounts and notes receivable:		
Accounts receivable	405,930	342,366
Installment notes (including $18,372,000 in 1985 and $17,554,000 in 1984 due after one year)	33,103	36,599
	439,033	378,965
Less deferred interest income ($5,861,000 in 1985 and $6,881,000 in 1984) and allowances for collection losses	24,692	21,216
Total Trade Accounts and Notes Receivable	414,341	357,749
Unbilled costs and accrued earnings on fixed price contracts based on percentage-of-completion accounting (less progress payments of $511,218,000 in 1985 and $436,899,000 in 1984)	229,647	193,283
Inventories:		
Work in process and finished products	228,799	222,272
Raw materials and supplies	135,848	131,325
	364,647	353,697
Total Current Assets	1,064,940	1,048,840

PANTRY PRIDE, INC. (JUL)

	1985	1984
	(dollars in thousands)	
Current assets:		
Cash and cash equivalents	$ 11,856	$ 24,607
Accounts receivable	99,918	63,116
Less: Allowance for doubtful accounts	(12,436)	(5,046)
Deferred interest	(8,475)	(6,375)
	79,007	51,695
Inventories	113,947	44,845
Prepaid and other	3,192	3,843
Total current assets	208,002	124,990

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands except per share data)

1 (In Part): Summary of Significant Accounting Policies

Accounts Receivable

Installment accounts receivable are generally due within six to eighteen months. In accordance with trade practice, installments maturing beyond one year, approximating $12,700 at August 3, 1985 have been included in current assets. Interest on installment accounts receivable is recognized over the terms of the receivables based on an interest method.

Sale of Assets

PEPSICO, INC. (DEC)

	1985	1984
	(in thousands)	
Current Assets		
Cash	$ 25,738	$ 27,501
Short-term investments at cost which approximates market	886,527	784,684
Receivable from sale of North American Van Lines	375,540	—
Notes and accounts receivable, less allowance: 1985—$30,382; 1984—$30,663	648,659	587,373
Inventories	380,096	340,689
Prepaid expenses, taxes and other current assets	477,984	232,998
Net assets held for disposal	—	289,593
	2,794,544	2,262,838

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Discontinued Operations (In Part):

In 1984 PepsiCo adopted a plan to sell its transportation segment, which was comprised of North American Van Lines, Inc. (NAVL) and Lee Way Motor Freight, Inc. (Lee Way).

The sale of NAVL was completed in 1985 for a $369 million interest-bearing deferred payment due January 2, 1986. On that date, $376 million, including accrued interest, was received. The sale resulted in a gain of $194 million before-tax and $139 million after-tax ($1.49 per share), and is reflected in the Consolidated Statement of Income under the caption "Gain (loss) from disposals."

PHELPS DODGE CORPORATION (DEC)

	1985	1984
	(In thousands of dollars)	
Current assets:		
Cash and short-term investments, at cost	$ 28,956	32,394
Receivables, less allowance for doubtful accounts (1985—$5,583; 1984—$4,576)	103,797	127,114
1984 restructuring receivable	102,500	—
Inventories	71,642	59,151
Supplies	61,626	62,263
Prepaid expenses	3,111	8,526
Current assets	371,632	289,448

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Asset Restructuring

The Corporation recorded a non-recurring pre-tax charge of $195 million in its 1984 results, reflecting its 1984 program to restructure certain of its operations. Included in the charge was a writedown of $85 million resulting from the Corporation's decision to dispose of its energy operations (Note 5), including its subsidiary, Western Nuclear, Inc. The charge also reflected the estimated net realizable value of certain other assets (described below) that were scheduled for sale, writeoffs of smelter equipment and other facilities that had been rendered obsolete by environmental requirements or other economic considerations, the estimated costs incident to the shutdown of certain operations and estimated pension, retirement and other employee benefit costs resulting from this restructuring.

The 1985 and 1984 Consolidated Balance Sheets reflect the estimated net realizable value of assets scheduled for sale under the 1984 restructuring program, including energy operations (Note 5) and the assets described below.

In 1985, the Corporation received $35.2 million from its 1984 restructuring program. The Corporation has also recorded a current receivable of $102.5 million for assets to be sold in 1986 under the program, including the sale of a 15% interest in the Corporation's Morenci properties and facilities, described below, and other assets for which agreements for sale had been entered into prior to December 31, 1985.

In February 1986, Sumitomo Metal Mining Arizona, Inc. purchased a 15% undivided interest in the Corporation's copper mining properties in Morenci, Arizona, for a price of $75 million. The Morenci smelter was not included in the sale.

The Corporation intends to sell an additional 15% undivided interest in the Morenci properties.

Other assets intended to be sold under the 1984 restructuring program include the Corporation's interest in Black Mountain Mineral Development Company (Pty.) Limited ("Black Mountain") and the Corporation's investments in its Far Eastern manufacturing affiliates located in Thailand, the Philippines and India.

Pension Fund Asset Reversion

CRANE CO. (DEC)

	1985	1984
Current Assets:		
Cash	$ 15,844,597	$ 13,811,269
Short-term investments, at lower of cost or market	33,291,575	45,399,048
Accounts receivable, less allowance of $2,966,589 ($1,862,393 in 1984)	134,165,229	81,627,983
Pension fund asset reversion (see page 18)	17,500,000	—
Inventories, at lower of cost, principally LIFO, or market; replacement cost would be higher by $49,069,753 ($49,775,642 in 1984):		
Finished goods	87,965,949	74,213,902
Work in process	42,856,247	15,256,773
Raw materials and supplies	31,689,716	9,475,523
	162,511,912	98,946,198
Land and water rights held for disposal	7,111,523	—
Prepaid expenses	5,589,104	2,209,478
Total Current Assets	376,013,940	241,993,976

FINANCIAL REVIEW

Acquisition

In February 1985 the company acquired UniDynamics Corporation, a diversified manufacturer of defense and specialty systems, engineered materials, and merchandising systems, for $192,258,000. The acquisition was accounted for as a purchase on the assumption that an election under Section 338 of the Internal Revenue Code will be made. The 1985 financial statements include the accounts of UniDynamics from February 1, 1985. The cost in excess of net assets acquired is being amortized on a straight-line basis over forty years. Other intangible assets are being amortized over an average life of ten years.

The pension plan covering most of UniDynamics employees had more assets in the fund than was required to fund pension benefits earned to date. In view of the overfunding, guaranteed annuities will be purchased for all benefits earned as of December 31, 1985. All active plan participants were transferred to a new plan having identical benefits as of January 1, 1986. When final government approvals are received, the revision of surplus assets will occur. The amount of the pension fund asset reversion available at the time of acquisition was approximately $17,500,000 and has been set up as an asset under purchase accounting. It is expected that the final amount of the asset reversion will exceed this amount.

UniDynamics was not consolidated with the company for the entire period of 1985. The following pro forma results reflect adjustments for interest, amortization of goodwill and intangibles and depreciation on revalued property, plant and equipment, as if the acquisition had occurred January 1, 1984.

	1985	1984
	(in thousands)	
Net sales	$1,127,645	$1,173,261
Operating profit	72,727	70,735
Income before restructuring and taxes	52,284	41,935
Net income	$ 17,918	$ 32,421
Net income per common share	$1.96	$3.28

Pension Plan Termination

QUANEX CORPORATION (OCT)

	1985	1984
	(In thousands)	
Current assets:		
Cash and cash equivalents	$ 931	$ 9,631
Accounts receivable, less allowance for doubtful accounts of $1,798,000 in 1985 and $1,426,000 in 1984	32,901	36,783
Receivable from pension obligation settlement (Note 3)	11,910	—
Refundable income taxes	244	813
Inventories	41,067	35,229
Deferred income taxes	4,851	5,243
Prepaid expenses	392	426
Total current assets	92,296	88,125

Note 3. Pension Obligation Settlement

In October, 1985, three of the non-contributory defined benefit pension plans sponsored by the Company were terminated and similar plans were reestablished. This action provided for the settlement of accumulated benefit obligations by the purchase of participating annuity contracts for each covered employee. The Company will receive approximately $11,910,000 in cash as a result of the associated excess asset return. A gain was recognized on the pension obligation settlement of $4,991,000 based on the pro-rata portion of pension obligations settled to total terminated plan obligations before settlement.

Grants

GTI CORPORATION (DEC)

	1985	1984
	(thousands of dollars)	
Current Assets:		
Cash and marketable securities	$ 268	$ 696
Receivables, less allowances of $265,000 and $348,000	2,453	3,238
Republic of Ireland grants receivable (Note 1)	84	432
Income taxes receivable	490	—
Inventories:		
Raw materials and supplies	1,073	1,524
Work in progress	938	1,244
Finished goods	510	391
	2,521	3,159
Prepaids	186	151
Deferred income taxes	496	429
Total Current Assets	6,498	8,105

Note 1 (In Part): Summary of Significant Accounting Policies:

Republic of Ireland Grants—Grants funding the purchase of property, plant and equipment are recorded as reductions in the cost of the related purchases. Training grants are recorded as a reduction of the related training expenses as incurred.

RECEIVABLES USED FOR FINANCING

Table 2-6 shows that the 1985 annual reports of 125 survey companies disclosed either the sale of receivables or the pledging of receivables as collateral. The reporting and disclosure requirements of *Statement of Financial Accounting Standards No. 77* apply to receivables sold with recourse after December 31, 1983.

Examples of disclosures made in the reports of the survey companies financing receivables follow. Examples of receivables sold with recourse are also presented in connection with Table 1-11.

TABLE 2-6: RECEIVABLES USED FOR FINANCING

	1985	1984	1983	1982
Receivables sold to finance subsidiary	60	59	57	63
Receivables sold to independent entity	46	38	39	33
Receivables used as collateral	26	29	34	26
Total References	**132**	**126**	**130**	**122**
Reference to receivable financing	125	118	121	112
No reference to receivable financing	475	482	479	488
Total Companies	**600**	**600**	**600**	**600**

Receivables Sold to Finance Subsidiary

THE STANDARD OIL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note H: Standard Oil Finance Company

Under the terms of an agreement, Standard Oil Finance Company (Finance), a wholly-owned unconsolidated subsidiary, utilizes commercial paper borrowings to purchase accounts receivable from the Company at a discount which provides earnings (before fixed charges and income taxes) of at least 1.25 times Finance's fixed charges. Summarized financial information of Finance is as follows:

Millions of Dollars	1985	1984	1983
Purchased accounts receivable outstanding at December 31	$188	$599	$223
Commercial paper borrowings outstanding at December 31	15	429	60
Interest expense on commercial paper borrowings	22	23	20
Income before income taxes	9	11	10
Net income	5	6	5

XEROX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investment in Xerox Financial Services, Inc., at equity (In Part):

During 1985, the Company established a new subsidiary—Xerox Financial Services, Inc. (XFSI), a holding company, and transferred to XFSI its investments in its wholly-owned domestic financial services subsidiaries, Crum and Forster, Inc. (C&F), Xerox Credit Corporation (XCC) and Van Kampen Merritt Inc. (VKM). The Company's direct and indirect investments in its XFSI companies are accounted for by the equity method and consist of the following at December 31, 1985 and 1984:

(In millions)	1985	1984
Crum and Forster, Inc.	$1,551.0	$1,666.7
Xerox Credit Corporation	385.9	337.8
Van Kampen Merritt Inc.	186.2	170.6
Xerox Financial Services, Inc.	(1.8)	—
Total	$2,121.3	$2,175.1

* * * * *

XCC is engaged principally in financing accounts receivable arising out of equipment sales by the Company and is also engaged in the business of financing leases for third parties. Receivables were sold by the Company to XCC during the years ended December 31, 1985, 1984 and 1983 for $699.3 million, $709.6 million and $591.9 million, respectively.

The operating agreement between the Company and XCC specifies that XCC shall retain an allowance for losses on receivables purchased from the Company at an amount which is intended to protect against future losses on the portfolio. The amount of the allowance is determined principally on the basis of past collection experience and the Company will fund any additional allowance required.

In addition, the terms of a support agreement with XCC provide that the Company will make income maintenance payments, to the extent necessary, so that XCC's earnings, before fixed charges, income taxes and extraordinary items, shall not be less than one and one-quarter times XCC's fixed charges. No income maintenance payments have been required. The support agreement also requires that the Company retain 100% ownership of XCC's voting capital stock.

Receivables Sold to Independent Entities

BELL & HOWELL COMPANY (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note E—Accounts Receivable:

In 1985, the company entered into a five-year agreement with a financial institution whereby the company has the right to sell undivided fractional interests in designated receivables up to a maximum of $50 million on an ongoing basis, without recourse. In December, the company sold a $40,099,000 interest in receivables under this agreement.

CONTROL DATA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data)

O. Sale of Receivables

In February 1985 the Company entered into an agreement permitting the sale of up to $100 of undivided participation interests in certain of its domestic, trade receivables on an ongoing basis during the following five years. Control Data acts as collection and record keeping agent for the purchaser and may defer its remittance of the portion of receivable collections related to the participation interests by selling additional interests. At December 31, 1985 the outstanding participation interests, recorded as a reduction of accounts receivable, amounted to $98 and the related costs charged to interest expense during 1985 totalled $9.4.

On October 1, 1985 Control Data received a notice from the purchaser indicating that Control Data was in default under the agreement, specifically referencing a cross-default provision in the agreement and Control Data's default under certain of its revolving credit agreements. The purchaser further indicated that in light of ongoing negotiations between the Company and its lenders, the purchaser would not exercise its right to terminate the aggreement. However, in January 1986, Control Data agreed to reduce its sales of participation interests by returning to the purchaser $20 of the collections made on behalf of the purchaser, by February 15, 1986.

As part of the agreement in principle with its lenders, the Company would reduce the amount of outstanding participation interests by $10 on each of April 17, May 17, and June 17, 1986, or by $30 out of the proceeds of a sale of Ticketron, if that were to occur prior to April 17, 1986. If a sale of Ticketron occurs after April 17, 1986, but before June 17, 1986, the amount of the outstanding participation interests would, at the time of the sale, be immediately reduced by the total amount of the $10 payments not yet remitted. If the proceeds from a sale of Ticketron exceed $200, further reductions would occur on a formula basis. Additional reductions would occur on a pro rata basis with debt covered by the agreement in principle, as additional payments are made by the Company. The Company would also use its best efforts to obtain a new receivables purchase facility to replace the current sale of receivables agreement.

During 1984 and 1985, Control Data also sold receivables to Commercial Credit. Generally the sales agreement provided for limited recourse, including a holdback, and a discount based on the unremitted balance of receivables collected by Control Data as agent for the purchaser. Such sales have been recorded in the consolidated financial statements as a reduction of trade receivables. The proceeds from these sales for 1985 and 1984 totalled $135.9 and $65.6, respectively; and, at the end of each of these years, $35.1 and $35.6 of these trade receivables remained uncollected. The related costs, included in interest expense, amounted to $2.1 and $1.2 for 1985 and 1984, respectively.

ECHLIN INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4—Accounts Receivable:

The components of accounts receivable were as follows:

(Dollars in thousands)	1985	1984
Accounts receivable	$97,260	$107,602
Less-Allowance for doubtful accounts	6,045	3,212
Accounts receivable, net	$91,215	$104,390

In February, 1985, an agreement was reached with a financial institution whereby the Company agreed to sell, for a period of up to five years, undivided fractional interests in designated pools of trade accounts receivable on an ongoing basis, without recourse, in an amount not to exceed $35,000,000. At August 31, 1985, accounts receivable, as reflected above, were net of $35,000,000 representing receivables sold to the financial institution.

INTERNATIONAL PAPER COMPANY (DEC)

	1985	1984
	In millions of dollars	
Current Assets		
Cash and temporary investments, at cost, which approximates market	$ 271	$ 300
Accounts and notes receivable, less allowances of $25 million in 1985 and 1984 (Note 5)	378	454
Inventories	425	428
Deferred income taxes	22	23
Other current assets	9	26
Total Current Assets	1,105	1,231

Note 5. Sales of Receivables

Beginning in the third quarter of 1985, the Company sold with limited recourse, an interest representing approximately $100 million in a designated pool of accounts receivable. The average turnover period is about one month for these receivables. Subsequent collections are reinvested in the pool of receivables to maintain an aggregate outstanding balance of approximately $100 million. This arrangement can be terminated at anytime by any of the parties involved.

THE PITTSTON COMPANY (DEC)

	1985	1984
	(In thousands)	
Current Assets:		
Cash	$ 5,068	15,239
Short-term investments, at lower of cost or market	5,219	29,021
Accounts receivable:		
Trade (Note 3)	146,479	155,126
Other	7,875	15,868
	154,354	170,994
Less estimated amount uncollectible	4,626	4,277
	149,728	166,717
Inventories:		
Coal	45,334	36,055
Other	12,421	11,818
	57,755	47,873
Prepaid expenses	36,049	12,521
Total Current Assets	253,819	271,371

Note 3. Accounts Receivable—Trade

In June 1985, the Company entered into an agreement whereby it has the right to sell certain coal receivables, with limited recourse, to a financial institution from time to time until June 30, 1986. The maximum amount of outstanding receivables that may be owned by the financial institution at any one time is $35,000,000. During 1985, the Company sold total coal receivables of approximately $189,000,000 under the agreement. As of December 31, 1985, $27,880,000 of the total receivables sold remained to be collected.

Receivables Used as Collateral

COLECO INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Long-Term Obligations and Credit Lines:

Credit Lines—The Company reached an agreement in principle to replace its domestic line of credit which expired on December 31, 1985 with a $150,000,000 credit agreement which provides for the periodic sale of the Company's accounts receivable. At December 31, 1985, the Company's Canadian subsidiary had a line of credit which totaled $25,000,000. The line of credit is collateralized by the accounts receivable of the Canadian subsidiary.

TRIANGLE INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G (In Part): Long-Term Debt

The Company has lines of credit for short-term financing with several banks worldwide. Unused lines of credit at December 31, 1985 and 1984 aggregated $75,846,000 (including $55,846,000 available to National Can) and $26,000,000, respectively. As of December 31, 1985, $258,940,000 of notes and accounts receivable were pledged against these lines of credit.

ARMADA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Financing

Debt at December 31, 1985 and 1984 consisted of:

	1985	1984
Long-term debt		
Revolving credit agreement	$10,200,000	$ 9,450,000
Term loan	10,131,000	11,650,000
Industrial Revenue Bonds (7% due 1993)	598,000	660,000
Industrial Revenue Bonds (Variable interest rate based on a New York Bank's prime rate—6.6% at December 31, 1985, due 1999)	3,594,000	3,850,000
Other	665,000	735,000
	25,188,000	26,345,000
Less current maturities	1,919,000	1,916,000
	$23,269,000	$24,429,000

Maturities of long-term debt over the next five years are as follows:

1986	$ 1,919,000
1987	$ 3,193,000
1988	$ 3,202,000
1989	$13,647,000
1990	$ 360,000

The revolving credit loan is collateralized by accounts receivable and inventories. The agreement provides for borrowings of up to $13,000,000 through June 30, 1987, and bears interest at ½ percent above the bank's prime rate. Borrowings under the revolving credit are restricted to certain percentages of accounts receivable and inventories. The Company is required to pay a commitment fee of ⅜ of 1 percent per annum on the unused portion.

TABLE 2-7: DOUBTFUL ACCOUNT CAPTIONS

	1985	1984	1983	1982
Allowance for doubtful accounts	283	279	285	286
Allowance	151	151	145	144
Allowance for losses	30	30	30	31
Allowance for uncollectible accounts	10	11	11	9
Reserve	22	21	21	23
Reserve for doubtful accounts	7	7	8	9
Other caption titles	17	15	14	17
	520	514	514	519
Receivables shown net	11	10	11	10
No reference to doubtful accounts	69	76	75	71
Total Companies	**600**	**600**	**600**	**600**

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Table 2-7 summarizes the captions used by the survey companies to describe an allowance for doubtful accounts. *APB Opinion No. 12* states that such allowances should be deducted from the related receivables and appropriately disclosed.

Approximately 8% of the survey companies, in addition to deducting an allowance for doubtful accounts from receivables, also deducted amounts for unearned discounts or finance charges or sale returns.

INVENTORIES

Chapter 4 of *ARB No. 43* states that the "primary basis of accounting for inventories is cost . . ." and "a departure from the cost basis of pricing the inventory is required when the utility of the goods is no longer as great as its cost . . ." Approximately 90% of the survey companies use lower of cost or market, an acceptable basis for pricing inventories when circumstances require a departure from cost, to price all or a portion of their inventories.

Table 2-8 summarizes the methods used by the survey companies to determine inventory cost and indicates the portion of inventory cost determined by LIFO. During 1985, 10 survey companies adopted or extended the use of LIFO and 5 survey companies discontinued using LIFO for certain or all of their inventory. As indicated in Table 2-8, it is not uncommon for a company to use more than one method in determining the total cost of inventory. Methods of inventory cost determination classified as Other in Table 2-8 include specific identification, accumulated costs for contracts in process, and "current cost."

Table 2-9 shows by industry classification the number of companies using LIFO and the percentage relationship of those companies using LIFO to the total number of companies in a particular industry classification.

Ninety-nine companies disclosed that certain LIFO inventory levels were reduced with the result that net income was increased due to the matching of older historical cost with present sales dollars. Thirty-two companies disclosed the effect on income from using LIFO rather than FIFO or average cost to determine inventory cost.

Examples of disclosure and reporting practices for inventories follow.

TABLE 2-8: INVENTORY COST DETERMINATION

	Number of Companies			
	1985	**1984**	**1983**	**1982**
Methods				
Last-in first-out (lifo)	402	400	408	407
First-in first-out (fifo)	381	377	366	373
Average cost	223	223	235	238
Other	48	54	52	53
Use of LIFO				
All inventories	26	26	31	28
50% or more of inventories	231	215	204	206
Less than 50% of inventories	83	82	93	88
Not determinable	62	77	80	85
Companies Using LIFO	**402**	**400**	**408**	**407**

LIFO

AIR PRODUCTS AND CHEMICALS, INC. (SEP)

	1985	1984
	(in thousands of dollars)	
Current Assets		
Cash and cash items	$ 32,463	$ 27,904
Short-term investments, at cost which approximates market	13,762	31,466
Trade receivables, less allowances for doubtful accounts of $6,969 in 1985 and $6,626 in 1984	381,516	356,365
Inventories (Notes 1 and 4)	128,049	110,046
Contracts in progress less progress billings	59,368	19,004
Prepaid expenses and other	22,972	19,237
Total current assets	638,130	564,022

Note 1 (In Part): Major Accounting Policies

Inventories

To determine the cost of chemical inventories and some gas and equipment inventories in the Unites States, the company uses the last-in, first-out (LIFO) method. This method assumes the most recent cost is closer to the cost of replacing an item that has been sold. During periods of rising prices, LIFO maximizes the cost of goods sold and minimizes the profit reported on the company's income statement.

Industrial gas inventories of foreign subsidiaries have a high turnover, and there is little difference between the original cost of an item and its current replacement cost. To determine these inventory values, the first-in, first-out (FIFO) method generally is used. Cost of an item sold is based on the first item produced or on the current market value, whichever is lower.

Note 4. Inventories

The components of inventories are as follows:

30 September (in thousands)	1985	1984
Inventories at FIFO cost:		
Finished goods	$ 98,221	$ 90,585
Work-in-process	10,593	9,999
Raw materials and supplies	52,337	46,543
	161,151	147,127
Less excess of FIFO cost over LIFO	(33,102)	(37,081)
	$128,049	$110,046

Inventories valued using the LIFO method comprised 60.7% and 61.4% of consolidated inventories before LIFO adjustment at 30 September 1985 and 1984, respectively. Liquidation of prior years' LIFO inventory layers in 1985, 1984 and 1983 did not materially affect cost of sales in any of these years.

TABLE 2-9: INDUSTRY CLASSIFICATION OF COMPANIES USING LIFO

	1985 No.	1985 %*	1984 No.	1984 %*
Foods:				
Meat products	4	57	4	50
Dairy products	2	50	2	50
Canning, etc.	2	50	2	50
Packaged and bulk	10	56	9	53
Baking	1	25	—	—
Sugar, confections, etc.	4	100	5	100
Beverages	5	83	5	100
Tobacco products	4	80	4	80
Textiles	15	68	17	71
Paper products	19	95	16	89
Printing, publishing	11	65	9	56
Chemicals	25	100	25	100
Drugs, cosmetics, etc.	16	59	16	55
Petroleum	27	93	28	93
Rubber products	7	78	7	70
Shoes—manufacturing, merchandising, etc.	5	63	5	63
Building:				
Cement	2	67	1	50
Roofing, wallboard	9	82	9	82
Heating, plumbing	1	33	1	33
Other	12	67	15	79
Steel and iron	14	88	15	94
Metal—nonferrous	13	76	12	75
Metal fabricating	18	100	18	100
Machinery, equipment and supplies	26	68	26	67
Electrical equipment, appliances	11	55	11	58
Electronic equipment	12	39	12	40
Business equipment and supplies	7	35	6	35
Containers	10	91	9	100
Autos and trucks (including parts, accessories)	16	64	14	64
Aircraft and equipment, aerospace	4	40	5	39
Railway equipment, shipbuilding, etc.	3	50	3	50
Controls, instruments, medical equipment, watches and clocks, etc.	11	61	12	63
Merchandising:				
Department stores	7	100	8	100
Mail order stores, variety stores	2	100	2	100
Grocery stores	14	82	15	83
Other	4	67	3	60
Motion pictures, broadcasting	—	—	—	—
Widely diversified, or not otherwise classified	49	56	49	54
Total Companies	**402**	**67**	**400**	**67**

*Percent of total number of companies for each industrial classification included in the survey.

AMERICAN BILTRITE INC. (DEC)

	1985	1984
	(In thousands of dollars)	
Current Assets		
Cash and cash equivalents	$ 8,176	$ 7,573
Accounts receivable, less allowances of $974 in 1985 and $926 in 1984 for doubtful accounts and discounts	12,236	11,031
Inventories—Note B:		
Finished goods	7,488	7,265
Work in process	1,839	1,918
Raw materials and supplies	3,919	3,102
	13,246	12,285
Prepaid expenses and other current assets	260	122
Total Current Assets	33,918	31,011

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Inventories: Inventories are stated at the lower of cost or market. In 1985 and 1984, all domestic inventories are valued using the last-in, first-out (LIFO) cost method (see Note B). In prior years, a portion of domestic inventories was valued using the first-in, first-out (FIFO) cost method. The 1984 change in inventory valuation had no significant effect on the consolidated financial statements. Inventories of the Canadian subsidiary are valued using the FIFO cost method.

Note B: Inventories

At December 31, 1985, domestic inventories determined by the LIFO inventory method amounted to $8,480,000 (8,225,000 at December 31, 1984). If the FIFO inventory method, which approximates replacement cost, had been used for these inventories, they would have been $2,507,000 and $2,456,000 greater at December 31, 1985 and 1984, respectively.

CABOT CORPORATION (SEP)

	1985	1984
	($000)	
Current assets:		
Inventories (Note E)	$171,598	$316,967

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Inventories

Inventories are stated at the lower of cost or market. The cost of most domestic inventories is determined using the last-in, first-out method. The cost of other domestic and all foreign inventories is determined using the average cost method, the first-in, first-out method or standard cost, which approximates the average cost method.

E. Inventories

Inventories were as follows:

September 30	1985	1984
Dollars in thousands		
Raw materials	$ 56,157	$ 98,676
Work in process	19,422	90,099
Finished goods	78,653	112,229
Other	17,366	15,963
Total	$171,598	$316,967

Inventories valued under the LIFO method comprised approximately 45 percent of 1985 and 1984 totals. The estimated current cost of these inventories exceeds their stated valuation determined on the LIFO basis by $46,000,000 and $99,000,000 at September 30, 1985 and 1984, respectively.

During 1985, certain LIFO inventories of continuing operations acquired in prior years were reduced. The effect of the reduction was to recognize cost of sales of approximately $16,000,000 higher than current replacement cost resulting in a decrease in net income of approximately $8,600,000 ($.27 per share) in 1985.

CLAROSTAT MFG. CO., INC. (DEC)

	1985	1984
Current assets:		
Cash	$ 1,814,343	$ 576,284
Time deposits	2,275,000	1,578,000
Marketable securities at lower of cost or market	691,174	641,774
Trade receivables, less allowance for doubtful accounts of $83,000	3,210,343	3,592,139
Inventories	3,664,870	4,480,558
Prepaid expenses and other current assets	530,754	612,081
Total current assets	12,186,484	11,480,836

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Accounting Policies:

(d) Inventories are stated at the lower of cost determined by the last-in, first-out (LIFO) method, or market.

Note 2—Inventories:

The major components of inventories were as follows:

	December 28, 1985	December 29, 1984
Finished goods	$1,301,935	$1,789,457
Work in process	1,906,738	1,991,460
Raw materials and purchased parts	2,051,125	2,221,950
	5,259,798	6,002,867
Less allowance to reduce carrying value to LIFO basis	1,594,928	1,522,309
Net inventories	$3,664,870	$4,480,558

GENERAL REFRACTORIES COMPANY (DEC)

	1985	1984
	(dollars in thousands)	
Current		
Cash and cash equivalents	$ 5,475	$ 8,816
Notes and accounts receivable trade, less allowance $3,201,000 (1985) and $2,383,000 (1984)	72,383	55,529
Other receivables	4,910	3,840
Inventories	64,683	54,613
Prepaid and other	6,476	4,753
Total current assets	153,927	127,551

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Inventories

	1985	1984
	(dollars in thousands)	
Finished products	$26,799	$22,013
Work in progress	3,466	2,902
Raw materials	26,046	22,062
Supplies and repair parts	8,372	7,636
	$64,683	$54,613

Inventories are stated at the lower of cost or market. The Company uses the last-in, first-out (LIFO) method of determining costs for approximately 12% of the inventories and the average cost method for substantially all other inventories.

If the average cost method utilizing current costs had been used for inventory valuation instead of the LIFO method, inventories would have been higher by $9,192,000 (1985) and $10,860,000 (1984). During 1985, 1984 and 1983 certain inventory quantities were reduced, resulting in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years. The effect was to increase net income in 1985 by $1,950,000 ($.46 per share), and in 1984 by $400,000 ($.10 per share) and reduced the net loss by $1,100,000 ($.29 per share) in 1983.

COURIER CORPORATION (SEP)

	1985	1984
Current assets:		
Cash and short-term investments	$12,105,000	$ 6,361,000
Accounts receivable trade, less allowance for uncollectible accounts of $227,000 in 1985 and $254,000 in 1984	13,732,000	12,820,000
Inventories (Note B)	7,082,000	7,766,000
Other current assets	512,000	516,000
Net assets of discontinued operations	—	10,106,000
Total current assets	33,431,000	37,569,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B. Inventories

Inventories are valued at the lower of cost or market using the last-in, first-out (LIFO) method for substantially all inventories. Inventories as of September 28, 1985 and September 29, 1984 consisted of the following:

	Fiscal Year 1985	1984
Raw materials	$2,559,000	$4,479,000
Work in process	3,370,000	2,427,000
Finished goods	1,153,000	860,000
Total	$7,082,000	$7,766,000

If the first-in, first-out (FIFO) method of accounting had been used by the Company, reported income from continuing operations would have been higher by $112,000 ($.05 per share) in fiscal 1983 and $302,000 ($.16 per share) in fiscal 1984. Because of the liquidation of certain inventories, the use of the FIFO method would have resulted in $163,000 ($.11 per share) less net income in fiscal 1985. On a FIFO basis, reported year-end inventories would have increased by $7.0 million in 1983, $7.7 million in 1984, and $7.3 million in 1985.

NIKE, INC. (MAY)

	1985	1984
	(in thousands)	
Current Assets:		
Cash	$ 7,017	$ 8,320
Accounts receivable, less allowance for doubtful accounts of $6,323 and $3,589, respectively	214,797	189,412
Inventories (Notes 1 and 2)	186,285	280,630
Deferred income taxes and purchased tax benefits	17,485	16,208
Prepaid expenses	11,739	8,039
Income taxes receivable	—	6,250
Total current assets	437,323	508,859

Note 1 (In Part): Summary of Significant Accounting Policies

Inventory valuation

Inventories are recorded at the lower of cost, last-in first-out (LIFO), or market. The excess of replacement cost over LIFO cost approximated $10,935,000 at May 31, 1985 and $10,906,000 at May 31, 1984.

Note 2—Inventories:

Inventories by major classification are as follows:

	May 31, 1985	1984
	(in thousands)	
Finished goods	$179,644	$272,064
Raw Materials	3,464	3,503
Work-in-process	3,177	5,063
	$186,285	$280,630

During 1985, domestic inventory quantities were reduced resulting in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 1985 purchases, the effect of which decreased cost of goods sold by approximately $1,625,000 and increased net income by approximately $816,000 or $.02 per share.

PRATT & LAMBERT, INC. (DEC)

	1985	1984
	(Thousands of dollars)	
Current Assets:		
Cash	$ 838	$ 557
Receivables (less allowance for losses: 1985—$1,471; 1984—$1,111)	29,134	26,357
Inventories (Notes A and C)	27,205	24,600
Prepaid expenses	3,389	1,984
Total current assets	60,566	53,498

A (In Part): Accounting Policies

Inventories—Inventories are stated substantially at the lower of cost or market. Cost is computed, primarily, on the last-in, first-out (LIFO) method and generally includes material, labor and applicable overhead.

C. Inventories:

The components of inventories are as follows (in thousands):

	December 31, 1985	1984
Manufactured products	$14,414	$13,533
Raw materials	11,370	9,682
Sundries	1,421	1,385
Total	$27,205	$24,600

Inventories at December 31, 1985 and 1984 included $23,207,000 and $21,361,000, respectively, valued at LIFO cost. If inventories were shown at current cost (determined by the first-in, first-out method) rather than at LIFO values, inventories would have been $9,005,000 and $9,027,000 higher than reported at December 31, 1985 and 1984, respectively.

In accordance with Accounting Principles Board's Opinion Number 16, the company revalued the inventories of Southern Coatings, Inc. to fair value at the date that the subsidiary was acquired. As a result, the LIFO inventory included in the consolidated balance sheet is $1,474,000 in excess of the valuation reported for federal income tax purposes.

TEMTEX INDUSTRIES, INC. (AUG)

	1985	1984
Current Assets		
Cash	$ 744,904	$ 1,066,109
Accounts Receivable		
Trade receivables, less allowance for doubtful accounts: 1985—$364,213 and 1984—$449,636	4,643,164	4,879,822
Other	286,945	121,990
Fixed-price contracts in progress	—	869,743
Inventories	6,808,703	5,047,829
Income taxes recoverable	912,385	—
Prepaid expenses	197,981	233,529
Total Current Assets	13,594,082	12,219,022

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Inventories: Raw materials and supplies are stated at the lower of cost or replacement value. Work in process and finished goods are stated at the lower of cost or net realizable value, which is less than replacement value.

Note C—Inventories

Inventories by costing method are summarized below:

	First-in First-out ("FIFO")	Last-in First-out ("LIFO")	Average Cost	Total
August 31, 1985:				
Finished goods	$ 948,027	$ 931,288	$1,010,377	$2,889,692
Work in process	1,066,069	269,710	518,270	1,854,049
Raw materials and supplies	1,081,688	708,423	274,851	2,064,962
Total	$3,095,784	$1,909,421	$1,803,498	$6,808,703
August 31, 1984:				
Finished goods	$1,093,761	$ 226,212	$ 522,244	$1,842,217
Work in process	926,388	95,482	100,500	1,122,370
Raw materials and supplies	1,582,184	184,520	316,538	2,083,242
Total	$3,602,333	$ 506,214	$ 939,282	$5,047,829

Partial liquidations of LIFO inventory layers had the effect of reducing loss or increasing income before income taxes by approximately $66,000 in 1985 and $127,000 in 1984. The portions of the 1985 and 1984 inventory determined by the LIFO method were less than current costs by $247,515 and $301,102, respectively.

OXFORD INDUSTRIES, INC. (MAY)

	1985	1984
	$ in thousands	
Current Assets:		
Cash and cash equivalent	$ 4,314	$ 3,266
Receivables, less allowance for doubtful accounts of $2,301 (1985) and $2,355 (1984)	72,187	71,727
Inventories (Notes A and B)	111,547	113,206
Prepaid expenses	1,862	1,673
Total Current Assets	189,910	189,872

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies:

4) Inventories—Inventories are principally stated at the lower of cost (last-in, first-out method) or market.

B. Inventories:

$ in thousands	May 31, 1985	June 1, 1984
Finished goods	$ 76,952	$ 73,031
Work in process	10,971	15,086
Fabric	18,177	19,088
Trim and supplies	5,447	6,001
	$111,547	$113,206

The excess of replacement cost over the value of inventories based upon the last-in, first-out method was $21,600,000 at May 31, 1985 and $24,200,000 at June 1, 1984.

During the fourth quarter of the year ended May 31, 1985, the Company modified the methodology employed in its LIFO calculations. This modification was made to conform with the methodology that the Company agreed to adopt for tax purposes in its settlement agreement with the Internal Revenue Service (see Note I). The effect of the modification was to decrease cost of goods sold by $5,623,000 and to increase inventories by the same amount.

I (In Part): Income Taxes:

During fiscal year 1985, the Company reached a settlement agreement with the Internal Revenue Service resolving issues raised in the examination of the Company's income tax returns for the 1979 and 1980 fiscal years. The largest proposed adjustment involved the examining agent's contention that the Company's election of the LIFO method of accounting for inventories should be disallowed. Under the settlement agreement, the Company's LIFO election has been permitted to stand, but the Company has modified the methodology employed in its LIFO calculations (see Note B).

FIFO

AVNET, INC. (JUN)

	1985	1984
	(Thousands)	
Current assets:		
Cash	$ 10,250	$ 4,290
Marketable securities, at lower of cost or market	118,047	87,754
Receivables, less allowance for doubtful accounts of $14,891 in 1985 and $14,230 in 1984	224,619	285,366
Inventories (Note 3)	415,191	410,662
Other	13,566	10,076
Total current assets	781,673	798,148

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Inventories—Inventories are stated at cost or market, whichever is lower. Cost is determined on the first-in, first-out basis.

3. Inventories

(Thousands) June 30,	1985	1984
Finished goods	$323,413	$335,700
Work-in-process	5,554	6,786
Purchased parts and raw materials	86,224	68,176
	$415,191	$410,662

THE GILLETTE COMPANY (DEC)

	1985	1984
	(Millions of dollars)	
Current Assets		
Cash	$ 141.4	$ 93.6
Short-term investments, at cost which approximates market value	331.5	213.1
Receivables, less allowances: 1985, $20.8; 1984, $17.3	497.0	425.2
Inventories	469.1	417.9
Prepaid expenses and taxes	92.4	74.1
Total Current Assets	1,531.4	1,223.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Inventory Valuation

Inventories are valued at the lower of cost or market. In general, cost is currently adjusted standard cost, which approximates actual cost on a first-in, first-out basis.

Inventories

	December 31, 1985	December 31, 1984
	(Millions of dollars)	
Raw materials and supplies	$127.6	$129.1
Work in process	62.7	51.8
Finished goods	278.8	237.0
	$469.1	$417.9

GUILFORD MILLS, INC. (JUN)

	1985	1984
Current Assets:		
Cash and short-term investments	$ 2,286,000	$ 7,610,000
Receivables—		
Factors	57,072,000	56,179,000
Customers	24,700,000	26,389,000
	81,772,000	82,568,000
Less—Allowance for doubtful accounts	1,869,000	2,707,000
	79,903,000	79,861,000
Inventories—		
Finished goods	22,393,000	19,737,000
Raw materials and work in process	31,539,000	31,121,000
Manufacturing supplies	4,326,000	3,654,000
	58,258,000	54,512,000
Prepayments	3,303,000	1,970,000
Total current assets	143,750,000	143,953,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies:

Inventories—Inventories are carried at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for yarn and the yarn content of certain inventories ($24,300,000 in 1985, $25,300,000 in 1984 and $22,300,000 in 1983) and the first-in, first-out (FIFO) method for all other inventories, including labor and overhead. Obsolete and excess quantities are reduced to estimated net realizable values. If the FIFO method had been used for all inventories, total inventories would have been $67,000,000 at June 30, 1985, $63,400,000 at July 1, 1984 and $43,900,000 at July 3, 1983.

KAISER ALUMINUM & CHEMICAL CORPORATION (DEC)

	1985	1984
	Millions of dollars	
Current Assets:		
Cash	$ 108.2	$ 36.7
Receivables:		
Trade (less allowance for doubtful receivables: $2.5 in 1985 and $2.7 in 1984)	246.2	293.9
Other	81.2	96.9
Inventories	651.6	706.1
Prepaid expenses	14.8	11.0
Current assets of discontinued operations—net	27.4	234.2
Total current assets	1,129.4	1,378.8

NOTES TO FINANCIAL STATEMENTS

Millions of dollars, except share amounts

1 (In Part): Summary of Significant Accounting Policies

Inventory Valuation: Substantially all inventories are stated at first-in, first-out (FIFO) cost, not in excess of market. Other inventories are stated at the lower of average cost or market. Inventory costs consist of material, labor, and manufacturing overhead including depreciation.

4. Inventories

In 1985 the corporation changed its method of valuing its domestic aluminum raw materials, including primary aluminum, and certain industrial and specialty chemicals to the first-in, first-out (FIFO) method from the last-in, first-out (LIFO) method. The corporation is in the process of completing a refinancing of its bank debt and the financial position of the corporation is of increasing interest to investors and others who extend credit to the corporation. The FIFO method of inventory valuation is a better measure to reflect the current value of such inventories and the financial position of the corporation. In addition, under the current economic environment of low inflation and the corporation's decreasing inventories and production costs, the FIFO method results in a better matching of costs and revenues as compared to the LIFO method.

The FIFO method of accounting has been applied retroactively, and prior-year financial statements have been restated. This change increased inventory value by $190.7 and retained earnings by $104.1 at December 31, 1985, and increased the net loss by $9.1 ($.21 per share) because the effect of a FIFO cost write-down in 1985 exceeded the effect of liquidating a LIFO layer with higher unit costs than the current FIFO costs. The change increased the 1984 net loss by $43.5 ($.99 per share) because a FIFO cost write-down was required by a market price decline in 1984. The 1983 net loss was reduced by $24.7 ($.57 per share) because the FIFO inventory value increase of $82.6 exceeded the $57.9 benefit from the 1983 LIFO liquidation.

Operating supplies inventories were $72.4 and $76.5 at December 31, 1985 and 1984. Finished goods, work in process and raw materials have been combined because they are sold at various stages of processing.

MEDTRONIC, INC. (APR)

(in thousands of dollars)

Current Assets:	1985	1984
Cash and temporary investments	$137,075	$116,478
Accounts receivable, less allowance for doubtful accounts (1985—$2,372; 1984—$2,730)	92,462	96,236
Inventories:		
Finished goods	29,472	29,218
Work in process	26,142	24,959
Raw materials	23,645	22,928
Total inventories	79,259	77,105
Prepaid income taxes	10,362	6,730
Other prepaid expenses	2,699	4,098
Total Current Assets	321,857	300,647

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

Inventories

Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out basis.

Average Cost

BMC INDUSTRIES, INC. (DEC)

	1985	1984
	(in thousands)	
Current Assets		
Cash and cash equivalents	$18,856	$ 2,620
Trade accounts and notes receivable, less allowances of $891 and $882	14,364	13,607
Inventories	26,446	20,895
Other current assets	7,417	2,994
Net current assets of discontinued operations	7,127	61,284
Total Current Assets	74,210	101,400

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share amounts)

1 (In Part): Summary of Significant Accounting Policies

Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally on the average cost method (see Note 4).

4. Inventories

The following is a summary of inventories at December 31:

	1985	1984
Raw materials	$ 9,519	$ 6,183
Work in process	2,835	2,407
Finished goods	14,092	12,305
Total inventories	$26,446	$20,895

In the third quarter of 1985, the Company changed its method for determining cost for domestic aperture mask and certain optical product inventories to the average cost method from the last-in, first-out (LIFO) method. The Company believes the change is to a preferable method in the present circumstances because the change in valuation method will more fairly present significant financial statement amounts and ratios, as well as the stockholders' equity in the business, which, because of the loss from discontinued operations, including the provision for loss on disposal (see Note 3), and the resulting noncompliance with covenants of the revolving credit and subordinated debt agreements (see Note 6), have become a significant concern of the many constituencies who support the Company. Under those circumstances, use of the average cost method of inventory valuation presents inventories at cost values that more closely reflect the inventories' current worth. In addition, the change in method of accounting for the cost of domestic aperture mask and certain optical product inventories conforms the method of accounting for those inventories to the method used for the Company's other inventories and to the method of accounting used for federal income tax purposes.

The change in accounting method has been applied by retroactively restating the financial statements. As a result, retained earnings were increased $516 as of December 31, 1982. The effect of the change in accounting method on the Consolidated Statements of Operations is as follows:

Earnings (Loss):	Twelve Months Ended December 31, 1985	1984	1983
Effect on Continuing Operations	$114	$502	$238
Effect on Discontinued Operations	—	—	(39)
Effect on Net Earnings (Loss)	$114	$502	$199
Per Share			
Effect on Continuing Operations	$.02	$.10	$.05
Effect on Discontinued Operations	—	—	(.01)
Effect on Net Earnings (Loss)	$.02	$.10	$.04

CBI INDUSTRIES, INC. (DEC)

	1985	1984
	Thousands of dollars	
Current assets		
Cash	$ 20,209	$ 21,912
Temporary cash investments, at cost which approximates market	24,756	64,215
Accounts receivable less allowance of $10,900 in 1985 and $5,800 in 1984	206,046	189,579
Contracts in progress with accumulated costs exceeding related progress billings		
Accumulated Costs	135,996	434,365
Progress billings	(105,342)	(388,779)
Inventories	37,702	38,255
Other current assets	14,003	11,245
Total current assets	$333,370	$370,792

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except per share amounts)

Inventories

Contracting Services segment inventories, consisting of raw materials and supplies, are valued at the lower of cost or market. Some items may include labor and overhead costs. The cost of certain Contracting Services inventories used in the U.S. is determined by the last-in, first-out method. For the remaining inventories, cost is determined primarily by the average cost method.

Industrial Gases segment inventories, consisting primarily of finished goods and supplies, principally gases and manufactured products, are valued at the lower of first-in, first-out cost or market.

Inventories by valuation method and component are:

	December 31, 1985	1984
First-in, first-out method	$ 8,961	$11,306
Average cost method	28,056	25,896
Last-in, first-out method	685	1,053
Total inventories	$37,702	$38,255
Raw materials	$ 7,310	$13,268
Supplies	11,802	8,683
Work in process	2,210	1,626
Finished goods	16,380	14,678
Total inventories	$37,702	$38,255

Using the average cost method for inventories reported on a last-in, first-out basis would have increased the reported value by $653 at December 31, 1985 and $1,179 at December 31, 1984.

HARSCO CORPORATION (DEC)

	1985	1984
	(All dollars in thousands)	
Current assets:		
Cash and short-term investments	$ 72,903	$ 69,507
Notes and accounts receivable, less allowance for uncollectible accounts ($7,614 and $5,659)	165,141	193,571
Inventories	203,601	220,140
Other current assets	31,724	21,954
Total current assets	473,369	505,172

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies:

Inventory Valuation:

Inventories are stated at the lower of cost or market, cost being determined using the last-in, first-out (LIFO), first-in, first-out (FIFO) and average cost methods.

3. Inventories:

Inventories are summarized as follows:

(In thousands)	1985	1984
Classification:		
Long-term contract costs	$ 93,073	$143,590
Less progress payments—U.S. Government	(13,902)	(26,107)
	79,171	117,483
Finished goods	38,861	28,283
Work in process	22,287	20,853
Raw materials and purchased parts	59,836	50,604
Stores and supplies	3,446	3,057
	$203,601	$220,140
Valued at lower of cost or market:		
LIFO basis	$109,909	$ 91,591
FIFO basis	9,463	7,301
Average cost basis	84,229	121,248
	$203,601	$220,140

The actual per unit costs incurred for the units delivered and in process under certain contracts exceed the estimated average cost which will be incurred upon completion of these contracts. The aggregate amount of such excess which is included in long-term contract cost was $4,694,000 and $13,187,000 as of December 31, 1985 and 1984, respectively.

Inventories valued on the LIFO basis at December 31, 1985 and 1984 were approximately $42,688,000 and $47,966,000, respectively, less than the amounts of such inventories valued at current costs.

As a result of reducing certain inventory quantities valued on the LIFO basis, profits from liquidation of inventories were recorded which increased net income by $1,147,000, $386,000 and $1,666,000 in 1985, 1984 and 1983, respectively. The fourth quarters of 1985, 1984 and 1983 reflect net income of $2,923,000, $2,359,000 and $5,278,000, respectively, representing final determination of price changes and liquidation of inventories during the year.

PUROLATOR COURIER CORP. (DEC)

	1985	1984
	(Dollars in thousands)	
Current assets:		
Cash and cash equivalents	$ 10,792	$ 6,235
Accounts receivable, less allowance for doubtful accounts of $6,644 in 1985 and $5,820 in 1984	124,727	112,861
Refundable income taxes	17,800	9,400
Inventories (note 4)	38,586	39,554
Prepaid expenses	5,510	9,634
Total current assets	197,415	177,684

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Inventories

Inventories, which are valued at the lower of average cost or market, include appropriate elements of material, labor and manufacturing overhead costs and consist of the following:

	(Dollars in thousands)	
December 31	1985	1984
Finished goods	$23,795	$23,888
Work in process	3,552	2,760
Parts and raw materials	11,239	12,906
	$38,586	$39,554

UNIVERSAL VOLTRONICS CORP. (JUN)

	1985	1984
Current Assets:		
Cash	$ 192,931	$ 26,357
Accounts receivable—trade, less allowance of $50,000 in 1985; $59,000 in 1984	1,562,016	1,424,804
Costs and estimated earnings in excess of billings on uncompleted contracts	129,500	121,235
Inventories:		
Raw materials	1,111,737	1,358,539
Work in process and manufactured parts	1,028,480	1,487,822
Finished goods	87,617	108,886
	2,227,834	2,955,247
Equipment held for resale	78,000	133,000
Other current assets	68,206	111,831
Total Current Assets	4,258,487	4,772,474

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Inventories:

Inventories are valued at the lower of cost (principally using the average cost method) or market.

Production Cost

TALLEY INDUSTRIES, INC. (DEC)

	1985	1984
Current assets:		
Cash	$ 2,527,000	$ 2,474,000
Marketable securities, at cost (approximates market)	1,200,000	12,030,000
Accounts receivable, net of allowance for doubtful accounts of $1,082,000 in 1985 and $687,000 in 1984	62,616,000	64,961,000
Inventories	118,903,000	71,066,000
Deferred income taxes	1,043,000	—
Prepaid expenses	2,633,000	2,094,000
Total current assets	188,922,000	152,625,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant Accounting Policies (In Part)

Inventories:

Commercial inventories are substantially valued on a first-in, first-out basis and are stated at the lower of cost or market. Costs accumulated under government contracts are stated at actual cost, net of progress payments, not in excess of estimated realizable value.

Realty inventory consists of those parcels and developments which are expected to be sold within the operating cycle of the Realty segment. Realty inventory is stated at cost and includes land held for sale and related development and carrying costs, and equity investments in realty joint ventures.

Inventories

Inventories are summarized as follows:

	December 31,	
(balance in thousands)	1985	1984
Raw material and supplies	$ 11,733	$ 6,585
Work-in-process	23,139	14,297
Finished goods	35,136	23,100
Realty	38,271	21,471
Inventories substantially applicable to fixed-price government contracts in process, reduced by progress payments of $9,629,000 and $15,189,000 in 1985 and 1984, respectively	10,624	5,613
	$118,903	$71,066

Realty inventory at December 31, 1985 included the Company's $4,915,000 interest in, and $729,000 advances to, a real estate venture which is jointly owned with a partnership. Members of the partnership include certain stockholders and directors of the Company.

CHRYSLER CORPORATION

	1985	1984
	(In millions of dollars)	
Current Assets:		
Cash and time deposits	$ 147.6	$ 75.2
Marketable securities—at cost which approximates market	2,649.9	1,624.9
Accounts receivable (less allowance for doubtful accounts: 1985—$17.3 million; 1984—$13.8 million)	207.5	332.2
Inventories	1,862.7	1,625.9
Prepaid pension expense	260.0	243.0
Prepaid insurance, taxes and other expenses	185.8	78.7
Total Current Assets	5,313.5	3,979.9

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

Inventories—Automotive inventories are valued at the lower of cost or market. Effective January 1, 1984, Chrysler changed its method of accounting from First-In, First-Out (FIFO) to Last-In, First-Out (LIFO) for substantially all of its domestic automotive inventories. The change to LIFO was made to more accurately match current costs with current revenues. The cost of the remaining automotive inventories is determined substantially on a FIFO basis.

Gulfstream Aerospace Corporation's inventory of raw materials, material components of work-in-process (excluding used aircraft), and substantially all purchased parts are stated at the lower of cost or market, with cost determined using LIFO.

In accordance with industry practice (Program Accounting), Gulfstream Aerospace Corporation's inventoried costs relating to aircraft programs are stated at actual production costs, including factory overhead and tooling costs reduced by costs attributed to units delivered based on the estimated average gross profit margins of all units expected to be produced. Revisions in the gross profits recognized are made on a prospective basis as the need for such changes becomes evident.

Note 3—Inventories

Inventories are summarized by major classifications as follows:

	December 31	
	1985	1984
	(In millions of dollars)	
Automotive:		
Finished products, including service parts	$ 690.4	$ 557.1
Raw materials, work in process and finished production parts	862.8	1,008.5
Supplies	64.4	60.3
Total Automotive	1,617.6	1,625.9
Aerospace:		
Gulfstream III/IV program inventories	301.2	—
Less: Customer progress payments	158.6	—
	142.6	—
Used aircraft and service parts	102.5	—
Total Aerospace	245.1	—
Total	$1,862.7	$1,625.9

Inventories would have been $25.2 million and $29.7 million higher than reported had they been valued on the FIFO basis at December 31, 1985 and 1984, respectively.

In accordance with industry practice, the entire service parts inventory has been included in current assets, although in many instances parts are carried for estimated requirements during the serviceable lives of products sold and are, therefore, not expected to be sold within one year. Adequate provision has been made for obsolescence of service parts.

Automotive raw materials and work in process inventories are combined because segregation is not practical.

The estimated number of aircraft to be produced from the date of acquisition under the combined Gulfstream III/IV program is 308. At December 31, 1985, 13 aircraft had been delivered under the program and the backlog included 3 Gulfstream III and 84 Gulfstream IV orders. The Gulfstream III/IV inventoried costs at December 31, 1985 ($301.2 million) together with the additional estimated costs to complete the 87 orders exceeded the expected aggregate cost of sales of these aircraft by approximately $198.9 million.

Chrysler anticipates that profit margins to be realized on delivery of aircraft against both existing unfilled orders and additional anticipated orders will be sufficient to absorb the inventoried costs.

Market

SEABOARD CORPORATION (MAY)

	1985	1984	1983
Current assets:			
Cash	$ 15,620,106	$ 6,879,955	$ 2,087,656
Short-term investments, at cost which approximates market	23,796,248	23,399,416	39,039,611
Receivables:			
Trade	21,661,077	19,315,498	3,499,192
Due from 50%-owned joint ventures and foreign subsidiaries	11,070,986	14,035,461	13,107,853
Due from parent company	1,853,105	2,151,932	3,249,949
Other	3,525,363	3,722,408	3,557,015
	38,110,531	39,225,299	23,414,009
Less allowance for doubtful receivables	1,687,985	3,091,377	1,616,185
Net receivables	36,422,546	36,133,922	21,797,824
Recoverable Federal and state income taxes	—	5,093,522	—
Margin deposits	176,548	353,786	304,771
Inventories (note 5)	39,504,441	24,081,643	6,620,409
Prepaid expenses and deposits	3,080,854	771,166	420,912
Total current assets	118,600,743	96,713,410	70,271,183

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Inventories

The Company hedges its grain and poultry feed ingredients inventories to the extent practicable whenever adequate hedging facilities exist as a means of minimizing the risk of adverse price fluctuations. Grain inventories are valued at market after adjustment of open purchases and sales contracts to market. The remaining inventories are valued at the lower of cost (first-in, first-out) or market (net realizable value).

(5) Inventories

A summary of inventories at June 1, 1985, June 2, 1984 and May 28, 1983 follows:

	1985	1984	1983
At Market:			
Grain	$ 5,409,168	$ 1,808,774	$3,650,014
Adjustments of open contracts to market	9,533	(86,373)	(93,286)
	5,418,701	1,722,401	3,556,728
At lower of cost (first-in, first-out) or market:			
Poultry:			
Live birds	10,041,911	10,605,403	—
Breeder flocks	4,070,662	4,254,114	—
Dressed poultry	2,324,550	428,350	—
Feed ingredients	13,870,172	4,095,450	—
	30,307,295	19,383,317	—
Bakery products	678,235	879,142	642,173
Containers, supplies and other	3,100,210	2,096,783	2,421,508
	34,085,740	22,359,242	3,063,681
	$39,504,441	$24,081,643	$6,620,409

PREPAID EXPENSES

Table 2-10 summarizes the prepaid expense captions appearing in the current asset section of the survey companies' balance sheets. Rarely is the nature of a prepaid expense caption disclosed. Examples of companies disclosing the nature of a prepaid expense caption follow.

TABLE 2-10: PREPAID ITEMS

	Number of Companies			
	1985	1984	1983	1982
Prepaid expenses	227	226	245	258
Prepaid expenses and other current assets	107	103	91	92
Prepaid expenses and deferred taxes	22	21	23	18
Prepaid expenses and advances	10	9	8	8
Prepaid expenses and other receivables	6	7	8	9
Prepaid expenses and supplies	7	8	8	8
Other captions indicating prepaid expenses	20	30	20	27

BECTON, DICKINSON AND COMPANY (SEP)

	1985	1984
	Thousands of dollars	
Current Assets		
Cash	$ 8,398	$ 9,454
Short-term investments	109,956	138,665
Trade receivables, less allowances of $10,494 in 1985 and $11,927 in 1984	208,242	198,991
Inventories:		
Materials	49,025	43,469
Work in process	47,237	45,045
Finished products	86,480	77,457
	182,742	165,971
Recoverable and deferred income taxes	—	15,163
Prepaid expenses and other—Note F	67,146	37,282
Total Current Assets	576,484	565,526

Note F—Prepaid Expenses and Other

Included, at cost, in Prepaid expenses and other at September 30, 1985 are $49,617,000 of fully hedged investments in gold.

BRIGGS & STRATTON CORPORATION (JUN)

	1985	1984
Current Assets:		
Cash	$ 3,841,000	$ 4,468,000
Certificates of Deposit	21,158,000	56,925,000
Receivables, Net	56,489,000	54,599,000
Inventories—		
Finished Products and Parts	27,107,000	29,176,000
Work in Process	34,978,000	51,873,000
Raw Materials	7,525,000	11,840,000
Total Inventories	69,610,000	92,889,000
Future Income Tax Benefits	14,000	6,724,000
Prepaid Employee Health Care	16,000,000	—
Prepaid Expenses	14,246,000	7,713,000
Total Current Assets	181,358,000	223,318,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies:

Prepaid Employee Health Care: During the 1985 fiscal year, the Company made a payment to its Voluntary Employee Benefit Association (VEBA). The VEBA is a trust created to provide for payment of employee health benefits. A tax-deductible contribution of $20,000,000 was made to this trust, of which $16,000,000 is shown in the caption Prepaid Employee Health Care.

BEMIS COMPANY, INC. (DEC)

	1985	1984
	(in thousands of dollars)	
Current assets:		
Cash, including short-term investments	$ 5,064	$ 6,674
Accounts receivable, less $4,456 and $4,207 for doubtful accounts and allowances	98,831	94,641
Refundable income taxes	674	801
Inventories	83,406	73,791
Prepaid employee benefits	12,000	—
Other prepaid expenses and deferred charges	11,350	7,739
Total current assets	211,325	183,646

RUBBERMAID INCORPORATED (DEC)

	1985	1984
	(Dollars in thousands)	
Current assets:		
Cash	$ 2,897	$ 1,874
Temporary cash investments, at cost which approximates market (note 5)	74,717	48,506
Receivables, less allowance for doubtful accounts of $1,809 in 1985 and $1,390 in 1984	101,160	102,343
Inventories	79,518	72,344
Prepaid expenses (note 8)	15,496	13,312
Total current assets	273,788	238,379

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands Except Per Share)

8 (In Part): Employee Benefit and Retirement Plans

The Company maintains an incentive plan for participating officers and key management employees, a Tax Reform Act Stock Ownership Plan (TRASOP) and a Voluntary Employee Beneficiary Association (VEBA). A VEBA is a trust created to provide for payment of certain employee benefits. Tax deductible contributions deposited in the trust were $11,405, $6,471 and $10,825 in 1985, 1984 and 1983, respectively. VEBA net assets aggregated $15,007 and $11,732, at December 31, 1985 and 1984, respectively, and are included in prepaid expenses in the accompanying Consolidated Balance Sheets.

The Company also maintains Gott Corporation's former Incentive Stock Option Plans under which Gott Corporation has granted options to purchase Common Shares to its key employees, officers and former directors. The options may be exercised in whole or in part over a period of five years from grant date. At December 31, 1985, there were outstanding options to purchase 102,411 Common Shares at prices ranging from $6.83 to $23.65 (aggregate price of $1,608).

SQUARE D COMPANY (DEC)

	1985	1984
	(Dollars in thousands)	
Current Assets:		
Cash and cash equivalents	$ 27,025	$ 35,768
Short-term investments, at cost which approximates market	21,774	33,650
Receivables, less allowances (1985—$10,640; 1984—$8,352)	228,554	202,341
Inventories	184,649	202,077
Insurance and other prepaid expenses	37,795	6,937
Total Current Assets	499,797	480,773

OTHER CURRENT ASSET CAPTIONS

Table 2-11 summarizes the nature of accounts (other than cash, marketable securities, inventories, and prepaid expenses) appearing in the current asset section of the balance sheets of the survey companies. Examples of such other current asset accounts follow.

Deferred Income Tax

DIGITAL EQUIPMENT CORPORATION (JUN)

	1985	1984
	(in thousands)	
Current Assets		
Cash and temporary cash investments	$1,080,180	$ 476,150
Accounts receivable, net of allowance of $40,930 and $38,512	1,538,955	1,527,257
Inventories		
Raw materials	512,670	456,490
Work-in-process	545,765	614,766
Finished goods	697,732	780,912
Total Inventories	1,756,167	1,852,168
Prepaid expenses	64,569	57,030
Net deferred Federal and foreign income tax charges	197,957	169,308
Total Current Assets	4,637,828	4,081,913

TABLE 2-11: OTHER CURRENT ASSET CAPTIONS

	Number of Companies			
	1985	1984	1983	1982
Nature of Asset				
Deferred income taxes	129	126	120	122
Property held for sale	42	50	46	34
Unbilled costs	34	28	27	28
Advances or deposits	8	10	10	14
Other—described	36	32	33	36
Other current assets	160	149	142	131

DOW JONES & COMPANY, INC. (DEC)

	1985	1984
	(dollars in thousands)	
Current Assets:		
Cash and marketable securities, at amortized cost (approximates market)	$ 33,702	$ 69,571
Accounts receivable—trade, net of allowance for doubtful accounts and book returns of $8,360 in 1985 and $7,838 in 1984	106,030	94,851
Inventories	28,810	24,681
Deferred income taxes (Note 1).	9,266	10,138
Other current assets	13,552	14,653
Total current assets	191,360	213,894

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

Deferred income taxes are provided for timing differences resulting from inclusion of income and expenses for financial reporting purposes in years other than when recognized for income tax purposes. Timing differences relate principally to depreciation, deferred compensation and book returns.

THE UPJOHN COMPANY (DEC)

	1985	1984
	Dollar amounts in thousands	
Current assets:		
Cash and cash items	$ 145,815	$ 40,819
Trade accounts receivable, less allowances of $9,103 (1984: $7,160)	377,526	325,244
Other accounts receivable	32,206	30,856
Inventories	379,283	344,477
Deferred income taxes	52,731	52,780
Other	99,720	71,630
Total current assets	1,087,281	865,806

Property Held for Sale

CHAMPION INTERNATIONAL CORPORATION (DEC)

	1985	1984
	(in thousands of dollars)	
Current Assets:		
Cash and temporary cash investments	$ 19,131	$ 118,125
Receivables—net	235,717	595,980
Inventories	398,531	761,093
Prepaid expenses and other	14,581	69,775
Operations held for disposition (Note 3)	372,900	136,401
Total current assets	1,040,860	1,681,374

Note 3 (In Part): Divestiture and Restructuring Programs

The company has entered into an agreement to sell three paperboard mills, its corrugated box manufacturing operations and all but one of its bag manufacturing operations to Stone Container Corporation ("Stone") for cash and Stone common stock. Upon consummation of the sale to Stone, the company expects to receive $372,900,000 in cash, subject to adjustment in certain circumstances, 1,633,453 shares of Stone common stock and six-and-one-half year warrants to purchase 300,000 additional shares of Stone common stock at $32.50 per share. In addition to the $372,900,000 of net assets to be sold to Stone included in Operations Held for Disposition, $17,317,000 are included in Other Assets and Deferred Charges. After providing for other costs associated with the sale to Stone, the company does not anticipate recording a significant profit or loss on that disposition.

Including proceeds from the Stone transaction, cash proceeds from asset sales pursuant to the divestiture and restructuring programs have been $1.1 billion since 1984.

Operating results included in the company's 1985 consolidated statement of income for operations sold during 1985 and to be sold to Stone were as follows:

Net sales	$1,359,548,000
Income from operations	$ 12,114,000

W. R. GRACE & CO. (DEC)

	1985	1984
	$ Millions	
Current Assets		
Cash and cash equivalents, including marketable securities of $11.0 (1984—$13.4)	$ 151.6	$ 159.5
Notes and accounts receivable, less allowance of $26.5 (1984—$26.0)	703.7	664.8
Inventories	607.6	1,050.5
Net investment in discontinued retail operations	510.5	—
Other current assets	50.1	59.0
Total Current Assets	2,023.5	1,933.8

NOTES TO FINANCIAL STATEMENTS

$ Millions (except per share)

Note 1—Discontinued Retail Operations

The Company has decided to sell its retail operations, either in their entirety or on a unit-by-unit basis. This sale is expected to be substantially completed by December 31, 1986. As a result, the Company's equity in its retail operations as of December 31, 1985 has been included in current assets in the Balance Sheet as of December 31, 1985, and the Statement of Income has been presented to reflect the retail operations as a discontinued operation for all years presented.

Retail sales were $2,067.1, $1,792.3 and $1,546.6 in 1985, 1984 and 1983, respectively. Income from the discontinued retail operations of $19.1, $37.7 and $35.4 in 1985, 1984 and 1983, respectively, is net of applicable income taxes of $12.4, $26.1 and $26.2, respectively.

A summary of the net investment in the retail operations at December 31, 1985 follows:

		1985
Notes and accounts receivables, net	$ 61.0	
Inventories	495.9	
Properties and equipment, net	342.0	
Goodwill, net	38.7	
Other assets	38.7	
Total assets		$976.3
Current liabilities	$302.8	
Long-term debt	120.1	
Noncurrent liabilities	42.9	
Total liabilities		465.8
Net investment in discontinued retail operations		$510.5

FOOTE MINERAL COMPANY (DEC)

	1985	1984
	(In Thousands)	
Current assets:		
Cash	$ 754	$ 1,807
Short-term investments	—	500
Accounts receivable (net of allowance for doubtful accounts of $387,000 in 1985 and $100,000 in 1984)	11,729	19,605
Inventories:		
Finished products	17,783	25,573
Work-in process	4,054	3,756
Raw materials	6,944	8,420
Supplies	5,693	7,402
	34,474	45,151
Prepaid expenses	914	725
Assets of Graham plant held for disposition	22,700	—
Total current assets	70,571	67,788

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Graham Plant Closing

The Company ceased production at its Graham, West Virginia, ferroalloys plant as of December 31, 1985. Such action, taken after considerable efforts to improve operations and exhaustive studies on alternatives available to the Company, was caused by the extremely depressed market conditions resulting principally from large volumes of imported ferroalloys in the U.S. market. The Company recorded a charge to income of $11,600,000 representing primarily the reduction of fixed assets to their net realizable value, losses from operations through closing, and the accrual of closing and medical and retirement plan costs. The estimated net realizable values of assets related to the Graham plant are included in the Consolidated Balance Sheet as "Assets of Graham plant held for disposition". Under provisions of certain of the Company's loan agreements, the Company may be constrained from selling some of the Graham assets without first obtaining the consent of the lenders. Estimated liabilities arising from the closing are also separately reflected in the Consolidated Balance Sheet. As a result of the plant closing, the pollution control revenue bonds ($5,510,000) related to the Graham plant have been classified as a current liability under current installments of long-term debt. In Management's opinion, the provisions for cost related to the closing are adequate; however, the ultimate effect of the closing is dependent on a number of future events and factors.

Results of operations in 1985 subsequent to the September announcement of the closing amounted to a loss of $645,000 which is included in the cost of plant closing in the Consolidated Statement of Operations. This statement includes sales and losses from operations of $33,030,000 and $1,162,000, respectively, for the Graham plant for the nine months preceding the closing of the plant.

JOHNSON CONTROLS, INC. (SEP)

	1985	1984
	(in thousands)	
Cash and marketable securities	$ 40,207	$ 86,034
Accounts receivable, less allowance for doubtful accounts of $10,357 and $9,259, respectively	374,496	290,971
Inventories	226,037	158,811
Costs of uncompleted contracts in excess of related billings	36,405	23,457
Net assets held for sale	178,571	—
Other current assets	60,116	40,634
Current assets	915,832	599,907

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Acquisition and Sale of Businesses

On May 12, 1985, the Company acquired Hoover Universal, Inc. ("Hoover") for a total cost, including expenses, of $486.2 million. The Company acquired all of the shares of Hoover common stock for $219.0 million in cash and 6,273,240 newly issued shares of Johnson Controls common stock valued at $263.5 million. On July 31, 1985, the Company acquired Ferro Manufacturing Corporation ("Ferro") for $98.3 million in cash. The acquisitions have been accounted for as purchases.

In November 1985, the Company completed the sale, for $217 million, of certain business units which had been obtained in the acquisitions of Hoover and Ferro. The sale, which was announced in August 1985, was effective as of the close of business on October 31, 1985. No gain or loss was recognized on the sale. The net cash to be realized from the sale is shown in the Consolidated Statement of Financial Position as "Net assets held for sale" and equals the total selling price less $38.4 million of long-term debt assumed by the purchasers.

Unbilled Costs

GENERAL MOTORS CORPORATION (DEC)

	1985	1984
	(Dollars in Millions)	
Current Assets		
Cash	$ 179.1	$ 467.5
United States Government and other marketable securities and time deposits—at cost, which approximates market of $4,933.1 and $8,108.7	4,935.3	8,099.9
Total cash and marketable securities	5,114.4	8,567.4
Accounts and notes receivable (including GMAC and its subsidiaries—$4,038.7 and $3,868.5)—less allowances	7,282.0	7,357.9
Inventories (less allowances)	8,269.7	7,359.7
Contracts in process (less advances and progress payments of $2,525.3 in 1985) (Note 1)	1,453.8	—
Prepaid expenses	2,136.1	428.3
Total Current Assets	24,256.0	23,713.3

Note 1 (In Part): Significant Accounting Policies

Contracts in Process

Contracts in process are stated at costs incurred plus estimated profit less amounts billed to customers and advances and progress payments received. Engineering, tooling, manufacturing and applicable overhead costs, including administrative, research and development and selling expenses are charged to cost of sales when they are incurred. Contracts in process include amounts relating to contracts with long production cycles. Although shown as a current asset, approximately $98.6 million in 1985 is not expected to be collected within one year. Under certain contracts with the United States Government, progress payments are received based on costs incurred on the respective contracts. Title to the inventories related to such contracts (included in contracts in process) vests with the United States Government.

GENERAL SIGNAL CORPORATION (DEC)

	1985	1984
	($ in thousands)	
Current assets:		
Cash, including cash equivalents—1985, $231; 1984, $5,200	$ 30,333	$ 44,065
Short-term investments at cost, which approximates market	47,362	101,827
Accounts receivable, less allowance—1985, $10,355; 1984, $8,695	324,036	313,299
Contracts in progress (note 5)	62,142	58,502
Inventories	426,677	434,447
Prepaid expenses	36,446	6,130
Total current assets	926,996	958,270

Note 5. Contracts in Progress

Contracts in progress represents revenue recognized on a percentage-of-completion basis in excess of related progress billings of $347,612,000 at December 31, 1985, and $338,643,000 at December 31, 1984. Substantially all contracts in progress at year end are billed during the subsequent year. In situations where progress billings exceed revenues recognized, the excess, which is not significant, is included in accounts payable.

RAYTHEON COMPANY (DEC)

	1985	1984
	(In thousands)	
Current assets		
Cash	$ 33,113	$ 40,451
Marketable securities (notes A and B)	250,890	617,453
Accounts receivable, less allowance for doubtful accounts: 1985—$29,499,000; 1984—$20,216,000	622,783	632,055
Contracts in process (notes A and C)	322,287	297,693
Inventories	635,708	633,053
Prepaid expenses	10,830	9,928
Total current assets	1,875,611	2,230,633

Note A (In Part): Accounting Policies

Marketable Securities

Marketable securities, other than equity securities, are valued at cost in the absence of a permanent decline in market value plus accrued interest where appropriate.

Marketable equity securities are valued at the lower of aggregate cost or market value. Dividends are recorded as income when declared.

Contracts in Process

Sales under long-term contracts are recorded under the percentage of completion method, wherein costs and estimated gross margin are recorded as sales as the work is performed. Costs include direct engineering and manufacturing costs, applicable overheads and special tooling and test equipment. Estimated gross margin provides for the recovery of allocable research, development (including bid proposal), marketing and administration costs and for accrued income. Accrued income is based on the percentage of estimated total income that incurred costs to date bear to estimated total costs after giving effect to the most recent estimates of cost and funding at completion. When appropriate, increased funding is assumed based on expected adjustments of contract prices for increased scope and other changes ordered by the customer. Some contracts contain incentive provisions based upon performance in relation to established targets to which applicable recognition has been given in the contract estimates. Since many contracts extend over a long period of time, revisions in cost and funding estimates during the progress of work have the effect of adjusting in the current period earnings applicable to performance in prior periods. When the current contract estimate indicates a loss, provision is made for the total anticipated loss. In accordance with these practices, contracts in process are stated at cost plus estimated profit but not in excess of realizable value.

Note C: Contracts in Process

Contracts in process consist of the following at December 31, 1985:

	Cost Type	Fixed Price Type	Total
		(In thousands)	
U.S. Government end use contracts			
Billed	$ 57,101	$ 64,434	$ 121,535
Unbilled	30,967	1,984,944	2,015,911
Less progress payments	—	1,877,684	1,877,684
Total	88,068	171,694	259,762
Other customers			
Billed	31,117	13,413	44,530
Unbilled	12,635	265,894	278,529
Less progress payments	—	260,534	260,534
Total	43,752	18,773	62,525
	$131,820	$ 190,467	$ 322,287

Contracts in process consist of the following at December 31, 1984:

	Cost Type	Fixed Price Type	Total
		(In thousands)	
U.S. Government end use contracts			
Billed	$ 52,986	$ 62,111	$ 115,097
Unbilled	3,096	1,594,490	1,597,586
Less progress payments	—	1,466,095	1,466,095
Total	56,082	190,506	246,588
Other customers			
Billed	22,745	13,669	36,414
Unbilled	15,718	150,753	166,471
Less progress payments	—	151,780	151,780
Total	38,463	12,642	51,105
	$ 94,545	$ 203,148	$ 297,693

The U.S. Government has a security title to unbilled amounts associated with contracts that provide for progress payments.

Unbilled amounts are recorded on the percentage of completion method and are recoverable from the customer upon shipment of the product, presentation of billings or completion of the contract. It is anticipated that substantially all of these unbilled amounts, net of progress payments, will be collected during 1986.

Billed and unbilled contracts in process include retentions arising from contractual provisions. At December 31, 1985, retentions amount to $13,569,000 and are anticipated to be collected as follows: 1986—$8,017,000; 1987—$2,801,000 and the balance thereafter.

SAB HARMON INDUSTRIES, INC. (DEC)

	1985	1984
	(Thousands of Dollars)	
Current assets:		
Cash and cash equivalents	$ 341	$ 350
Trade receivables, less allowance for doubtful accounts of $119,000 in 1985 and $24,000 in 1984	7,322	7,638
Costs and estimated earnings in excess of billings on uncompleted contracts (note 5)	757	873
Inventories		
Work in process	3,454	3,627
Raw materials and supplies	6,493	7,239
	9,947	10,866
Prepaid expenses and other current assets	137	119
Total current assets	18,504	19,846

Note 5. Contracts in Progress

Contracts in progress consisted of:

	Costs and estimated earnings in excess of billings	Billings in excess of costs and estimated earnings	Total
	(Thousands of dollars)		
December 31, 1985:			
Costs and estimated earnings	$2,878	$7,632	$10,510
Billings	2,121	8,003	10,124
	$ 757	$ (371)	$ 386
December 31, 1984:			
Costs and estimated earnings	$2,218	$2,692	$ 4,910
Billings	1,345	2,771	4,116
	$ 873	$ (79)	$ 794

All receivables on contracts in progress are considered to be collectible within twelve months.

Rental Vehicles

BEATRICE COMPANIES, INC. (FEB)

	1985	1984
	(In millions)	
Current assets:		
Cash	$ 126	$ 67
Short-term investments, at cost which approximates market	222	65
Divestiture proceeds received in March 1985	855	—
Receivables, less allowance for doubtful accounts of $52 (1984—$30)	1,201	906
Inventories	1,418	819
Rental vehicles	846	—
Other current assets	375	101
Total current assets	5,043	1,958

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Rental Vehicles Rental vehicles are generally held for approximately one year and, accordingly, are classified as current assets. Rental vehicles are stated net of amortization to reflect the estimated reduction in market value during the period the vehicles are used. Most rental vehicles are assets of Prime Vehicle Trust. When vehicles are sold, gains or losses are recorded as adjustments to amortization expense.

2 (In Part): Balance Sheet Components

The components of certain balance sheet accounts are:

(In millions)	1985	1984
Inventories		
Raw materials and supplies	$ 423	$303
Work in process	240	116
Finished goods	755	400
Total	$1,418	$819
Rental Vehicles		
Rental vehicles, at cost	$ 967	$ —
Less accumulated amortization	121	—
Net	$ 846	$ —

Salvage Jobs In Process

COMMERCIAL METALS COMPANY (AUG)

	1985	1984
	(in thousands)	
Current Assets:		
Cash and temporary investments	$ 26,499	$ 14,237
Notes and accounts receivable (Less allowance for collection losses of $2,200 and $2,500)	88,676	102,765
Advances for purchase of materials	2,315	1,279
Inventories	78,103	74,444
Salvage jobs in process	1,396	475
Prepaid expenses	1,176	1,221
Total Current Assets	198,165	194,421

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part) Summary of Significant Accounting Policies:

Salvage Jobs in Process

Salvage jobs in process are stated at accumulated costs less credits resulting from the disposal of salvaged materials and less estimated losses if applicable.

Upon completion of a job, disposal credits and the related accumulated costs are taken into income as sales and cost of goods sold, respectively.

Receivable Paid Subsequent To Year End

GOULD INC. (DEC)

	1985	1984
	(In Millions)	
Current Assets:		
Cash and short-term investments	$ 8.6	$ 8.0
Net current assets of discontinued operations	4.8	33.6
Accounts receivable, less allowances (1985—$7.0; 1984—$5.1)	224.1	213.5
Inventories	209.2	223.4
Other current assets—Note F	221.2	135.0
Total Current Assets	667.9	613.5

Note F: Other Current Assets

Other current assets are summarized as follows (in millions):

December 31	1985	1984
Unbilled costs and accrued profits, principally related to long-term United States government contracts	$100.1	$ 70.0
GNB Incorporated note receivable	49.9	—
Deferred income taxes	45.2	34.0
Other	26.0	31.0
	$221.2	$135.0

Unbilled costs and accrued profits are recorded on the percentage of completion method and are recoverable upon shipment of the contracted item, presentation of billings or contract completion. They do not include significant amounts of contract retentions or claims subject to uncertainty as to their realization. Substantially all amounts are expected to be collected within one year.

On January 14, 1986, GNB prepaid its subordinated note obligation. Accordingly, the notes are classified as current at the end of 1985. The proceeds from the note, which were originally payable in six annual installments beginning in 1988, were used for general corporate purposes.

TABLE 2-12: LAND CAPTIONS

	1985	1984	1983	1982
Land	395	402	399	400
Land and improvements	112	107	106	101
Land and buildings	29	28	25	28
Land combined with other identified assets	12	10	14	15
No caption with term *land*	16	14	13	15
	564	561	557	559
Line of business classification	36	39	43	41
Total Companies	**600**	**600**	**600**	**600**

PROPERTY, PLANT, AND EQUIPMENT

Paragraph 5 of *APB Opinion No. 12* states:

Because of the significant effects on financial position and results of operations of the depreciation method or methods used, the following disclosures should be made in the financial statements or in notes thereto:

a. Depreciation expense for the period,

b. Balances of major classes of depreciable assets, by nature or function, at the balance-sheet date,

c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance-sheet date, and

d. A general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets.

Tables 2-12 and 2-13 show the assets classified as Property, Plant, and Equipment by the survey companies. Examples of Property, Plant, and Equipment disclosures follow.

Table 2-14 summarizes the descriptive captions used to describe the accumulated allowance for depreciation.

CLASSIFIED BY NATURE OF PROPERTY

CHROMALLOY AMERICAN CORPORATION

Consolidated Balance Sheet

December 31, 1985 and 1984		
In thousands of dollars	1985	1984
Total current assets	$278,383	$301,046
Property and equipment, net	347,052	358,296

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Property and Equipment

Depreciation and amortization are computed using the straight-line method to amortize the cost of assets over their estimated useful lives.

3. Property and Equipment

Property and equipment, net consists of the following:

In thousands of dollars	1985	1984
Land and improvements	$ 11,577	$ 11,856
Buildings and improvements	90,881	87,608
Machinery and equipment	193,874	187,461
Transportation equipment	350,655	347,937
Construction in progress	11,652	5,851
	658,639	640,713
Less accumulated depreciation	311,587	282,417
	$347,052	$358,296

Depreciation expense, including amortization of assets held under capitalized leases, was $39.9 million, $41.5 million and $42.0 million in 1985, 1984 and 1983, respectively.

TABLE 2-13: DEPRECIABLE ASSET CAPTIONS

	1985	1984	1983	1982
Buildings				
Buildings	270	270	271	274
Buildings and improvements	199	196	192	186
Buildings and land or equipment	64	63	62	62
Buildings combined with other identified assets	8	11	12	12
No caption with term *buildings*	15	18	17	18
	556	558	554	552
Line of business classification	44	42	46	48
Total Companies	**600**	**600**	**600**	**600**
Other Depreciable Asset Captions	**Number of Companies**			
Machinery and/or equipment	443	447	443	440
Machinery and/or equipment combined with other assets	90	84	86	82
Construction in progress	240	242	244	244
Leasehold improvements	105	109	114	120
Leased assets	99	108	111	116
Automobiles, marine equipment, etc.	76	77	77	74
Furniture, fixtures, etc.	47	52	50	52
Assets leased to others	19	15	16	18

TABLE 2-14: ACCUMULATED DEPRECIATION

	1985	1984	1983	1982
Accumulated depreciation	301	301	293	292
Accumulated depreciation and amortization	161	160	162	161
Accumulated depreciation, amortization and depletion	37	40	35	35
Accumulated depreciation and depletion	20	18	18	22
Allowance for depreciation	30	29	30	25
Allowance for depreciation and amortization	25	22	28	31
Other captions	26	30	34	34
Total Companies	**600**	**600**	**600**	**600**

CONCORD FABRICS INC.

Consolidated Balance Sheet

	Sept. 1, 1985	Sept. 2 1984
Total current assets	$34,268,845	$39,771,627
Property, plant and equipment (at cost, less depreciation and amortization of $2,857,461 in 1985 and $2,487,182 in 1984) (Notes A(3) and C)	4,135,144	3,369,969
Due from officer	172,955	175,817
Other assets	182,764	387,993
Excess of cost over net assets acquired	601,225	633,290

Consolidated Statement of Changes in Financial Position

	Year Ended		
	Sept. 1, 1985	Sept. 2, 1984	Aug. 28, 1983
Working capital was provided by:			
Operations:			
Net earnings	$ 76,222	$3,148,762	$1,381,969
Eliminate items not affecting working capital:			
Depreciation and amortization	719,175	747,553	919,696
Noncurrent deferred income taxes	91,000	(55,000)	(68,000)
Other	40,173	24,689	14,239
Total provided by operations	926,570	3,866,004	2,247,904

Note A (In Part): Summary of Significant Accounting Policies

(3) Property and Depreciation—Property, plant and equipment is recorded at cost. Profits and losses on dispositions are reflected in current operations. Fully depreciated assets are written off against accumulated depreciation.

Note C—Property, Plant and Equipment:

Property, plant and equipment is summarized as follows:

	Sept. 1, 1985	Sept. 2, 1984	Estimated Useful Life (In Years)
Land	$ 78,503	$ 78,503	
Building	1,576,184	1,576,184	40
Machinery and equipment	4,342,335	3,880,402	5 to 9
Furniture and fixtures	571,506	255,703	5 to 10
Leasehold improvements	424,077	66,359	Term of lease or life of assets
Total	6,992,605	5,857,151	
Less depreciation and amortization	2,857,461	2,487,182	
Net	$4,135,144	$3,369,969	

DAYCO CORPORATION

Statement of Consolidated Financial Condition

(Amounts in Thousands)

October 31	1985	1984
Total current assets	$272,171	$280,187
Property, plant and equipment		
Land and land improvements	4,866	4,933
Buildings	67,107	59,971
Machinery and equipment	236,799	228,781
Construction in process	10,275	5,750
Allowances for depreciation and amortization (deduction)	(144,018)	(142,664)
	175,029	156,771

Changes in Consolidated Financial Condition

(Amounts in Thousands)

Year Ended October 31	1985	1984	1983
Increase (decrease) in cash and cash equivalents			
From operations:			
Earnings before extraordinary item	$15,100	$16,065	$ 4,045
Non-cash charges (credits):			
Depreciation and amortization	18,948	16,544	16,410
Deferred federal income taxes	1,725	2,748	1,538
Equity in undistributed earnings of unconsolidated affiliates	(235)	(360)	194
Total from operations before extraordinary item	35,538	34,997	22,187

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands)

Note A (In Part): Summary of Accounting Policies

Property, Plant and Equipment: Property, plant and equipment are stated at cost. Depreciation expense is calculated principally on the straight-line method and includes amortization of certain leased assets that have been capitalized as described in Note K. The depreciation methods are designed to amortize the cost of the assets over their estimated useful lives.

GENERAL HOST CORPORATION

Consolidated Balance Sheet

(Dollars in thousands)

January 26, 1986 and January 27, 1985		
Total current assets	$298,576	$311,133
Property, plant and equipment, less accumulated depreciation of $59,327 and $44,764	237,693	174,576
Intangibles, less accumulated amortization of $11,556 and $9,987	42,687	41,115
Other assets	16,820	19,005
	595,776	545,829

Consolidated Statement of Income

(In thousands, except per share amounts)

Fiscal Years Ended January 26, 1986, January 27, 1985 and December 31, 1983

	1985	1984	1983
Costs and expenses:			
Cost of sales	$448,832	$424,293	$342,872
Selling, general and administrative	90,283	98,684	80,827
Depreciation	17,435	15,629	12,433
Interest and debt expense	22,510	24,551	18,064
Minority interest in earnings of The All American Gourmet Company	379		
	579,439	563,157	454,196

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Property, plant and equipment, including significant improvements thereto, is recorded at cost. Expenditures for repairs and maintenance are charged to expense as incurred. The cost of plant and equipment is depreciated using the estimated useful lives and the straight-line method for financial reporting and Accelerated Cost Recovery System depreciation for income taxes. Leasehold improvements are depreciated over the terms of the respective leases or, if shorter, the estimated useful lives (or, when required for tax purposes, the accelerated cost recovery period).

Note 7: Property, Plant and Equipment

(In thousands)	Jan. 26, 1986	Jan. 27, 1985
Land	$ 27,384	$ 17,267
Buildings	102,229	74,361
Machinery and equipment	108,931	80,357
Leasehold improvements	44,838	38,138
Construction in progress	13,638	9,217
	297,020	219,340
Less accumulated depreciation	59,327	44,764
	$237,693	$174,576

Interest cost capitalized as property, plant and equipment amounted to $1,012,000, $508,000 and $349,000 in years 1985, 1984 and 1983, respectively.

The above amounts include property, plant and equipment leased under capital leases as follows (Note 11):

(In thousands)	Jan. 26, 1986	Jan. 27, 1985
Land	$ 200	
Buildings	18,923	$16,197
Machinery and equipment	1,356	1,122
	20,479	17,319
Less accumulated depreciation	4,159	3,178
	$16,320	$14,141

HUMANA INC. (AUG)

	1985	1984
	($000)	
Property and equipment, at cost (Note 1):		
Land	$ 181,160	$ 165,413
Buildings	1,449,565	1,228,701
Equipment	791,669	681,756
Construction in progress (estimated cost to complete and equip after August 31, 1985-$132,000)	91,177	160,079
	2,513,571	2,235,949
Accumulated depreciation	562,300	452,641
	1,951,271	1,783,308

Note 1 (In Part): Accounting Policies

Depreciation

Depreciation expense, computed by the straight-line method, was $138,738,000 in 1985, $115,745,000 in 1984 and $91,475,000 in 1983. The Company uses component depreciation for buildings. Depreciation rates for buildings are equivalent to useful lives ranging generally from 20 to 25 years. Estimated useful lives of equipment vary from 3 to 10 years.

KAISER ALUMINUM & CHEMICAL CORPORATION

Consolidated Balance Sheets

December 31, Millions of dollars	1985	1984
Total current assets	$1,129.4	$1,378.8
Investments and advances—related parties	481.8	499.0
Property, plant, and equipment—net	1,535.7	1,671.2
Noncurrent assets of discontinued operations—net		28.2
Other assets	114.2	82.8
Total	3,261.1	3,660.0

Statements of Changes in Consolidated Financial Position

For the years ended December 31, Millions of dollars	1985	1984	1983
Resources Were Provided by:			
Continuing operations:			
Loss from continuing operations	$(178.2)	$(31.1)	$(18.1)
Expenses (income) not involving funds:			
Depreciation	112.7	112.0	103.5
Deferred income taxes	(91.5)	(108.2)	(18.9)
Equity in undistributed earnings of companies not consolidated	(.4)	(30.3)	31.3
Redeemable preference stock—unissued	8.9		
Loss on asset write-downs	204.9		
Other	(20.7)	1.1	5.0
Provided (used) by continuing operations	35.7	(56.5)	102.8

NOTES TO FINANCIAL STATEMENTS

Millions of dollars, except share amounts

1 (In Part): Summary of Significant Accounting Policies

Depreciation and Amortization: Depreciation is computed principally by the straight-line method at rates based upon the estimated useful lives of the various classes of assets. The principal estimated useful lives by class of assets are as follows:

Land improvements	25 years
Buildings	45 years
Machinery and equipment	10 to 22 years

The cost less salvage of retired property, plant, and equipment is charged to related accumulated depreciation. Amortization of capital leases is included with depreciation expense for property, plant, and equipment.

6 (In Part): Property, Plant, and Equipment and Long-term Leases

December 31	1985	1984
Land and improvements	$ 158.3	$ 145.6
Buildings	362.8	354.6
Machinery and equipment	2,206.1	2,192.2
Construction in progress	62.7	186.0
Total Property—at cost (includes idle facilities: $215.9 in 1985 and $522.1 in 1984)	2,789.9	2,878.4
Accumulated depreciation (includes idle facilities: $126.1 in 1985 and $216.7 in 1984)	1,254.2	1,207.2
Property, plant, and equipment—net	$1,535.7	$1,671.2

Idle facilities at December 31, 1985, include the corporation's Chalmette, Louisiana, aluminum smelter which is temporarily closed because of high energy costs and generally poor market conditions for primary aluminum. In December 1985, the corporation wrote down its Baton Rouge, Louisiana, alumina refinery which had been included in idle facilities at December 31, 1984. In August 1985, production of alumina at Alumina Partners of Jamaica (ALPART) was temporarily suspended due to the continuing adverse economic conditions impacting the aluminum industry. ALPART, a 50% owned partnership, has an alumina plant in Nain, Jamaica. At December 31, 1985, investments and advances include $32.0 for ALPART, which is accounted for by the equity method, and the corporation is obligated to pay $79.0 of ALPART's debt as discussed in Note 13.

Management believes that market conditions will improve and that operating costs of the idle facilities at December 31, 1985, can be reduced sufficiently to permit economic operation of these facilities in the future. The corporation's policy is to continue normal depreciation for temporarily closed facilities.

Property, plant, and equipment included capital leases consisting principally of buildings at December 31, 1985 and 1984, of $17.7 and $19.1 (net of accumulated amortization of $14.1 and $13.0).

TEMPLE-INLAND INC.

Consolidated Balance Sheets

As of December 31	1985	1984
	(in thousands)	
Property and Equipment		
Buildings	$ 151,436	$134,927
Machinery and equipment	913,400	768,972
Less allowances for depreciation and amortization	(490,926)	(448,051)
	573,910	455,848
Construction in progress	61,607	77,791
Construction funds held by trustee	16,059	35,794
	651,576	569,433
Timber and timberlands—less depletion	97,704	94,658
Georgia Kraft Company	294,639	277,953
Land	15,470	15,037
Total Property and Equipment	1,059,389	957,081

Consolidated Statements of Changes in Financial Position

For years ended December 31	1985	1984	1983
		(in thousands)	
Working Capital Sources			
Net income	$ 83,090	$102,677	$ 48,179
Items not affecting capital:			
Depreciation, amortization and depletion	66,445	63,093	63,838
Amortization of intangibles	208	140	515
Deferred taxes and deferred tax credits	30,915	12,284	15,525
Unremitted earnings of affiliated companies	(20,971)	(21,528)	(16,457)
Total from Operations	161,687	156,666	111,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Summary of Significant Accounting Policies

Property and Equipment

Property and equipment are stated at cost less allowances for accumulated depreciation and depletion. Depreciation is generally provided on the straight-line method based on estimated useful lives of the assets.

Certain properties are being depreciated based on operating hours because they depreciate primarily through use rather than merely through elapsed time.

Timberlands, including long-term timber harvesting rights, are stated at cost, less accumulated cost of timber harvested. The portion of the cost of timberlands attributed to standing timber is charged against income as timber is cut, at rates determined annually, based on the relationship of unamortized timber costs to the estimated volume of recoverable timber. The costs of seedlings and reforestation of timberlands are capitalized.

Start-up costs incurred in connection with major new manufacturing facilities are capitalized as part of the cost of the asset and are amortized over a five year period.

MONFORT OF COLORADO, INC.

Consolidated Balance Sheets

(Thousands of dollars)	August 31, 1985	September 1, 1984
Property, Plant and Equipment, at cost		
Land	$ 4,493	$ 3,898
Buildings and improvements	28,670	24,487
Machinery and equipment	79,608	75,002
Feeding pens	6,282	6,282
Automobiles and trucks	19,088	16,591
Construction in progress	590	6,624
Allowance for depreciation (deduction)	(71,581)	(65,778)
	67,150	67,106

Consolidated Statements of Changes in Financial Position

(Thousands of dollars)	Year Ended Aug. 31, 1985	Sept. 1, 1984	Sept. 3, 1983
Source of Funds			
Net Income	$14,510	$15,796	$16,102
Charges (credits) not involving working capital:			
Provisions for depreciation	13,130	11,967	10,312
Deferred income taxes	(290)	(581)	3,232
Other	—	—	(153)
Working capital provided from operations	27,350	27,182	29,493

Note A (In Part): Significant Accounting Policies

Provisions for depreciation of property, plant, and equipment are based on rates intended to amortize the cost of the assets over periods of anticipated use. Provisions for depreciation are computed principally using the straight-line method. The estimated lives for the major portion of the assets are:

Building and improvements	15-40 years
Machinery and equipment	3-20 years
Feeding pens	10-15 years
Automobiles and trucks	3-7 years

FUNCTIONAL CLASSIFICATION

CROWN CENTRAL PETROLEUM CORPORATION

Consolidated Balance Sheets

Thousands of dollars—December 31	1985	1984
Property, Plant and Equipment		
Land	$37,132	$35,201
Oil and gas properties (successful efforts method)	162,171	178,939
Refinery and petrochemical plant	217,525	219,635
Marketing facilities	122,344	106,489
Pipelines and other equipment	9,670	13,701
	548,842	553,965
Less allowances for depreciation, depletion and amortization	250,824	229,994
Total Property, Plant and Equipment.	298,018	324,021

Consolidated Statements of Income

Thousands of dollars except per share data—December 31	1985	1984	1983
Operating Costs and Expenses			
Costs and operating expenses	$1,297,581	$1,450,065	$1,530,350
Selling and administrative expenses	119,320	114,261	85,968
Depreciation, depletion and amortization	48,711	46,344	44,259
Sales and abandonments of property, plant and equipment	1,584	6,881	3,791
	1,467,196	1,617,551	1,664,368

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Description of Business and Summary of Accounting Policies

Property, Plant and Equipment: Property, plant and equipment is carried at cost. Depreciation and amortization of plant and equipment are primarily provided using the straight-line method over estimated useful lives.

Routine current maintenance, repairs and replacement costs are charged against income. Turnaround costs (which consist of complete shutdown and inspection of significant units of the refinery at intervals of two or more years for necessary repairs and replacements) are deferred and amortized over the related period. Expenditures which materially increase values, change capacities or extend useful lives are capitalized.

Lease acquisition costs and drilling and development costs of producing oil and gas properties are capitalized and depleted by the unit-of-production method. The Company historically has utilized the successful efforts method of accounting for exploration and development costs. Under that method, exploratory costs, including geophysical and geological expenses, lease rentals and intangible drilling costs related to nonproducing wells are charged to expense.

Upon sale or retirement, the costs and related accumulated depreciation, depletion or amortization are eliminated from the respective accounts and the resulting gain or loss is included in income.

MAPCO INC.

Consolidated Balance Sheet

(Dollars in Thousands) December 31,	1985	1984
Total current assets	$ 576,385	$ 780,241
Property, Plant and Equipment, at cost		
Coal	462,956	434,446
Gas Products	140,182	140,855
Petroleum	350,305	310,976
Transportation	521,833	523,148
Corporate	31,305	25,108
	1,506,581	1,434,533
Less—Accumulated depreciation and depletion	(517,773)	(466,691)
	988,808	967,842

Consolidated Statement of Income

(Dollars in Thousands except per share amounts) Year Ended December 31,	1985	1984	1983
Expenses:			
Outside purchases of raw materials, crude oil, liquefied petroleum gas and other products	$1,202,651	$1,376,304	$1,353,374
Operating	353,385	346,167	354,173
Depreciation, depletion and impairments	65,873	87,281	61,383
Selling, general and administrative	60,968	66,653	57,485
Taxes other than income taxes	44,956	43,200	36,953
Interest and debt expense	41,245	41,241	52,812
Loss on disposal of barging operation	6,685	—	—
Other expense (income)—net	(31,315)	2,669	(7,506)
	1,744,448	1,963,515	1,908,674

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Depreciation and Depletion—Depreciation, depletion and amortization of capitalized leases is computed on the straight-line method at rates based upon estimated useful lives, or if applicable and higher, on the unit-of-production method based upon estimated recoverable reserves. Capital lease amortization has been included with depreciation and depletion expense. Maintenance, repairs and minor replacements are generally expensed at the time the expenditures are made. Costs of replacements constituting improvements are capitalized. Gains or losses arising from retirements are included in income currently.

INVESTMENTS

Although there is a presumption that consolidated financial statements are usually necessary for a fair presentation when one company has a controlling interest in another company, there are instances when consolidation of a subsidiary is not appropriate. *APB Opinion No. 18* stipulates that the equity method should be used to account for investments in subsidiaries, corporate joint ventures, and minority owned companies when an investor has "the ability to exercise significant influence over operating and financial policies of an investee even though the investor holds 50% or less of the voting stock." *Opinion No. 18* considers an investor to have the ability to exercise significant influence when it owns 20% or more of the voting stock of an investee. *Opinion No. 18* also sets forth procedures to be followed and disclosures to be made by an investor in applying the equity method. *FASB Interpretation No. 35* was issued to clarify the criteria for applying the equity method of accounting to minority owned companies.

In addition to investments accounted for by the equity method many of the survey companies used the term *Investments* to describe holdings of marketable equity securities, bonds, or property not held for productive purposes. As mentioned in the Section on "Marketable Securities in Current Assets," *Statement of Financial Accounting Standards No. 12* stipulates that marketable equity securities, whether presented as a current or noncurrent asset, should be carried at lower of aggregate cost or market value.

Examples of investment presentations and disclosures follow.

TABLE 2-15: INVESTMENTS—VALUATION BASES

	Number of Companies			
	1985	1984	1983	1982
Equity	336	330	345	340
Cost	125	127	127	123
Cost less allowance for losses	11	11	12	12
Lower of cost or market	27	33	23	30

Equity Method

CHESEBROUGH-POND'S INC.

Consolidated Balance Sheet

(in thousands)	December 31, 1985	1984	1983
Net property, plant and equipment	$1,024,226	$329,322	$241,844
Investments and Other Assets	184,169	53,092	40,558
Goodwill and Trademarks	455,946	58,451	38,897

Consolidated Statement of Income

(dollars in thousands except per share data)	Year Ended December 31, 1985	1984	1983
Income from consolidated operations before provision for income taxes	$77,445	$146,485	$161,140
Provision for income taxes	12,776	57,083	66,212
Minority interest	(4,319)	47	—
Equity in earnings of associated companies	7,610	2,898	3,884
Income from Continuing Operations	67,960	92,347	98,812

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries with the exception of two wholly-owned insurance subsidiaries, which are accounted for on the equity method due to dissimilar business activities. Investments in associated companies are stated at cost plus equity in undistributed earnings. Intercompany accounts and transactions have been eliminated in consolidation.

11. Associated Companies and Unconsolidated Subsidiaries

Operations of associated companies and two wholly-owned insurance subsidiaries, which are accounted for under the equity method, are summarized as follows:

(in thousands)	1985	1984	1983
Net sales	$203,552	$52,961	$44,264
Net income	$19,197	$5,958	$3,197
Assets	$203,348	$47,538	$33,789
Liabilities	$86,824	$30,653	$22,837
Total equity	$116,524	$16,885	$10,952
Chesebrough share:			
Net income	$7,610	$2,898	$3,884
Dividends	$7,703	$2,284	$259
Undistributed income	$13,738	$7,818	$5,639
Equity, including advances	$64,391	$15,084	$11,491

The company had outstanding indebtedness of $25,500,000 to certain of its associated companies at December 31, 1985. The company's investment in associated companies and unconsolidated subsidiaries at December 31, 1985 consisted of:

Consumer Products Group: Merritt Insurance Company Limited (100% owned), Benedict Insurance Co. Ltd. (100% owned), Pond's (India) Limited (40% owned), Pond's Taiwan Ltd. (30% owned), Nippon Polypenco Limited (45% owned), Polydrop S.A. (50% owned), Polypenco (Proprietary) Limited (50% owned), and Chesebrough-Nutricia Inc. (50% owned).

Chemical Products Group: Stauffer-Wacker Silicones Corporation (50% owned), Texas Alkyls, Inc. (50% owned), Texas Alkyls Belgium, S.A. (50% owned), Kali-Chemie Stauffer G.m.b.H. (50% owned), Toyo-Stauffer Chemical Co., Ltd. (50% owned), Pacific Chemicals Industries Pty., Ltd. (49% owned) and Cornwall Chemicals, Limited (50% owned).

CONAGRA, INC.

Consolidated Balance Sheets

Dollars in thousands

	May 26, 1985	May 27, 1984
Total current assets	$1,062,875	$840,921
Other assets		
Investments in unconsolidated subsidiaries (Note 4)	55,275	84,885
Sundry investments, deposits and noncurrent receivables	18,888	21,727
Total other assets	74,163	106,612

Consolidated Statements of Earnings

In thousands except per share amounts

	Fiscal years ended		
	May 26, 1985	May 27, 1984	May 29, 1983
Revenues			
Net sales	$5,498,157	$3,301,524	$2,308,919
Equity in earnings of unconsolidated subsidiaries (Note 4)	1,878	18,116	4,918
	5,500,035	3,319,640	2,313,837

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Columnar dollar amounts in thousands except per share amounts.

1 (In Part): Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of ConAgra, Inc. and all majority-owned subsidiaries, except those excluded because of the different nature of their operations. All significant intercompany investments, accounts, and transactions have been eliminated.

The accounts of a wholly owned subsidiary, United Agri Products, Inc., have been consolidated on the basis of a year ended February 28. Such fiscal period corresponds with that company's business year.

The investment in and the operating results of Geldermann, Inc., a commodity brokerage business, United Agri Products Financial Services, Inc., a finance company, certain foreign companies which are not material to the Company, and 50% or less owned companies are included in the financial statements on the basis of the equity method of accounting.

4. Investments in and Advances to Unconsolidated Subsidiaries

At May 27, 1984, the Company had 50% equity interests in Country Poultry, Inc., a domestic processor of poultry products, and Bioter-Biona, S.A., a food company in Spain, and a 49% equity interest (purchased during 1984) in Glendon Corporation, an international trading company. During 1985 the Company exercised its options to acquire the remaining equity interests in both Country Poultry, Inc. and Glendon Corporation. The accounts of these companies since acquisition of the remaining interests are included in the consolidated financial statements. ConAgra's equity in 1985 earnings prior to acquisition was $951,000.

At May 26, 1985, the Company had 50% equity interests in AgriBasics Fertilizer Company, a fertilizer merchandiser and marketer, U.S. Tire, Inc., a tire distributor, and Bioter-Biona, S.A. The Company also has equity interests in Saprogal (100%) and Sapropor (73%), food companies operating in Spain and Portugal, respectively.

Summary financial information of these companies is set forth below:

	1985	1984
Current assets	$ 78,960	$ 236,640
Noncurrent assets	37,767	63,914
Total assets	116,727	300,554
Current liabilities	67,078	158,416
Noncurrent liabilities	22,510	30,904
Total liabilities	89,588	189,320
Net assets	$ 27,139	$ 111,234
ConAgra's investment	$ 24,565	$ 55,460

	1985	1984	1983
Net sales	$247,255	$1,229,900	$925,547
Net income (loss)	$ (2,759)	$ 36,928	$ 9,836
ConAgra's equity in earnings (loss)	$ (349)	$ 18,116	$ 4,918

The Company charged these companies management fees of $4,800,000 and $4,000,000, administrative fees of $3,576,000 and $2,075,000, and rent of $2,355,000 and $1,004,000, in 1984 and 1983, respectively. Such charges in 1985 were not significant. The Company also, in the ordinary course of business, sold feed to the Country Poultry, Inc. operations. Such sales amounted to $60,288,000 in 1984 and $19,338,000 in 1983 and were transacted at terms comparable to those obtainable from other parties.

The Company formed two wholly owned subsidiaries during 1984 and accounts for the investments in these subsidiaries (Geldermann, Inc. and United Agri Products Financial Services, Inc.) on the equity basis because of the different nature of their operations. Summary financial information of these companies, which in accordance with industry standards do not classify assets and liabilities as current or noncurrent, is set forth below:

	1985	1984
Cash and temporary investments	$ 31,211	$ 26,686
Segregated customer funds	129,558	92,039
Receivables and margin deposits	108,316	88,966
Other assets	4,202	6,126
Total assets	273,287	213,817
Notes payable	30,000	29,860
Payable to customers	205,017	147,711
Other liabilities	7,560	6,821
Total liabilities	242,577	184,392
Net assets—ConAgra's investment	$ 30,710	$ 29,425

The revenues of these two subsidiaries were $57,528,000 during 1985. ConAgra's equity in earnings during 1985 was $1,276,000.

DELUXE CHECK PRINTERS INCORPORATED

Consolidated Balance Sheets

December 31	1985	1984
	(Dollars in thousands)	
Total current assets	$267,077	$231,799
Investments		
Data Card Corporation	32,417	20,468
Other long-term investments	18,573	16,961
Total investments	50,990	37,429

Consolidated Statements Of Income

Years Ended December 31	1985	1984	1983
	(Dollars in thousands except per share)		
Income from operations	$180,191	$152,448	$134,649
Equity in Earnings of Data Card Corporation	4,226	2,925	2,221

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Investment in Data Card Corporation

The Company accounts for its investment in Data Card using the equity method. Data Card reports on a 52–53 week fiscal year ending in March; therefore, the equity in earnings of Data Card is included in income based on unaudited results of operations for the calendar year.

Data Card is a manufacturer of high technology business machines, including equipment to emboss and encode plastic credit and other identification cards; specialized magnetic ink character recognition (MICR) printing equipment; industrial laser machining systems; and electronic weighing systems. Data Card has subsidiaries in Europe and Mexico, plus a network of dealers and agents throughout the world.

The following is an unaudited summary of financial information pertaining to Data Card (Dollars in thousands):

	1985	1984	1983
December 31:			
Assets	$113,528	$75,139	$70,084
Liabilities	37,721	27,258	27,634
Net assets	$ 75,807	$47,881	$42,450
Years Ended December 31:			
Revenues	$136,853	$99,043	$76,295
Net income	$ 10,472	$ 7,534	$ 5,818

Information pertaining to the Company's investment is as follows:

	1985	1984
Interest in outstanding common stock	41.58%	42.41%
Market value of common stock held	$74,988	$43,922
Undistributed earnings included in retained earnings	$13,453	$ 9,870
Dividends received	$ 809	$ 639

DOW JONES & COMPANY, INC.

Consolidated Balance Sheets

December 31, 1985 and 1984 (dollars in thousands)	1985	1984
Total current assets	$191,360	$213,894
Investments in Associated Companies, at equity (Note 4)	434,272	135,233

Consolidated Statements of Income

For the years ended December 31, 1985, 1984 and 1983
(in thousands except per share amounts)

	1985	1984	1983
Operating income	$242,696	$230,187	$210,686
Other Income (Deductions):			
Investment income	8,212	9,794	7,678
Interest expense	(11,593)	(2,532)	(2,325)
Equity in earnings of associated companies (Note 4)	14,404	8,082	5,220
Other, net	4,741	357	(796)
Income before income taxes	258,460	245,888	220,463

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of the company and its subsidiaries. The equity method of accounting is used for 50%-owned companies and for other investments in which the company's common stock ownership and partnership equity exceed 20% (see Note 4). All significant intercompany transactions are eliminated in consolidation.

Note 4. Investments in Associated Companies

Investments comprise ownership interests which are accounted for by the equity method.

In August 1985, the company purchased a 32% interest in Telerate, Inc. a major supplier of computerized financial information, for $284,586,000 (including related costs of $2,250,000).

Also, in 1985, the company invested $10,328,000 in associated companies, principally for a 33% interest in Bear Island Timberlands Co. L.P., a limited partnership which supplies wood to the newsprint industry.

In 1983, the company invested $5,012,000 in associated companies, which included AP-Dow Jones/Telerate Company, a computer software company, a cable television franchise and a community newspaper.

The operating results of the principal associated companies accounted for by the equity method have been included in the accompanying consolidated financial statements on the following basis:

	% of Ownership	Twelve Months Ended
AP-Dow Jones/Telerate Company	25	September 30, 1985 and 1984
Bear Island Paper Company	33	December 31
Bear Island Timberlands Co. L.P.	33	Five months ended December 31, 1985
Continental Cablevision, Inc. (See Note 15).	24	September 30
F.F. Soucy, Inc. & Partners and Company, Limited	40	December 31
Telerate, Inc.	32	Two months ended September 30, 1985

The excess cost of investments over the applicable net assets, less amortization, amounting to approximately $300 million is included in the investment account and is being amortized over forty-year periods.

At December 31, 1985, Telerate, Inc., the only investment for which market quotations are available, had a carrying value of $282,843,000 and an approximate market value of $239,985,000.

Operating expenses of the company include the cost of newsprint supplied by F.F. Soucy, Inc. & Partners and Company, Limited and Bear Island Paper Company of $41,232,000 in 1985, $38,905,000 in 1984 and $33,674,000 in 1983.

Summarized financial information pertaining to the principal equity investment was as follows:

(in thousands)	1985	1984	1983
Combined Income Statements:			
Revenues	$ 552,936	$482,618	$340,372
Operating income	151,613	129,343	78,584
Net income	78,319	60,688	37,522
Combined Balance Sheets:			
Current assets	$ 196,090	$189,916	
Property, plant and equipment, net of accumulated depreciation	807,979	662,382	
Other assets	101,275	67,773	
	1,105,344	920,071	
Less:			
Current liabilities	119,122	97,431	
Long-term debt	557,628	464,844	
Other liabilities	11,600	13,476	
Shareholders' and partners' equity	$ 416,994	$344,320	

THE BFGOODRICH COMPANY

Consolidated Balance Sheet

(Dollars in millions) December 31	1985	1984
Total Current Assets	$998.9	$976.6
Investments and Other Assets		
Foreign affiliates	61.4	59.2
Prepaid pension contributions	38.3	34.5
Assets of discontinued operations	—	77.0
Other	65.0	63.8
Total Investments and Other Assets	164.7	234.5

Consolidated Statement of Income

(Dollars in millions, except per share amounts) Year Ended December 31	1985	1984	1983
Operating income	$124.9	$176.0	$100.5
(Charge) credit related to restructuring of operations	(326.6)	(12.0)	5.6
Interest expense—net	(96.5)	(90.9)	(82.7)
Equity in earnings of foreign affiliates	8.2	10.4	8.0
Other income (loss)—net	(2.0)	(4.9)	(4.5)
Income (loss) from continuing operations before income taxes	(292.0)	78.6	26.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share amounts)

Note A (In Part): Significant Accounting Policies

Principles of Consolidation: The financial statements include the accounts of the parent company and all active subsidiaries. Intercompany accounts, transactions and profits in inventories of consolidated subsidiaries have been eliminated upon consolidation.

Investments in affiliates (20 percent to 50 percent owned) in which Goodrich exercises significant influence over operating and financial policies are accounted for on the equity method.

Note I: Equity in Earnings of Foreign Affiliates

Goodrich has equity interests in foreign affiliates that are accounted for on the equity method. Two of these are Mexican companies: Compania Hulera Euzkadi, S.A. (35 percent interest), a manufacturer and marketer of tires and tubes, floor tile, flat belts, hose and other industrial products; and Policyd, S.A. de C.V. (40 percent interest), a producer and marketer of polyvinyl chloride. The carrying values of these investments at December 31, 1985, 1984 and 1983 are as follows:

	1985	1984	1983
Mexican affiliates	$58.3	$53.9	$45.5
Other foreign affiliates	3.1	5.3	4.7
	$61.4	$59.2	$50.2

"Equity in earnings of foreign affiliates" as shown in the Consolidated Statement of Income comprises the following:

Year Ended December 31	1985	1984	1983
Mexican affiliates	$8.6	$ 9.0	$6.8
Other foreign affiliates	(.4)	1.4	1.2
	$8.2	$10.4	$8.0

Goodrich's equity in earnings of Mexican affiliates was benefited by $1.7 in 1984 and $2.4 in 1983 due to Policyd's and Euzkadi's participation in a foreign exchange risk program sponsored by the government of Mexico.

Cash dividends received from foreign affiliates were $5.7 in 1985, $1.8 in 1984 and $1.2 in 1983.

The following table sets forth certain summarized unaudited financial information of Goodrich's foreign affiliates on a combined basis, and the amounts related to foreign affiliates, which are included in the consolidated financial statements of Goodrich:

	1985	1984	1983
Balance Sheet Data			
Current assets	$ 95.1	$112.2	$ 86.7
Non-current assets	180.1	183.8	186.5
Total assets	275.2	296.0	273.2
Current liabilities	33.6	31.2	39.9
Non-current liabilities	74.8	103.4	95.2
Total liabilities	108.4	134.6	135.1
Net assets of foreign affiliates	$166.8	$161.4	$138.1
Goodrich's equity in net assets of foreign affiliates	$ 61.4	$ 59.2	$ 50.2
Statement of Income Data			
Sales	$300.3	$310.0	$215.8
Gross Income	$ 84.0	$100.3	$ 61.6
Net income:			
Before exchange gains	$ 9.7	$ 17.1	$ 17.1
Exchange gains	10.5	9.7	3.7
Net income of foreign affiliates	$ 20.2	$ 26.8	$ 20.8
Goodrich's equity in net income of foreign affiliates:			
Before exchange gains	$ 3.3	$ 5.9	$ 6.5
Exchange gains	4.9	4.5	1.5
	8.2	10.4	8.0
Provision for deferred federal income taxes	(2.0)	(2.5)	(1.8)
After-tax income related to equity in foreign affiliates included in the Consolidated Statement of Income	$ 6.2	$ 7.9	$ 6.2

MASCO CORPORATION

Consolidated Balance Sheet

December 31, 1985 and 1984

	1985	1984
	($000)	
Total current assets	$ 729,860	$ 574,900
Equity Investments in Affiliates	187,590	122,870
Receivables and Other Investments, Affiliates	436,000	358,850
Other Assets	120,640	94,970
Property and Equipment	343,210	232,670
	$1,817,300	$1,384,260

Consolidated Statement of Income

for the years ended December 31, 1985, 1984 and 1983

	1985	1984	1983
		($000)	
Other income (expense), net:			
Re: Masco Industries, Inc. (MI):			
Interest income	52,280	25,600	—
Gain on MI share redemption	11,100	—	—
Equity earnings (losses)	13,590	7,610	(400)
Other income, net	54,620	2,450	30,940
Interest expense	(62,460)	(46,680)	(41,860)
	69,130	(11,020)	(11,320)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part)

Principles of Consolidation. The consolidated financial statements include the accounts of Masco Corporation and all majority-owned subsidiaries. All significant intercompany transactions have been eliminated. Corporations in which Masco has stock ownership from 20 to 50 percent are accounted for by the equity method.

Equity Investments in Affiliates

Equity investments in affiliates, accounted for by the equity method, consist primarily of the following interests at December 31:

	1985	1984	1983
Masco Industries, Inc.	44%	50%	—
Nimas Corporation	50%	—	—
Emco Limited, a Canadian company	44%	44%	45%
Mechanical Technology, Inc.	49%	49%	37%

In mid-1984, as part of a corporate restructuring, the divisions and subsidiaries included in the Company's former industrial and oil-field and related operations were transferred to a newly formed company, Masco Industries, Inc. The results of operations of Masco Industries have been consolidated with the Company to June 30, 1984, with subsequent periods accounted for by the equity method as the Company has retained less than a majority of Masco Industries stock since the restructuring.

The aggregate market value based upon quoted market prices of the above equity investments (excluding Nimas, a private company) was $236 million at December 31, 1985, as compared to the Company's related recorded carrying value of $100 million. The carrying value of the Nimas investment, established in early 1985, was $59 million at December 31, 1985.

During 1985, Masco Industries redeemed 2 million of its shares held by the Company, reducing equity interest to 44 percent. In addition, the Company purchased from Emco Limited $12.7 million of 8 percent convertible subordinated debentures and an additional 800,000 common shares at a cost of $9.5 million, to maintain its percentage ownership in Emco.

Approximate combined condensed financial data of the above companies, including results of Masco Industries from July 1, 1984, and results of Nimas from February 1, 1985, are summarized in U.S. dollars as follows:

	1985	1984	1983
	(In Thousands)		
Current assets	$ 684,470	$431,000	$122,000
Current liabilities	(244,420)	(163,000)	(52,000)
Working capital	440,050	268,000	70,000
Property and equipment	472,700	245,000	40,000
Other assets	465,520	87,000	12,000
Long-term liabilities	(1,048,280)	(384,000)	(39,000)
Shareholder's equity	$ 329,990	$216,000	$ 83,000
Net sales	$1,559,130	$653,000	$302,000
Net income (loss)	$ 28,800	$ 14,100	$ (2,000)
The Company's equity in net income (loss)	$ 14,480	$ 8,030	$ (390)
Less related income taxes	(890)	(420)	(10)
	$ 13,590	$ 7,610	$ (400)
Cash dividends received by the Company	$ 1,190	$ 1,090	$ 1,050

Equity in undistributed earnings of affiliates of $40.7 million and $23.9 million are included in retained earnings at December 31, 1985 and 1984, respectively.

Equity income in 1985 was adversely impacted by a special fourth quarter after-tax charge of $27 million at Masco Industries, Inc. relative to its oil-field and related operations.

OWENS-CORNING FIBERGLAS CORPORATION

Consolidated Balance Sheet

December 31, 1985 and 1984

	1985	1984
	(In thousands of dollars)	
Total current assets	$1,030,427	$720,220
Other assets:		
Investments in affiliates (Note 7)	48,684	52,487
Other noncurrent assets	108,039	48,524
	156,723	101,011

Consolidated Statement of Income

For the years ended December 31, 1985, 1984, and 1983

	1985	1984	1983
	(In thousands of dollars)		
Income before Equity in Net Income of Affiliates and Extraordinary Gain	$121,203	$109,488	$75,759
Equity in net income of affiliates (Note 7)	10,009	4,398	3,980
Income before Extraordinary Gain	131,212	113,886	79,739

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in Affiliates

Investments in affiliates are accounted for using the equity method, under which the Company's share of earnings of these affiliates is reflected in income as earned and dividends are credited against the investment in affiliates when received.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Investments in Affiliates

Investments in affiliates are accounted for using the equity method and are carried at the Company's equity in the underlying net assets. These affiliates, which generally are engaged in the manufacture of fibrous glass products for the insulation, construction, reinforcements, and textile markets, are:

	Percent Ownership
Amiantit Fiberglass Industries, Ltd. (Saudi Arabia)	30.0%
Asahi Fiber Glass Company, Ltd. (Japan)	28.0%
CAE Fiberglass Ltd. (Canada)	25.0%
Fiberglas Canada Inc.	49.4%
Fiberglas Colombia, S.A.	40.0%
Polyplaster, S.A. (Brazil)	31.7%
Vitro-Fibras, S.A. (Mexico)	40.0%

Summarized combined financial information for the Company's affiliates:

	1985	1984
	(In thousands of dollars)	
At December 31—		
Current assets	$192,000	$187,000
Noncurrent assets	264,000	234,000
Current liabilities	190,000	179,000
Noncurrent liabilities	115,000	95,000
For the year—		
Net sales	497,000	511,000
Gross margin	111,000	99,000
Net income	25,000	13,000

The Company's equity in undistributed net income of affiliates was $41,000,000 at December 31, 1985.

During 1985, the Company acquired the remaining outstanding stock of Scandinavian Glasfiber A.B. (Sweden) and Veroc Technology A/S (Norway).

In 1984, the Company acquired the remaining outstanding stock of Bayer Owens-Corning Glasswool (Belgium).

KAISER CEMENT CORPORATION

Consolidated Balance Sheets

(Amounts in Thousands) December 31,	1985	1984
Total current assets	$65,600	$68,464
Investments in unconsolidated companies	13,258	12,530

Consolidated Statements of Operations

(Amounts in Thousands, Except Per Share Data) Year Ended December 31,	1985	1984	1983
Net sales and operating revenue	$247,870	$249,345	$215,668
Equity in earnings of unconsolidated companies	2,712	2,088	3,077
Gain on sale of assets	15,224		816
Interest and other revenue	3,182	1,775	561
Total revenues	268,988	253,208	220,122

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Kaiser Cement Corporation and its majority-owned subsidiaries (the "Corporation"). Significant intercompany transactions and accounts have been eliminated. Investments in unconsolidated companies are accounted for by the equity method.

D. Investments

Investments in and equity in earnings of unconsolidated companies are summarized as follows:

(Amounts in Thousands)	Carrying Amount of Investment at December 31,		Equity in Earnings (Loss)		
	1985	1984	1985	1984	1983
P.T. Semen Cibinong*	$12,793	$12,296	$2,617	$2,804	$3,420
Others, net	465	234	95	(716)	(343)
	$13,258	$12,530	$2,712	$2,088	$3,077

*Net of cumulative translation adjustments of $21,119 and $20,376 at December 31, 1985 and 1984.

P.T. Semen Cibinong ("Cibinong") operates a cement plant near Jakarta, Indonesia, and is 43 percent owned and managed by subsidiaries of the Corporation. Following is a summary of selected financial data of Cibinong for its fiscal years ended October 31:

(Amounts in Thousands)	1985	1984
Financial Condition:		
Current assets	$28,584	$26,528
Current liabilities	14,422	13,322
Net working capital	14,162	13,206
Noncurrent assets	51,743	53,119
Long-term debt	27,225	29,327
Deferred income taxes	8,818	6,652
Stockholders' equity	$29,862	$30,246

(Amounts in Thousands)	1985	1984	1983
Operations:			
Revenues	$58,729	$60,992	$70,734
Gross profit	18,705	17,980	24,875
Depreciation expense	3,061	2,840	3,451
Interest expense, net	2,641	1,800	3,021
Loss on foreign currency transactions	2,517	2,650	5,549
Net earnings	6,109	6,546	7,982

The Corporation received dividends from Cibinong of $1,377,000, $2,505,000 and $4,786,000 in 1985, 1984 and 1983. Cibinong's loan agreements contain certain financial convenants and restrictions relating to the declaration and payment of cash dividends. Under the most restrictive covenant, approximately $10,700,000 of Cibinong's retained earnings were free from any restrictions on the payment of dividends at October 31, 1985.

Foreign currency transaction losses, incurred primarily due to the weakening of the Indonesian rupiah in relation to the United States dollar, caused equity in earnings of Cibinong to be reduced by $701,000, $718,000 and $1,324,000 in 1985, 1984 and 1983.

The Corporation's interest in Cibinong may be reduced at any time before October 1, 1987, under covenants which grant the principal Indonesian stockholder the option to purchase from the Corporation's subsidiary, at fair value, sufficient shares to increase that stockholder's interest to 51 percent of the total shares outstanding. Based on present holdings, exercise of the option would reduce the interest of the Corporation's subsidiary in Cibinong from 43 percent to approximately 27 percent. If the purchase option is exercised, the Corporation's subsidiary has the right for a period of three years thereafter to require the principal Indonesian stockholder to purchase its entire interest in Cibinong at fair value.

Undistributed earnings of unconsolidated companies of approximately $12,222,000 and $10,921,000 are included in the Corporation's retained earnings at December 31, 1985 and 1984.

The consolidated financial statements included net assets of consolidated foreign subsidiaries of $17,057,000 and $16,618,000 at December 31, 1985 and 1984, of which $12,793,000 and $12,296,000 related to Cibinong. Net earnings included earnings of consolidated foreign subsidiaries of $2,595,000, $1,116,000 and $1,412,000 in 1985, 1984 and 1983, of which $2,617,000, $2,804,000 and $3,420,000 related to Cibinong.

Cost Method

ALPHA INDUSTRIES, INC. (MAR)

	1985	1984
	($000)	
Other assets		
Long-term investments (Note 2)	$1,100	$ —
Other	843	279
	1,943	279

Note 2—Long-term Investments

The Company has an agreement to purchase a total of $2,500,000 in subordinated debentures of Omega Microwave, Inc. As of March 31, 1985, $1,100,000 of debentures have been purchased. These debentures earn interest at 10% and are due in September, 1992. After September 1, 1985, the Company may, at its option, convert the debentures into common stock. Two officers of Alpha Industries are members of Omega's Board of Directors.

CHEVRON CORPORATION (DEC)

	1985	1984
	Millions of Dollars	
Total Current Assets	$11,678	$14,023
Long-Term Receivables	376	527
Investments and Advances	2,262	2,550

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Millions of Dollars)

Note 10 (In Part): Investments and Advances

Investments in and advances to companies accounted for using the equity method, and other investments accounted for at or below cost, were as follows:

	December 31,	
	1985	1984
Equity Method Affiliates		
Caltex Group	$1,157	$1,242
AMAX	247	406
Other Affiliates	665	696
	2,069	2,344
Others, At or Below Cost	193	206
Total	$2,262	$2,550

* * * * *

The company's 36.6% interest in UNC Resources, Inc. (UNC), carried at $82, which approximated its market value, is accounted for on the cost basis because of restrictions imposed on Chevron's ability to influence UNC.

GREIF BROS. CORPORATION (OCT)

	1985	1984
Total current assets	$131,612,508	$135,876,468
Long Term Assets		
Other notes and accounts receivable, etc.—less allowance of $697,000 for doubtful items	2,786,726	3,246,738
Cash surrender value of life insurance	918,929	820,350
Investments in preferred stocks (Notes 1 and 2)	13,563,981	12,870,185
Interest in and loan to partnership (Notes 1 and 2)	4,091,040	4,295,390
	21,360,676	21,232,663

Note 1 (In Part): Summary of Significant Accounting Policies

Investments and Interest in Partnership

The 50% interest in partnership, in which the Company is a limited partner, and the investments in preferred stocks of Virginia Fibre Corporation are accounted for on the cost basis. The Company does not participate in the election of directors or officers or in the management of the limited partnership or Virginia Fibre Corporation.

Note 2—Long Term Assets

Interest in and Loan to Partnership

The partnership holds Class "B" common stock (1,200,000 shares) of the Company and Common Stock (voting control) of Virginia Fibre Corporation. During 1985 the Company purchased from the partnership its holdings of Series A 5% Participating Preferred Stock of Virginia Fibre Corporation.

Also during 1985 the partnership paid to the Company the remaining balance of the prime rate loan which was $204,350 as of October 31, 1984.

Investments in Preferred Stocks

At October 31, 1985 and 1984, the Company had the following investments in Virginia Fibre Corporation:

	1985	
	Shares	Amount (000)
Series A 5% Participating Preferred Stock	123,924	$ 2,694
Series B 5% Participating Convertible Preferred Stock	462,281	9,870
Series D Preferred Stock	50,000	1,000
		$13,564

	1984	
	Shares	Amount (000)
Series A 5% Participating Preferred Stock	100,000	$ 2,000
Series B 5% Participating Convertible Preferred Stock	462,281	9,870
Series D Preferred Stock	50,000	1,000
		$12,870

Virginia Fibre Corporation is an integrated pulp and paper mill in Virginia that produces semi-chemical corrugating medium, which is one of the major components used in the manufacture of corrugated containers. Net income for the fiscal year ended September 30, 1985 was $5,000,000 ($7,940,000 in 1984 and $895,000 in 1983). Because of losses incurred prior to 1979, Virginia Fibre Corporation had not incurred federal income taxes prior to 1985, and at September 30, 1985 has investment tax credits of $823,000 available to reduce future federal income taxes.

Both the Series A and Series B Participating Preferred Stocks of Virginia Fibre Corporation are entitled to participate in the earnings of Virginia Fibre Corporation; no dividends have been declared and there are thirty-nine quarterly dividends currently in arrears. The Series D Preferred Stock is entitled to a 5% cumulative cash dividend beginning January 1, 1987, or later, under certain circumstances.

The Series B Participating Convertible Preferred Stock is convertible into common stock at the option of the holder. If the Company should exercise all of its conversion rights, the Company would then be the record holder of approximately 81% of the voting stock of Virginia Fibre Corporation under its present capitalization.

The Company is committed on October 31, 1985 to purchase, under certain conditions, $2,000,000 of subordinated income debentures that may be issued in the future by Virginia Fibre Corporation. In addition, the Company has agreed to expand the foregoing commitment to approximately $4,000,000 under certain conditions.

ECHLIN INC. (AUG)

(Dollars in thousands)	1985	1984
Total current assets	$342,759	$299,761
Property, plant and equipment, net	137, 869	106,191
Marketable securities	48,847	46,803
Other assets	44,571	19,645

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Accounting Policies

Marketable Securities Marketable securities consist principally of investments in interest bearing securities held by the Company's subsidiary in Puerto Rico. These securities are valued at cost since it is the Company's present intention to hold them until maturity. The aggregate market value of securities held at August 31, 1985 and 1984 were $49,179,000 and $43,078,000, respectively.

GERBER PRODUCTS COMPANY (MAR)

	1985	1984
	($000)	
Total Current Assets	$278,344	$272,949
Other Assets		
Investment in unconsolidated companies	30,695	24,113
Investment in bonds	10,080	
Nontrade notes receivable	11,492	11,257
Miscellaneous receivables, prepayments and other accounts	15,382	15,237
Intangible assets, less amortization (1985—$6,282; 1984—$3,299)	27,477	20,217
	95,126	70,824

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Summary of Significant Accounting Policies

Investments: Short-term investments and investments in bonds are carried at cost which approximates market.

INTERCO INCORPORATED (FEB)

	1985	1984	1983
		(Dollars in thousands)	
Total current assets	$1,026,771	$1,119,542	$1,067,050
Marketable securities	7,535	10,297	11,199

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

1 (In Part): Significant Accounting Policies

Marketable Securities—Marketable equity securities (common and preferred stocks) are stated at the lower of cost or market. Aggregate net unrealized losses are included in results of operations if related to current assets and in shareholders' equity if related to non-current assets. Other marketable securities are stated at cost unless there is an indication of permanent impairment of value, in which case the adjustment to market value is included in results of operations. The cost of marketable securities sold is determined on the specific identification method.

4. Marketable Securities

Marketable securities classified as current are stated at cost which approximates market.

Marketable securities classified as non-current are summarized below:

	1985	1984	1983
Equity securities—market value....	$6,743	$ 3,852	$ 5,091
Equity securities—cost..............	$1,488	$ 1,926	$ 2,973
Other marketable securities—cost.	6,047	8,371	8,226
	$7,535	$10,297	$11,199

Realized gains (losses) on the sale of securities included in the determination of earnings amounted to $(90), $3,207 and $88 for fiscal 1985, 1984 and 1983, respectively.

INTERNATIONAL HARVESTER COMPANY (OCT)

	1985	1984
	($000)	
Total current assets	$1,100,656	$1,411,572
Investments and long-term receivables (Note 12)		
Equity in and advances to nonconsolidated companies.......................	610,553	922,528
Participating preference stock of Tenneco Inc.	185,900	—
Long-term receivables and other investments, at cost	83,012	92,558
Total investments and long-term receivables	879,465	1,015,086

Note 12 (In Part): Investments and Long-term Receivables

In partial consideration for the sale of its agricultural equipment business, the Company received $186 million (1,859,000 shares) of Participating Preference Stock of Tenneco Inc. The Tenneco preference stock is reported at cost and is not transferable. Mandatory redemption of 250,000 shares per year will begin in 1990 at $100 per share plus accrued dividends. The preference stock pays a dividend which, on a per share basis, is the lesser of $10 or 2.5% of the J. I. Case Company's prior year adjusted operating income (as defined) divided by the number of preference shares outstanding.

THE MAYTAG COMPANY (DEC)

	1985	1984
Total Current Assets.................	$198,316,463	$177,008,803
Other Assets		
Marketable securities	16,696,271	15,239,945
Prepaid pension contribution.....	19,100,000	21,000,000
Miscellaneous.....................	4,564,687	4,817,458
Total Other Assets.............	40,360,958	41,057,403

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Marketable Securities: Investments in marketable securities, carried at cost which approximates market, consist of high-grade municipal bonds and notes with various maturities beyond one year. It is management's present intention to maintain a portfolio of marketable securities as a source of capital to meet future business needs.

MEDTRONIC, INC. (APR)

	1985	1984
	($000)	
Total Current Assets.........................	$321,857	$300,647
Net Assets of Discontinued Operations	8,322	17,835
Marketable Securities (at cost; market value 1985—$15,051, 1984—$14,952)..................................	16,103	16,541

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

Marketable Securities

Marketable securities consist primarily of long-term fixed rate bonds and notes with government agencies of the Commonwealth of Puerto Rico. The securities are carried at cost as Medtronic intends to hold the securities to maturity.

Lower of Aggregate Cost or Market Value

MARK IV INDUSTRIES, INC. (FEB)

Total current assets	$9,639,888	$9,283,288
Investment—at cost (market value $7,500,000)......................	6,864,645	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Investment

The Company's investment in LFE Corporation is accounted for on the cost method whereby the investment is valued at the lower of cost or market value. The investment is classified as noncurrent since it is not the Company's present intention to dispose of such investment during the next fiscal year.

2 (In Part): Investment

During the third and fourth quarters of fiscal 1985, the Company purchased 554,793 shares or 29.6% of the outstanding common stock of LFE Corporation ("LFE") in open market transactions on the New York Stock Exchange. During this same period, the Company also purchased 2,300 shares of LFE preferred stock which are convertible into an additional 1,529 shares of LFE common stock. The aggregate cost of the Company's investment in LFE was $6,864,645.

LFE is a Clinton, Massachusetts-based manufacturer of process control, fluid control and traffic control systems. It also provides professional services in the areas of architecture and engineering.

On December 14, 1984, the Company and LFE entered into an Agreement (the "Standstill Agreement") which extends through June 30, 1985 (the "Standstill Period"). Under the terms of the Standstill Agreement, the Company has agreed, among other things, that during the Standstill Period, it and its affiliates, including two of the Company's employee benefit plans which own approximately 1.9% of LFE's outstanding common stock, will not increase their ownership position above their current 31.5% common stock interest plus their current preferred stock interest. The Standstill Agreement also provides that during the Standstill Period, LFE will take no action to dilute the Company's equity position. The Standstill Agreement also provides that representatives of the two companies will meet during the Standstill Period to discuss a possible merger or other business combination.

As a result of the Standstill Agreement and certain other factors, including the Company's inability to obtain information from LFE, management of the Company does not believe it has the ability to exercise significant influence over the various operating and financial policies of LFE to enable the Company to account for its investment on the equity method. Therefore, the Company's investment in LFE is carried at its cost of $6,864,645. The market value at February 28, 1985, based upon the closing price of LFE's common stock on the New York Stock Exchange at that date, was approximately $7,500,000.

In view of the material investment that the Company has made in LFE, the following condensed financial information concerning LFE is presented. Such information is derived from LFE's quarterly report on Form 10-Q for the nine months ended January 25, 1985 (the "quarterly report"), and from its annual report to stockholders for the fiscal year ended April 27, 1984 (the "annual report"), as filed with the Securities and Exchange Commission. In March 1985, LFE announced its decision to discontinue its operations which manufacture equipment for the semiconductor industry. The effects of this decision are reflected in the quarterly report, which included a reclassified, unaudited balance sheet as of the end of LFE's 1984 fiscal year. With the exception of the information derived from such quarterly report, all other information set forth below has been derived from information set forth in the annual report which has not been reclassified.

* * * * *

HECLA MINING COMPANY (DEC)

	1985	1984
	($000)	
Total current assets	$ 34,886	$ 41,527
Investments (Note 8)	16,350	21,885
Properties, plants and equipment, net	115,607	120,955
Other assets	4,089	5,938
Total assets	$170,932	$190,305

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies:

d. Investments—The Company follows the equity method of accounting for nonconsolidated subsidiaries and investments in common stock of operating companies 20% to 50% owned. Investments in nonoperating companies that are not intended for resale or are not readily marketable are valued at the lower of cost or net realizable value. The carrying value of marketable equity securities is based on the lower of cost or quoted market value. The cost of investments sold is determined by specific identification.

8. Investments:

Investments consist of the following components (in thousands):

	Carrying Value	Cost	Market Value
December 31, 1985			
Marketable equity securities	$10,959	$23,244	$10,959
Other investments	5,391	5,391	
Total	$16,350	$28,635	
December 31, 1984			
Marketable equity securities	$16,491	$24,207	$16,491
Other investments	5,394	5,394	
Total	$21,885	$29,601	

At December 31, 1985, the portfolio of marketable equity securities includes gross unrealized gains of approximately $2,000 and gross unrealized losses of approximately $12,287,000 (of which approximately $10,767,000 is attributable to the Company's ownership of Sunshine Mining Company common stock received in payment for its interest in the Sunshine Unit Area (see note 9)). The net unrealized loss on marketable equity securities, that is a component of December 31, 1985 and 1984 stockholders' equity, reflects deferred tax benefits of approximately $3,440,000 and $2,160,000, respectively. Realized gains of $454,000 and realized losses on the sale of marketable equity securities of $357,000 and $62,000 are included in interest and other income during 1985, 1984 and 1983, respectively. The other investments are principally large blocks of common and preferred stock in several mining companies, and investments in various mining ventures. The securities are generally restricted as to trading or marketability although some of the shares are frequently traded on the over-the-counter market in Spokane, Washington. At December 31, 1985 and 1984, the shares of some of these companies that were traded on this market were quoted at values substantially in excess of the Company's cost basis.

KINDER-CARE LEARNING CENTERS, INC. (AUG)

	1985	1984
Net property, plant and equipment	$285,216,572	$184,473,459
Investments	109,869,832	98,588,166
Excess of cost over net assets of subsidiaries acquired	6,002,359	520,216
Equity in unconsolidated subsidiary	4,433,655	3,518,325
Lease acquisition costs, less amortization	6,550,600	6,967,507
Debt issue costs, less amortization	6,164,882	4,665,868
Other assets	2,398,426	2,174,675

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Investments

Investments include:

	August 30, 1985	August 31, 1984
Preferred stocks	$100,291,860	86,819,213
Funds held by trustee for construction	9,577,972	11,768,953
	$109,869,832	98,588,166

The preferred stocks are held for long-term investment and are stated at the lower of cost or market value. The cost of securities sold is determined using the specific identification method. A summary of cost, market value, gains and losses follows:

	Fiscal Year Ended		
	August 30, 1985	August 31, 1984	September 2, 1983
Aggregate cost	$109,869,832	89,691,783	55,306,744
Aggregate market value	111,651,189	86,819,213	56,601,020
Gross unrealized gains	2,984,680	855,739	2,320,710
Gross unrealized losses	1,203,323	3,728,309	1,026,434
Net realized gain (loss) included in earnings	877,636	(613,104)	902,108
Change in valuation allowance included in equity section	(2,872,570)	2,872,570	—

Funds held by trustee for construction represent the proceeds remaining from issuance of certain Industrial Revenue Bonds, which can only be used to finance the construction of certain facilities or to repay the obligations under these bonds. Pending the utilization of these funds, they are invested by the trustee in certificates of deposit or other allowable investments.

NONCURRENT RECEIVABLES

Chapter 3, Section A of *ARB No. 43* states that the concept of current assets excludes "receivables arising from unusual transactions (such as the sale of capital assets, or loans or advances to affiliates, officers, or employees) which are not expected to be collected within twelve months." *APB Opinion No. 21* requires the imputation of a realistic interest rate to most long-term receivables not bearing interest or bearing an interest rate lower than the prevailing rate. Exceptions to the aforementioned requirement are listed in paragraph 3 of *Opinion No. 21*. Table 2-16 summarizes the balance sheet captions used to describe noncurrent receivables. Examples of noncurrent receivables follow.

TABLE 2-16: NONCURRENT RECEIVABLES

	1985	1984	1983	1982
Caption Title				
Long-Term Receivables ..	36	33	35	33
Notes Receivable	27	25	30	30
Notes and accounts receivable combined.............	7	8	9	15
Noncurrent Receivables...	7	N/C	N/C	N/C
Other	31	42	42	44
Receivables combined with other investments, deposits, etc....................	55	59	65	76
Total Presentations..........	**163**	**167**	**181**	**198**
Number of Companies				
Presenting noncurrent receivables	163	164	178	193
Not presenting noncurrent receivables	437	436	422	407
Total Companies.............	**600**	**600**	**600**	**600**

N/C—Not Compiled.

BURROUGHS CORPORATION (DEC)

	1985	1984
	(Millions)	
Total current assets	$2,868.2	$2,743.5
Long-term receivables, net	223.6	293.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Current and Long-term Receivables

Current and long-term receivables comprise the following:

December 31 (Millions)	1985	1984
Accounts receivable	$1,106.5	$1,066.2
Installment accounts.........................	314.5	407.6
Sales-type leases	129.9	129.6
Total	1,550.9	1,603.4
Less—Allowance for doubtful accounts....	48.0	51.6
—Unearned income	50.7	67.4
Total	1,452.2	1,484.4
Less—Accounts and notes receivable, net	1,228.6	1,191.3
Long-term receivables, net	$ 223.6	$ 293.1

CASTLE & COOKE, INC. (JUN)

	1985	1984
Non-current receivables (less allowance for doubtful accounts of $2,281 in 1985; $1,318 in 1984)	$34,681	$28,252
Other assets.................................	46,946	44,195

DATA GENERAL CORPORATION (SEP)

	1985	1984
	Dollars in thousands	
Total current assets	$901,069	$788,222
Long-term receivables (including notes receivable—related parties of $17,720 net at Sept. 28, 1985 and $9,084 net at Sept. 29, 1984).........................	18,838	9,206

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Notes Receivable—Related Parties

In January 1984 the company's stockholders approved the Executive Stock Option Loan Program (the "Loan Program"). The aggregate amount of loans outstanding at any one time under the Loan Program to finance the exercise of options and to finance participants' tax liabilities arising from such exercise will not exceed $25 million and $30 million, respectively. The maximum term to maturity of each loan will be sixty months. Loans granted under the Loan Program are full recourse loans and are secured by pledge of the company's common stock or other collateral in accordance with Regulation G of the Federal Reserve Board. The company has entered into agreements with the participants which provide for forgiveness of up to 50% of the principal amount of the participants' notes under certain circumstances. Estimated amounts to be forgiven under such agreements are considered deferred compensation to the participants, are being amortized to expense over the related service period, and will be deductible by the company for tax purposes within one year from the date of forgiveness.

Loans to finance the exercise of stock options are made pursuant to notes of the participants bearing interest at 9% per annum or 9% per annum, compounded semiannually. The aggregate outstanding principal of these notes, net of amortized deferred compensation, is recorded as a reduction of stockholders' equity. Loans to finance a portion of the tax liabilities arising from the exercise of the stock options are made to participants pursuant to interest-free notes. The aggregate outstanding principal of these notes, net of amortized deferred compensation, is recorded as a long-term receivable.

LYNCH CORPORATION (DEC)

	1985	1984
Unexpended Industrial Development Revenue Bond Proceeds..........	$1,974,610	$2,637,905
Notes Receivable—net—Note B ...	78,034	154,907

Note B—Notes Receivable

In November 1983, the Company sold the land and buildings of a division which was sold during 1982, for $564,000

($100,000 cash and $464,000 in notes payable through 1990 bearing interest at 10%). The carrying value of the notes has been reduced by the gain of $291,000, which has been deferred and will be recognized on a cost recovery basis. Net proceeds in 1985 and 1984 of $42,138 and $44,583, respectively, have been used to reduce the net carrying value of notes receivable.

NOVAMETRIX MEDICAL SYSTEMS INC. (MAR)

	1985	1984
Excess of Cost Over Net Assets of Company Acquired, less accumulated amortization of $58,984 in 1985 and $17,113 in 1984	$825,779	$1,009,641
Investments	664,041	
Notes Receivable From Employees	649,874	
Other Assets	98,637	14,031

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C. Notes Receivable From Employees

During fiscal 1985, the Company made a demand loan of $269,874 to one of its key employees. The note bears interest equal to the average rate earned on the Company's short-term investments. The employee has pledged certain equity securities to the Company as collateral for the note, including 66,250 shares of the Company's Common Stock. The market value of the equity securities exceeds the amount of the note.

Also during fiscal 1985, the Company loaned $380,000 to a group of 12 officers, directors and key employees. The notes bear interest at 12% and mature January 31, 1995.

PACIFIC RESOURCES, INC. (DEC)

	1985	1984
	(In thousands)	
Property, Plant and Equipment—Net	$204,346	$190,996
Receivables from Unconsolidated Affiliate—Net	11,674	11,674
Other Assets	20,149	9,079

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Receivables from Unconsolidated Affiliate

Receivables from Unconsolidated Affiliate and Equity in Loss of and Allowance for Uncollectible Receivables from Unconsolidated Affiliate consist of the Company's notes receivable from a petroleum refining and marketing enterprise formed in late 1982 as a partnership and subsequently reorganized into a corporation. The Company held a fifty percent interest in the partnership through March 20, 1984, at which time the partnership was combined with another petroleum operation and the Company's one-half interest was exchanged for forty percent of the common equity of the surviving corporation. In June 1984 the operations of the affiliate were curtailed. On June 23, 1984, an involuntary petition under Chapter 11 of the Bankruptcy Act was filed against the affiliate and it is currently in Chapter 11 reorganizational proceedings. The current status of this matter is discussed in Note 12.

During 1984, the Company recognized $5.4 million as its equity in loss of affiliate, wrote off the remainder of its investment in the affiliate, $4.0 million, and provided an $8.0 million allowance for estimated uncollectible amounts. In 1983, the Company recognized $17.9 million as its equity in loss of affiliate. This amount and the Company's investment in the affiliate at December 31, 1983 were recorded based upon audited financial statements as of October 31, 1983 and unaudited financial statements as of and for the two-month period ended December 31, 1983. Audited financial statements of the affiliate subsequent to October 31, 1983 are not available.

At December 31, 1985, the Company's total receivables from the affiliate were approximately $21 million. These receivables consisted of $17.5 million in notes receivable and approximately $3.5 million, which represents amounts due from the affiliate related to the acquisition of petroleum for the affiliate and other billable amounts. These receivables are collateralized by certain assets of the affiliate and, other than about $200,000 reported in Trade Receivables, are reported as Receivables from Unconsolidated Affiliate, after reduction for $9.1 million in allowances for uncollectible accounts. In addition, about $1.3 million due the affiliate has been withheld from it and is included in Accounts Payable.

During 1984 and 1983, sales of crude oil by PRI to the affiliate were $63.8 million and $156.0 million, respectively. These sales were not material in 1985.

SCHOLASTIC INC. (MAY)

	1985	1984
	($000)	
Total current assets	$65,183	$56,980
Due from disposition of assets—noncurrent (Note 10)	2,628	1,233

Note 10. Disposition of Assets

In conjunction with the Company's previously announced plans to reduce its commitment to hardcover book publishing and sell both Four Winds Press and certain assets of Children's Choice, the Company had, at May 31, 1984, reduced these assets to estimated net realizable value. The Children's Choice assets were sold during the first quarter, and the sale of Four Winds Press was completed during the second quarter of fiscal 1985.

The noncurrent portion of "Due from disposition of assets" principally relates to notes received in conjunction with the fiscal 1983 disposition of certain basal text programs and the fiscal 1985 disposition of the Englewood Cliffs, New Jersey, facility.

SUPER VALU STORES, INC. (FEB)

	1985	1984
Total Current Assets	$531,121,000	$490,511,000
Other assets and deferred charges	22,994,000	15,540,000
Investment in direct financing leases less current portion	69,532,000	56,811,000
Investment in and advances to unconsolidated subsidiary	9,013,000	6,106,000
Long-term notes receivable (Note B)	37,247,000	28,408,000

Note B. Long-term notes receivable:

Long-term notes receivable relate to fixture and other financing relative to independent retail food operations. The majority of such notes range in length from one to seven years and may be non-interest bearing or bear interest at rates ranging from 6 to 17½ percent. Such notes were reduced for unearned financing charges of $4,332,000 and $1,874,000 for 1985 and 1984, respectively. Unearned financing charges are amortized to earnings using the sum-of-the-years-digits method.

Included in receivables are amounts due within one year totaling $10,600,000 for 1985 and $7,296,000 for 1984.

TRIBUNE COMPANY (DEC)

	1985	1984
	(In thousands of dollars)	
Other assets		
Broadcast rights	$ 302,777	$195,713
Intangible assets (less accumulated amortization of $27,500 and $29,200)	567,911	125,121
Mortgage notes receivable from affiliate	106,884	107,159
Investments in affiliates	23,576	29,233
Other	23,769	28,727
Total other assets	1,024,917	485,953

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Transaction with Affiliate

In December 1982 the Company sold the New York Daily News building to Two Twenty East Limited Partnership, formed by an institutional investor and the Company, for $35,000,000 in cash and two notes secured by first and second mortgages on the building. The first mortgage note had an original principal amount of $87,500,000 with an interest rate of 13% plus contingent interest based on the building's cash flow and appreciation in value. Principal and interest payments are based on a 35-year amortization with the unpaid balance due in 1997. The second mortgage note, in the amount of $20,000,000, has a 15-year maturity and an interest rate of 14% during the first ten years and 15% thereafter.

The Company, as a limited partner, contributed $20,000,000 to the partnership in the form of a 14% note due December 31, 1992 and retained an estimated 23% equity interest in the property.

INTANGIBLE ASSETS

APB Opinion No. 17 sets forth requirements as to accounting for intangible assets. *Opinion No. 17* stipulates that all intangible assets acquired after October 31, 1970 or recognized in business combinations initiated after October 31, 1970 be amortized over a period not to exceed 40 years and that "financial statements should disclose the method and period of amortization."

Table 2-17, which summarizes intangible assets by type and by accounting treatment, shows the prevalence of goodwill recognized in a business combination. Table 2-17 excludes certain assets often considered to be intangible which are classified as components of Property, Plant, and Equipment.

Table 2-18 summarizes the amortization periods used by the survey companies to amortize intangible assets. It is not uncommon for a company to use more than one period for one type of intangible. For instance, a company may disclose in the Summary of Accounting Policies that it amortizes goodwill over a period not exceeding 40 years and in a subsequent note disclose that it amortizes goodwill related to a certain acquisition over a specified number of years.

Examples of intangible asset disclosures follow.

Goodwill

ALLEGHENY INTERNATIONAL, INC. (DEC)

	1985	1984
	(In thousands)	
Goodwill, less accumulated amortization of $22,747,000 and $18,219,000	$170,832	$174,128
Other assets	30,189	29,664
Net noncurrent assets of discontinued operations	11,456	45,848

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Goodwill. The excess of the cost over the fair value of net assets of purchased businesses is recorded as goodwill and is amortized on a straight-line basis, generally over 40 years.

ANDERSON, CLAYTON & CO. (JUN)

	1985	1984
	(In thousands of dollars)	
Net property, plant and equipment	$305,116	$310,018
Noncurrent notes and accounts receivable	20,652	22,226
Goodwill	65,072	65,217
Prepayments and other assets	16,011	11,487

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): A summary of significant accounting policies follows:

Goodwill. Goodwill includes the excess of acquisition costs

TABLE 2-17: INTANGIBLE ASSET VALUATION

	Number of Companies			
	1985	1984	1983	1982
Assets Being Amortized				
Goodwill recognized in a business combination	301	279	270	267
Patents, patent rights	60	55	50	50
Trademarks, brand names, copyrights	30	26	21	21
Licenses, franchises	25	21	23	24
Other—described	23	13	11	13
Intangible assets (not otherwise described)	34	24	24	33
Assets Not Being Amortized				
Goodwill recognized in a business combination	106	102	111	129
Trademarks, brand names, copyrights	5	7	6	8
Other—described	2	1	2	3
Intangible assets (not otherwise described)	—	2	4	6
Other Bases				
Nominal value	2	2	2	4
Basis not determinable	24	20	22	21

over fair value of net assets acquired in the purchase of various entities (primarily Gaines) and is being amortized on a straight-line basis over forty years. Total amortization of goodwill for the Company and its subsidiaries was $1,897,000, $596,000 and $453,000 for the years ended June 30, 1985, 1984 and 1983, respectively.

Note 17.

On June 5, 1984 the Company purchased all of the common stock of Gaines Foods, Inc., for approximately $158 million cash and the assumption of $30 million of long-term debt. Gaines manufactures and sells nationally a broad line of pet food. The acquisition was accounted for as a purchase and the accounts of Gaines have been included in the accompanying financial statements from June 2, 1984. The excess of the total acquisition cost over the fair value of net assets acquired of $61,852,000 is being amortized on a straight-line basis over forty years.

The following unaudited pro forma consolidated results of operations assume that the purchase occurred on July 1, 1982:

(In thousands except per share)	Year Ended June 30,	
	1984	1983
Revenues	$1,795,706	$1,714,021
Net income	41,772	23,809
Net income per share	3.37	1.92

AVON PRODUCTS, INC. (DEC)

	1985	1984
	(in millions of dollars)	
Excess of cost over net assets acquired	$106.1	$ 73.1
Deferred charges	96.6	77.6
Net assets of discontinued operations	524.9	731.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part)

Intangibles—The excess of cost over the fair market value of net assets of purchased subsidiaries is amortized on the straight-line basis, primarily over 40 years.

Intangibles

An analysis of the excess of cost over net assets acquired follows (in millions):

	December 31	
	1985	1984
Excess of cost over net assets acquired	$111.4	$76.1
Accumulated amortization	(5.3)	(3.0)
	$106.1	$73.1

During 1985 and 1984, additions of $35.3 and $44.4 million, respectively, resulted from businesses acquired.

TABLE 2-18: AMORTIZATION PERIOD

	Number of Companies				
	Goodwill	Patent	Trademark	License	Other
Period					
40	161	1	5	1	—
"Not exceeding 40"	85	12	5	10	16
25-30	17	—	—	1	1
20	17	2	2	1	1
10-15	15	4	—	4	2
Legal/estimated life	7	38	11	11	7
Other	16	6	3	4	8

DESIGNCRAFT INDUSTRIES, INC. (FEB)

	1985	1984
Other assets:		
Cost in excess of net assets acquired less accumulated amortization of $6,781 for 1985	$629,103	$364,030
Other	309,254	298,838
Total other assets	938,357	662,868

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Intangibles

Intangibles represent the following: The excess of cost over the net assets ($364,030) of a business acquired prior to 1970. In the opinion of management, there has been no diminution in value of the investment in this subsidiary and, accordingly, the excess cost is not amortized. The excess of the purchase price over the net assets ($271,854) of another business acquired is amortized on a straight-line basis over forty years.

ETHYL CORPORATION (DEC)

	1985	1984
	($000)	
Net property, plant and equipment	$557,256	$573,156
Investment in First Colony Life Insurance Company	446,863	375,643
Other assets and deferred charges	51,247	38,268
Goodwill and other intangibles	46,187	43,891

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies:

Intangibles. Goodwill acquired prior to November 1, 1970, ($23,030,000) is not being amortized. Goodwill acquired subsequently ($21,951,000 net of accumulated amortization) is amortized on a straight-line basis, over periods from 10 to 40 years.

7. Goodwill and Other Intangibles:

Goodwill and other intangibles, and the related accumulated amortization, are as follows:

	(In Thousands)	
	1985	1984
Goodwill and other intangibles	$63,983	$78,237
Additions	4,330	296
Disposals and writeoffs of goodwill		(14,550)
Subtotal	68,313	63,983
Accumulated amortization	(22,126)	(20,092)
Total	$46,187	$43,891

GANNETT CO., INC.

Consolidated Balance Sheets

($000)	Dec. 29, 1985	Dec. 30, 1984
Intangible and Other Assets:		
Excess of acquisition cost over the value of assets acquired (less amortization of $104,940 and $86,295, respectively)	$814,771	$629,280
Investments and other assets	143,130	71,657
Total Intangible and Other Assets	957,901	700,937

Consolidated Statements of Income

Fiscal Year Ended ($000)	Dec 29, 1985 (52 weeks)	Dec 30, 1984 (53 weeks)	Dec 25, 1983 (52 weeks)
Operating Expenses:			
Cost of sales and operating expenses, exclusive of depreciation	$1,231,209	$1,102,003	$ 950,302
Selling, general and administrative expenses, exclusive of depreciation	370,163	321,085	296,252
Depreciation	85,512	75,922	67,012
Amortization of intangible assets	18,017	14,591	14,392
Total	1,704,901	1,513,601	1,327,958

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

Excess of Acquisition Cost over Fair Value of Assets Acquired—The excess of acquisition cost over the fair value of assets acquired represents the cost of intangible assets at the time the subsidiaries were purchased. In the opinion of management, such intangible assets have not diminished in value since the respective dates of acquisition and, having an indefinite life, are not subject to amortization. However, in accordance with Opinion 17 of the Accounting Principles Board of the American Institute of Certified Public Accountants, the excess acquisition cost of subsidiaries arising from acquisitions accounted for as purchases since October 31, 1970, ($825,916,000 at December 29, 1985) is being amortized over a 40-year period on a straight-line basis.

NATIONAL SEMICONDUCTOR CORPORATION (MAY)

	1985	1984
	(in millions)	
Net property, plant and equipment	$757.9	$510.3
Goodwill	29.0	33.8
Other assets	15.2	12.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

Goodwill

The excess of acquisition costs over the fair value of net assets of purchased businesses is recorded as goodwill and is generally being amortized on a straight-line basis over 10 years. Accumulated amortization at May 31, 1985 and 1984 was $9.7 and $4.8 million, respectively.

SAB HARMON INDUSTRIES, INC.

Consolidated Balance Sheets

December 31,	1985	1984
	(Thousands of Dollars)	
Construction fund	$ 242	$1,070
Cost in excess of fair value of net assets of subsidiary acquired, net (note 4)	1,204	1,344
Patents, net of amortization of $212,000 in 1985 and $157,000 in 1984	180	235
Other assets	1,092	502

Consolidated Statements of Earnings

Years ended December 31,	1985	1984	1983
	(Thousands of Dollars)		
Other income (expense):			
Interest expense	$(1,746)	$ (768)	$ (551)
Amortization of cost in excess of fair value of net assets of subsidiary acquired (note 4)	(140)	(58)	—
Miscellaneous—net	41	33	38
Earnings before income taxes	6,130	4,651	2,002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cost in Excess of Fair Value of Acquired Net Assets

Cost in excess of the fair value of the net assets of the subsidiary acquired, EPC, is amortized on a straight-line basis over ten years (see note 4.)

Patents

The cost of patents acquired is being amortized on a straight-line basis over the estimated remaining economic lives of the respective patents, which is less than the statutory life of each patent.

4. Acquisition of Electro Pneumatic Corporation

On August 1, 1984, the Company acquired substantially all of the assets and assumed substantially all of the liabilities of Electro Pneumatic Corporation, a California corporation serving the railroad industry.

The cost of the acquisition, which was accounted for as a purchase, was $3,634,000, consisting of $3,000,000 in cash and 100,000 shares (200,000 after the stock split) of the Company's common stock with a fair market value of $634,000. The fair market value of the Company's common stock issued in this acquisition was determined by independent valuation. The purchase price was allocated to the net assets acquired in relation to their fair values. The allocation of the purchase price is summarized as follows (thousands of dollars):

Current assets	$2,418
Current liabilities	(1,269)
Working capital acquired	1,149
Property, plant and equipment	1,000
Other assets	158
Long-term debt	(75)
	2,232
Cost in excess of fair value of net assets of subsidiary acquired	1,402
Total purchase price	$3,634

The results of operations of EPC since the date of acquisition have been included in the Company's consolidated statements of earnings for the years ended December 31, 1985 and 1984.

Patents

THE RYMER COMPANY (OCT)

	1985	1984
	(in thousands of dollars)	
Other assets		
Notes receivable	$ 775	$ 710
Patents, net of accumulated amortization of $2,563,000 in 1985 and $1,962,000 in 1984	1,832	2,433
Assets held for sale		672
Excess of investment over net assets acquired, net of accumulated amortization of $1,430,000 in 1985 and $709,000 in 1984	34,616	24,098
Other	1,119	384
	38,342	28,297

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Patents

Purchased patents and related costs are valued at appraised value at time of acquisition and are being amortized using the straight-line method over their estimated useful lives.

Excess Investment Over Net Assets Acquired

Excess investment over net assets of acquired businesses is amortized using the straight-line method over 40 years.

Trademarks

PENTRON INDUSTRIES, INC. (JUN)

	1985	1984
Total current assets	$11,298,722	$3,432,189
Property, plant and equipment, net	1,348,868	1,328,202
Intangible assets, net	4,396,290	164,428
Other assets	187,190	—
Net assets held for resale	—	176,652
	17,231,070	5,101,471

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies:

Intangible Assets

The excess of the purchase price paid over the fair value of the net tangible and identifiable intangible assets of businesses acquired after November 1, 1970 is being amortized over 40 years using the straight-line method. Consideration paid in excess of net assets acquired prior to November 1, 1970 is not being amortized as management believes that there has been no diminution of value.

The costs of acquired trademarks and patents are amortized by the straight-line method over their estimated useful lives of two to nineteen years.

5. Intangible Assets:

Intangible assets consist of the following at June 30:

	1985	1984
Trademarks and patents (net of accumulated amortization of $62,683)	$1,524,795	$ —
Excess of consideration paid over net assets acquired (net of accumulated amortization of $16,694 in 1985 and $—0—in 1984)	2,640,032	164,428
Organizational costs (net of accumulated amortization of $12,317)	231,463	—
	$4,396,290	$164,428

Customer Lists

HUNT MANUFACTURING CO. (NOV)

	1985	1984
Total current assets	$48,736,000	$40,566,000
Property, plant and equipment, at cost, less accumulated depreciation and amortization	25,255,000	15,238,000
Excess of acquisition cost over net assets acquired, less amortization	4,189,000	2,205,000
Intangible assets, at cost, less amortization	3,358,000	1,986,000
Other assets	2,862,000	1,320,000
Total Assets	$84,400,000	$61,315,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies:

Depreciation and Amortization: Depreciation for financial reporting purposes for the majority of assets is computed by the straight-line method. Depreciation for tax purposes is computed principally using accelerated methods. The excess of acquisition cost over net assets acquired is amortized on a straight-line basis over forty years. The costs of all other intangible assets, comprised primarily of a customer list, patents, licensing agreements and product and catalog development costs are amortized on a straight-line basis over their respective estimated lives ranging from three to seventeen years. Amortization of assets under capital leases which contain purchase options is provided over the assets' useful lives. Other capital leases are amortized over the terms of the related leases or asset lives, if shorter.

6. Intangible Assets:

Intangible assets (at cost, less amortization) at the end of each fiscal year are as follows:

	1985	1984
Customer list	$1,483,000	—
Patents and patent applications	802,000	$ 902,000
Licensing agreements	551,000	667,000
Product and catalog development costs	198,000	300,000
Other	324,000	117,000
	$3,358,000	$1,986,000

The increase in intangible assets relates primarily to businesses acquired in 1985 (see Note 2).

AMERICAN BAKERIES COMPANY (DEC)

	1985	1984
	(In thousands)	
Other Assets (Note 3)	$20,613	$187

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Other Assets:

Other assets consist primarily of intangible assets associated with the acquisitions and are being amortized on the straight line method based upon the following estimated useful lives:

(In thousands)	Years	1985
Membership lists	5	$ 2,825
Resort network	26	13,066
Goodwill	40	2,232
		18,123
Less amortization		(1,153)
		16,970
Long term investments		2,395
Other		1,248
Total other assets		$20,613

Licenses

GTI CORPORATION (DEC)

	1985	1984
	(thousands of dollars)	
Other Assets:		
Investments	$1,700	$1,700
Deferred income taxes	—	12
Deferred product enhancement costs	516	120
Patents and license rights	1,552	1,746
	3,768	3,578

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies:

Patents and License Rights—The Company amortizes the cost of acquired patents and license rights over a ten year period. The annual amortization is the greater of the amount computed using the straight line method or the ratio that the current year revenues for the related products bear to the total of current and anticipated future revenues of such products. The Company amortized $194,000 in 1985, $254,000 in 1984 and none in 1983. In the event projected sales of a product cease, any unamortized balance is charged to expense.

Covenants Not To Compete

THE CONTINUUM COMPANY, INC. (MAR)

	1985	1984
Other Assets		
Purchased computer programs, net of accumulated amortization of $543,000 in 1985 and $144,000 in 1984	$4,771,000	$307,000
Covenant not to compete, net of accumulated amortization of $193,000 in 1985	3,764,000	—
Other	63,000	185,000
	8,598,000	492,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

Covenant Not to Compete:

The covenant not to compete results from an acquisition in fiscal 1985. See Note 4. It is recorded at cost, which does not exceed its estimated value to the Company, less accumulated amortization. Amortization is provided using the straight-line method over the five-year term of the covenant.

Franchises

THE NEW YORK TIMES COMPANY (DEC)

	1985	1984
	Dollars in thousands	
Intangible Assets Acquired		
Cable TV franchises, etc.	$ 33,284	$ 34,685
Other costs in excess of net assets acquired	516,070	196,896
Total	549,354	231,581
Less accumulated amortization	38,342	29,340
Total intangible assets acquired, net	511,012	202,241

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Intangible Assets Acquired. Intangible assets acquired consist of cable TV franchises and other agreements valued at fair value on the acquisition date and other excess costs of businesses acquired over values assigned to their net tangible assets. Cable TV franchises, etc. are amortized by the straight-line method over the terms of the franchises and the related agreements which do not exceed 25 years. The excess costs which arose from acquisitions after October 31, 1970 (exclusive of amounts allocated to cable TV franchises, etc.) are being amortized by the straight-line method principally over 40 years. The remaining portion of such excess, which arose from acquisitions before November 1, 1970 (approximately $13,000,000), is not being amortized since, in the opinion of management, there has been no diminution in value.

Software

THE DUN & BRADSTREET CORPORATION (DEC)

	1985	1984
Other Assets		
Deferred Charges	$ 16,280,000	$ 20,377,000
Computer Software	86,332,000	66,347,000
Other Intangibles	130,753,000	92,860,000
Goodwill	299,344,000	240,102,000
Total Other Assets	532,709,000	419,686,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

Other Assets. Computer software ($86,332,000) and data files ($25,656,000), certain other intangibles ($99,118,000), and goodwill ($288,322,000) are being amortized, using principally the straight-line method, over five to 15 years, 12 to 40 years and 40 years, respectively. Remaining intangibles, including other intangibles of $5,979,000 and goodwill of $11,022,000 which arose from acquisitions initiated prior to October 31, 1970, are considered to have continuing value and are not being amortized.

Note 10 (In Part): Supplemental Financial Data

Computer Software, Other Intangibles and Goodwill:

	Computer Software	Other Intangibles	Goodwill
January 1, 1984	$44,162,000	$ 36,773,000	$ 62,991,000
Additions at cost	36,599,000	59,174,000	183,801,000
Amortization charged to costs and expenses	(11,560,000)	(6,722,000)	(4,011,000)
Other deductions and reclassifications	(2,854,000)	3,635,000	(2,679,000)
December 31, 1984	66,347,000	92,860,000	240,102,000
Additions at cost	32,803,000	54,286,000	74,872,000
Amortization charged to costs and expenses	(12,018,000)	(11,691,000)	(7,308,000)
Other deductions and reclassifications	(800,000)	(4,702,000)	(8,322,000)
December 31, 1985	$86,332,000	$130,753,000	$299,344,000

Product Technology

ROCKWELL INTERNATIONAL CORPORATION

	1985	1984
	(In millions)	
Net property	$2,523.8	$1,990.3
Intangible assets	1,132.3	98.1
Other assets	37.9	27.7

NOTES TO FINANCIAL STATEMENTS

8. Intangible Assets

Intangible assets at September 30, are summarized as follows (in millions):

	1985	1984
Patents, product technology and other intangibles, less accumulated amortization (1985, $64.3 million; 1984, $2.3 million)	$ 762.6	$ 6.0
Goodwill, less accumulated amortization (1985, $21.5 million; 1984, $14.5 million):		
Allen-Bradley	279.1	
Other acquisitions	90.6	92.1
Intangible assets	$1,132.3	$98.1

Patents, product technology and other intangibles relate primarily to Allen-Bradley. *Such intangibles are being amortized on a straight-line basis over their estimated useful lives, generally ranging from 5 to 20 years.*

Goodwill represents the excess of the cost of purchased businesses over the fair value of their net assets. *Goodwill arising after October 31, 1970 is being amortized by the straight-line method, generally over 40 years. Goodwill originating prior to November 1, 1970 is not being amortized unless in the opinion of management there has been a decrease in its value.*

Endorsements

THE GILLETTE COMPANY (DEC)

	1985	1984
	(Millions of dollars)	
Total Current Assets	$1,531.4	$1,223.9
Property, Plant and Equipment, at cost less accumulated depreciation	503.8	430.0
Intangible Assets, less accumulated amortization	224.7	237.9
Other Assets, including oil and gas investments	164.7	132.6
	$2,424.6	$2,024.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Intangible Assets

Goodwill arising from acquisitions since October 31, 1970, is being amortized over a 40-year period. The remaining goodwill, related to the acquisition of Braun AG, is not being amortized since, in the opinion of management, there has been no reduction in value. Identifiable intangible assets related to the acquisition of Oral-B Laboratories, Inc., consisting mostly of dental endorsements, are being amortized principally over a 13-year-period. Amortization is based on the straight-line method.

INTANGIBLE ASSETS

Goodwill ($38.2 million not subject to amortization)	$179.2	$184.0
Intangible assets, Oral-B	63.9	63.9
Other	4.7	4.0
	247.8	251.9
Less accumulated amortization	23.1	14.0
	$224.7	$237.9

Goodwill of $1.9 million, relating to a minor business, was written off in 1985.

Pension Assets

RONSON CORPORATION (DEC)

	1985	1984
	($000)	
Intangible pension assets (Note 8)	$822	$ —
Other assets	959	725

Note 8. Retirement Plans

The Company and its subsidiaries have several trusteed retirement plans covering substantially all employees. The Company's funding policy is to make minimum annual contributions as required by applicable regulations. Plans covering union members generally provide benefits of stated amounts for each year of service. The Company's salaried pension plan provides benefits using a formula which is based upon employee compensation. A defined contribution plan was established on July 1, 1985 relating to changes made to the salaried pension plan, as noted below.

The Company has applied the provisions of Financial Accounting Standards Board Statement No. 87 ("FAS No. 87"), "Employers' Accounting for Pensions" to its 1985 financial statements. Prior years have not been restated pursuant to FAS No. 87. The following table sets for the plans' funded status and amounts recognized in the Company's Consolidated Balance Sheet at December 31, 1985:

	in thousands
Projected and Accumulated benefit obligation, including vested benefits of $7,173	$7,349
Less: Plan assets at fair value, primarily held in group insurance accounts	5,424
Projected benefit obligation in excess of plan assets	1,925
Unrecognized net obligation at 1/1/85 being recognized over 15 to 18 years	(758)
Prior service cost not yet recognized in net periodic pension expense	(55)
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	(9)
Pension liability (net) recognized in the Consolidated Balance Sheet	$1,103

The above Pension liability (net) consists of an amount of $242,000 included in Accrued expenses and $1,683,000 of Pension Obligations, less Intangible Pension Assets of $822,000.

The Company's Consolidated Statement of Operations for 1985 included pension expense comprised of the following components:

Service cost-benefits earned during the period	$108
Interest cost on projected benefit obligation	688
Actual return on plan assets	(489)
Net amortization and deferral	91
Net pension expense	$398

The weighted-average discount rate used in determining the actuarial present value of the projected benefit obligation and the long-term rate of return on assets was 9%.

Pension expense for continuing operations was $354,000 and $297,000 for the years ended December 31, 1984 and 1983, respectively. These amounts were computed based upon required minimum contributions, which included the amortization of prior service cost over periods up to 40 years.

Included in Pension Obligations is an obligation of $1,703,000 as at December 31, 1984 related to a discontinued pension plan of the Company and the remaining portion of prior years' contributions related to the Company's salaried retirement plan. The IRS had waived these prior years' contributions and had approved extended installment payments. The Company, at December 31, 1985, is not liable for these waived contributions.

Estimated benefits and net assets at December 31, 1984 for all active retirement plans, based upon the latest valuations made from 1983 through 1984, is as follows:

	in thousands
Actuarial present value of accumulated benefits:	
Vested	$6,965
Nonvested	244
	$7,209
Net assets available for benefits	$6,260

The assumed rate of return used in determining the actuarial present value of accumulated benefits presented above was 7%.

On June 30, 1985, the Company amended its final-pay salaried retirement plan, so that benefits would no longer accrue. This change, affecting future benefits, resulted in a net curtailment gain of approximately $1,018,000 pursuant to Financial Accounting Standards Board Statement No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." The projected benefit obligation at the curtailment date included approximately $1,193,000 of costs pertaining to projected future compensation levels for which the Company is no longer obligated. This amount was reduced by the plan's remaining unrecognized net asset at transition of approximately $179,000 which was offset in part by an unrecognized net gain of $4,000.

Effective July 1, 1985, the Company instituted a defined contribution plan covering those employees affected by the salaried plan curtailment. Contributions and costs are determined as 2% of each covered employee's compensation. The Company also contributes an additional amount equal to 50% of a covered employee's contribution to a maximum of 3% of compensation. Expense of $87,000 for this plan was recorded in 1985.

OTHER NONCURRENT ASSET CAPTIONS

Table 2-19 summarizes the nature of assets (other than property, investments, noncurrent receivables, and intangible assets) classified as noncurrent assets on the balance sheets of the survey companies. Effective for fiscal periods beginning on or after January 1, 1975, *Statement of Financial Accounting Standards No. 2* stipulates that research and development costs be charged to expense when incurred. *SFAS No. 2* does not apply to costs of research and development activities conducted for others under a contractual agreement.

Examples of other noncurrent asset presentations and disclosures, except assets leased to others, follow. Examples of assets leased to others are presented in connection with Table 2-28.

TABLE 2-19: OTHER NONCURRENT ASSETS

	Number of Companies			
	1985	1984	1983	1982
Property held for sale	64	59	50	56
Segregated cash or securities	62	51	47	64
Assets leased to others	23	30	29	29
Debt issue costs	15	13	14	17
Deferred income taxes	13	13	13	16
Cash surrender value of life insurance	10	8	8	7
Prepaid expenses	6	6	7	12
Start up costs	4	8	9	8
Other identified noncurrent assets	71	62	65	77
Deferred charges or *Other Noncurrent assets*—not described	515	510	527	524

Property Held For Sale

ACME-CLEVELAND CORPORATION (SEP)

	1985	1984
Goodwill in Consolidated Subsidiaries	$14,370,929	$ 6,377,758
Assets Held for Sale	5,044,536	15,880,725
Investments in Affiliates	10,766,412	10,188,803
Other Assets	10,610,135	5,218,481

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part):

Assets Held for Sale—Assets held for sale include assets that have been identified as excessive and are in the process of being sold, and property, plant, and equipment and other assets of discontinued operations. These assets are recorded at anticipated fair market value.

ARDEN GROUP, INC. (DEC)

	1985	1984
Total current assets	$ 57,670,376	$ 51,544,654
Indebtedness of related parties	494,952	484,362
Notes and contracts receivable	7,016,706	3,750,846
Net investment in direct financing and sales type leases	2,273,424	2,691,741
Property for resale or sublease, at lower of cost or market	1,762,443	2,630,012
Property, plant and equipment, at cost, less accumulated depreciation and amortization	52,087,469	52,616,831
Other assets	8,697,299	4,107,513
Total assets	$130,002,669	$117,825,959

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Accounting Policies:

Property for Resale or Sublease:

It is the Company's policy to make available for sale or sublease, property considered by management as excess and no longer necessary for the operations of the Company. The aggregate carrying values of such owned property and property under capital leases are periodically reviewed and adjusted downward to market, when appropriate.

BMC INDUSTRIES, INC. (DEC)

	1985	1984
	(in thousands)	
Total Current Assets	$ 74,210	$101,400
Property, Plant and Equipment—Net	20,272	18,606
Other Assets—Net	9,215	7,757
Net Noncurrent Assets of Discontinued Operations	29,539	60,278
Total Assets	133,236	188,041

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share amounts)

3 (In Part): Discontinued Operations

Assets and liabilities of discontinued operations, classified separately in the Consolidated Balance Sheets, are summarized as follows:

	Dec. 31, 1985	Dec. 31, 1984
Trade Accounts and Notes Receivable	$20,532	$28,415
Inventories	37,771	83,057
Other Current Assets	1,586	1,628
Current Liabilities	(35,069)	(49,962)
Accrual for Estimated Loss on Disposal and Operating Losses	(17,693)	(1,854)
Net Current Assets of Discontinued Operations	$ 7,127	$61,284
Property, Plant and Equipment—Net	$50,061	$47,725
Cost in Excess of Net Assets Acquired, Patents and Other Assets—Net	17,545	18,961
Long-Term Debt	(1,839)	(4,691)
Other Liabilities	(228)	(467)
Accrual for Estimated Loss on Disposal	(36,000)	(1,250)
Net Noncurrent Assets of Discontinued Operations	$29,539	$60,278

BAKER INTERNATIONAL CORPORATION (DEC)

	1985	1984
	($000)	
Other assets:		
Property held for disposal	$ 57,061	$ 36,356
Noncurrent receivables, investments and other assets	70,048	63,408
Excess costs arising from acquisitions—less accumulated amortization: 1985, $16,892; 1984, $14,193	82,668	76,188
Total other assets	209,777	175,952

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies:

Property held for disposal. Property held for disposal is stated at estimated net realizable value.

NL INDUSTRIES, INC. (DEC)

	1985	1984
	(in thousands)	
Total current assets	$ 579,992	$ 641,224
Investments—Unconsolidated partially-owned companies, at equity, and other investments, at cost	122,696	146,187
Property, plant and equipment, at cost, less accumulated depreciation and depletion of $681,582 in 1985 and $589,591 in 1984	719,717	679,413
Net assets of discontinued operations	63,822	107,068
Other assets	110,310	89,300
	1,596,537	1,663,192

NOTES TO FINANCIAL STATEMENTS

(in thousands of dollars, except share amounts.)

2. Discontinued Operations

Management adopted, and the Board of Directors authorized, plans to sell the following business segments:

(a) 1984—Titanium Metals Corporation of America (TMCA): The Company intends to dispose of its interest in TMCA. The operating results for the Company's 50% interest in TMCA for 1984 and 1983 are included in "Loss from Discontinued Operations, Net of Income Taxes" (income (loss) per share of common stock of $(.03) and $.01 in 1984 and 1983, respectively). The anticipated loss from the disposal of TMCA ($.04 and $.12 per share of common stock in 1985 and 1984, respectively) is included in "Loss from Disposal of Discontinued Operations" and includes estimated results of operations to the anticipated disposal date. The 1985 loss reflects an adjustment to the 1984 carrying value. Also, an immaterial petroleum service operation was discontinued in 1984 and sold in 1985 for cash aggregating $16,250.

(b) 1983—The Well Service Division was disposed of in 1984 for proceeds aggregating $39,400. The loss from disposal, including the estimated losses to the disposal date, approximated the amount estimated in 1983 ($.96 per share of common stock) and is included in "Loss from Disposal of Discontinued Operations" in 1983.

(c) 1981—Die castings, tooling and prototype assemblies, railroad bearings, fasteners and hydraulic brake cylinders and pistons: These businesses were sold for proceeds which aggregated $19,000 and $125,631 in 1984 and 1982, respectively.

The estimated net realizable value of the operations which have not yet been disposed of are shown in the consolidated balance sheet caption "Net Assets of Discontinued Operations" and represents primarily TMCA.

UNITED TECHNOLOGIES CORPORATION (DEC)

	1985	1984
	($000)	
Estimated realizable value of assets of discontinued operations	$ 37,521	$ —
Deferred Charges:		
Costs in excess of net assets of acquired companies (net of amortization)	271,731	523,390
Other	71,942	61,174
	343,673	584,564

Segregated Funds

ADDSCO INDUSTRIES, INC. (JUN)

	1985	1984
Other Assets		
Cash and investments (restricted)—at cost (market value $1,130,978 in 1985 and $1,165,855 in 1984)	$1,166,702	$1,309,186
Cash value of life insurance—officers	—	155,791
Other	13,328	16,195
Total Other Assets	1,180,030	1,481,172

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accrued Workmen's Compensation Claims

The provisions of the U.S. Longshoremen and Harbor Workers Compensation Insurance Act require that the Company restrict certain assets for payments of workmen's compensation claims. These restricted assets, the majority of which are on deposit with the Federal Reserve Bank of Atlanta, Georgia, are included in the Company's financial statements as restricted cash and investments with an aggregate cost of $1,166,702 and $1,309,186 on June 30, 1985 and 1984, respectively.

DEAN FOODS COMPANY (DEC)

	1985	1984
	(In thousands)	
Other Assets:		
Unexpended industrial revenue bond proceeds	$ 6,425	$
Intangibles, net of amortization of $2,056 and $1,299 respectively	10,392	8,568
Other	1,666	2,851
Total other assets	18,483	11,419

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Borrowing Arrangements (In Part)

Long-term obligations, less installments due within one year, are summarized below:

(In thousands)	1985	1984
Installment note, 12¾%, maturing in equal annual amounts of $1,800 in 1986 through 1994	$16,200	$18,000
Industrial revenue bonds:		
Fixed rate	13,227	9,437
Floating rate	3,539	1,174
Installment note, 7⅝%, maturing in equal annual amounts of $675 through 1987	1,350	2,025
Installment note, 10¾%, maturing in equal annual amounts of $385 through 1988 and $380 in 1990	1,535	1,920
Capitalized lease obligations, primarily transportation equipment	1,831	2,036
Other obligations, maturing in varying amounts to 1994, with interest at an average rate of approximately 10%	5,005	6,667
	42,687	41,259
Less: Installments due within one year	5,377	5,686
	$37,310	$35,573

The industrial revenue bonds are due in varying installments through 2014. The interest rates on the fixed rate bonds are 8%–10¾%. The interest rates on the floating rate bonds range from 62% to 70% of prime. At December 28, 1985, the weighted average interest rate for the floating rate bonds was 6.5%. Unexpended industrial revenue bond proceeds held by trustees at December 28, 1985, amounting to $6.4 million, are included under the balance sheet caption "Other Assets".

KUHLMAN CORPORATION (DEC)

	1985	1984
	($000)	
Total current assets	$44,240	$54,289
Other Assets:		
Restricted Industrial Revenue Bond funds (Note 4)	5,542	1,005
Notes receivable	1,933	874
Goodwill, net of accumulated amortization of $53,000 in 1985	2,525	—
Investment in joint venture	344	—
	10,344	1,879

Note 4 (In Part)

At December 31, 1985, the Company had borrowings under Industrial Revenue and Job Development Authority Bonds available for and restricted to the purchase of certain equipment. The funds not yet expended as of December 31, 1985 and 1984 have been classified as restricted Industrial Revenue Bond proceeds on the consolidated balance sheets.

MILTON ROY COMPANY (DEC)

	1985	1984
Project funds-short term investments, at cost	$13,152,000	$1,089,000
Notes receivable and other assets	5,481,000	4,314,000
Goodwill, less accumulated amortization of $341,000 and $174,000	2,418,000	2,434,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Long term debt:

In 1985, the Company entered into four independent loan agreements with four separate municipalities. Under each of these agreements, the municipality deposited the proceeds from the sale of industrial revenue bonds into a Project Fund maintained by the respective municipality's trustee. As qualified capital expenditures are made, the Company is reimbursed for such expenditures from the respective Project Fund. Monies in the Project Funds are invested in "qualified" (as defined) securities under the supervision of the respective trustee. Each of the four bond issues requires quarterly payments of principal and interest and final maturity is in 1995 for one issue and 2000 for the other three. The aggregate of the amounts held in trust at December 31, 1985 was $13,152,000 and is classified as Project Funds-Short Term Investments on the Company's balance sheet.

UNITED FOODS, INC. (FEB)

	1985	1984
Property and Equipment, less accumulated depreciation and amortization	$32,051,161	$35,472,604
Other:		
Property and equipment held for disposal	5,371,045	1,918,298
Construction funds held by trustee (Note 3)	1,655,332	7,269,410
Miscellaneous	644,295	902,757
Total Other Assets	7,670,672	10,090,465

Note 3 (In Part): Long-Term Debt

The first mortgage notes consist of two $5,000,000 loans obtained in May 1983 from Industrial Development Boards to finance the acquisition of approximately 7,100 acres of farmland, equipment and land improvements. Each loan is to be repaid in 72 consecutive quarterly payments of $69,444 plus interest from August 1, 1985 to May 2003. The notes bear interest at 8½ and 9% per annum, respectively, during the first year and thereafter at the higher of their respective initial interest rate or 80% of prime (8.4% at February 28, 1985). On May 1, 1984, prepayments of approximately $3,965,000 were made on the loans from unused proceeds retained by the Trustee.

The proceeds from the $5,000,000 industrial revenue bonds are restricted for the payment of building and land improvements, equipment acquisitions and up to approximately $300,000 of interest. At February 28, 1985, $1,655,332 of these funds is being held by the Trustee.

The proceeds from the $3,000,000 first mortgage revenue bond outstanding at February 29, 1984 were restricted for the payment of building and land improvements, equipment acquisitions and up to approximately $180,000 of interest. In February 1985, the $3,000,000 outstanding balance of the bond was prepaid. The unused proceeds of the bond retained by the Trustee of approximately $1,470,000 were used in connection with the prepayment.

Debt Issue Costs

CENTRONICS DATA COMPUTER CORP. (DEC)

	1985	1984
	($000)	
Total current assets	$110,399	$113,682
Property and equipment, net	24,563	28,471
Intangible assets less accumulated amortization (1985, $427; 1984, $192)	2,525	2,267
Deferred debenture financing costs less accumulated amortization of $237 (Note 7)	1,793	
Other assets	487	463
	139,767	144,883

Note 7 (In Part): Long-Term Obligations

On June 11, 1985 the Company issued $40 million of 10% Convertible Subordinated Debentures due June 1, 1990. Interest is payable semi-annually on June 1 and December 1 in each year, commencing December 1, 1985. The debentures are convertible at any time prior to maturity, unless previously redeemed, into common stock of the Company at a conversion price of $3.25 per share, subject to adjustment upon the occurrence of certain equity transactions which are dilutive in nature. During Fiscal 1985, approximately $1.8 million of the debentures were converted to common stock. In connection with the issuance of the debentures, the Company amended its Certificate of Incorporation to increase its authorized Common Stock from 20 million to 40 million shares. At December 29, 1985 approximately 11.7 million shares were reserved for future conversion of the debentures. The Company incurred approximately $2 million of debt issuance costs which have been deferred and are being amortized over the term of the debentures. Amortization for Fiscal 1985 was $237,000.

PANTRY PRIDE, INC. (JUL)

	1985	1984
	($000)	
Total property and equipment	$28,490	$63,947
Deferred charges	22,046	3,120
Other assets	9,101	8,476
Intangible assets related to businesses acquired (less accumulated amortization of $2,099 and $198, respectively)	84,887	51,101

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands except per share data)

1 (In Part): Summary of Significant Accounting Policies

Deferred Charges

Expenses associated with debt offerings, principally underwriting and legal fees and printing costs, are amortized on a straight-line basis over the term of the debt.

Deferred Income Taxes

XEROX CORPORATION (DEC)

	1985	1984
	(In millions)	
Total current assets	$3,900.5	$3,739.2
Trade Receivables Due after One Year	209.5	267.4
Rental Equipment and Related Inventories, net	1,237.1	1,519.5
Land, Buildings and Equipment, net	1,422.6	1,391.8
Investment in Xerox Financial Services, Inc., at equity	2,121.3	2,175.1
Other Investments, at equity	478.2	252.9
Deferred Income Taxes	176.4	—
Other Assets	271.1	191.2
Total Assets	$9,816.7	$9,537.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes (In Part)

The tax benefits associated with discontinued operations which were recognized for financial reporting purposes in 1985 and 1984 include, at December 31, 1985, $31.0 million for items not deductible for tax purposes until future periods. Of this amount $13.2 million is included in other current assets in the consolidated balance sheet and $17.8 million is included in the deferred income taxes caption of the consolidated balance sheet. Total current deferred tax charges included in other current assets at December 31, 1985 and 1984 were $100.9 million and $69.9 million, respectively. Net non-current deferred tax charges at December 31, 1985 were $176.4 million versus net non-current deferred tax credits of $54.4 million in 1984. The variance from 1984 to 1985 primarily resulted from income tax benefits associated with losses from the continuing and discontinued operations of C&F.

Cash Surrender Value

BARCO OF CALIFORNIA (JUN)

	1985	1984
Other assets:		
Cash value of officers' life insurance policies, less loans of $345,000 (1985) and $461,000 (1984)	$225,000	$167,000
Deferred charges	—	125,000
Long term notes receivable	200,000	—
Long term deposits	71,000	—
	496,000	292,000

BOWNE & CO., INC. (OCT)

	1985	1984
Other assets:		
Excess of cost of subsidiaries over net assets at date of acquisition	$5,232,000	$4,125,000
Cash surrender value of insurance on lives of key employees	1,293,000	1,413,000
Deposits and sundry	2,179,000	1,010,000
	8,704,000	6,548,000

Patent Award

DYNAMICS CORPORATION OF AMERICA (DEC)

	1985	1984
	($000)	
Investment in CTS Corporation, at cost (market $16,907 and $17,470)	$14,333	$14,129
Marketable Securities, at cost (market $14,168)		12,890
Patent Award—Note 12	11,928	
Deposit		6,450
Deferred Income Taxes		384

Note 12—Patent Award

On June 8, 1984, the United States Claims Court awarded the Company the sum of $11,529,195 as compensation for the Government's taking of the Company's patent property and for its delay in paying therefor. From June 1, 1984 to and including the date of payment of the award by the Government, the Company is also entitled to receive delay damages of $1,403 per day under the award. The Government appealed and the Company cross-appealed. In June 1985, the Appeals Court affirmed the award in all respects except for the Claims Court's use of simple interest rather than compound interest in calculating prejudgment delay damages included in the award and postjudgment delay damages; on these issues, the Appeals Court remanded the case to the Claims Court for further consideration. The Government's request for a rehearing was denied by the Appeals Court in September, 1985 and its time to further appeal the affirmance of the June 8, 1984 award expired in December 1985. As a result, the June 8, 1984 award is effectively no longer subject to legal challenge, no matter what the outcome of the proceedings on remand in the Claims Court. Accordingly, the Company will be entitled to receive from the Government upon final resolution of all of the Company's claims not less than the amount of the award, $11,529,195, delay damages of $1,403 per day from June 1, 1984 to June 27, 1985, or a total of $12,079,171, and interest on that aggregate amount from June 28, 1985 at 7.7% as prescribed by the applicable federal law; this aggregate amount, net of related expenses, is $1.34 per share and is included in 1985 income. The Company is pursuing the issues remanded by the Appeals Court to the Claims Court.

Acquisition Cost of Program

GENERAL DYNAMICS CORPORATION (DEC)

	1985	1984
	Dollars in millions	
Total Current Assets	$2,177.6	$1,547.1
Unconsolidated Investments	451.1	306.1
Deferred Charges and Other Assets	216.8	67.1
Property, Plant and Equipment, net	1,173.1	863.5
Acquisition Cost of M1 Tank Program	178.7	210.5
Cost in Excess of Net Assets Acquired	250.8	—
	$4,448.1	$2,994.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollars in millions, except per share amounts

A (In Part): Summary of Significant Accounting Policies

Acquisition Cost of M1 Tank Program. The unamortized acquisition cost of the M1 tank program of $178.7 at 31 December 1985 will be amortized equally over the remaining 4,000 tanks of the original 7,058 tanks in the M1 tank program. Amortization of the acquisition cost of the M1 tank program was $31.8 in 1985, $36.6 in 1984 and $34.1 in 1983.

Timberlands

INTERNATIONAL PAPER COMPANY (DEC)

	1985	1984
	Millions of dollars	
Total Current Assets	$1,105	$1,231
Plants, Properties and Equipment, Net	3,725	3,276
Timberlands (Note 8)	741	780
Investments	137	155
Construction Funds Held by Trustees	79	98
Deferred Charges and Other Assets	252	255
Total Assets	$6,039	$5,795

Summary of Significant Accounting Policies

Timberlands

Timberlands are stated at cost, less the cost of timber harvested (COTH). Timberlands include owned timberlands as well as certain timber harvesting rights. Those timber harvesting rights with terms of one year or more and where the gross price to be paid is fixed are capitalized.

Costs are allocated to either standing timber or the underlying land. Those costs attributable to standing timber are charged against income as the timber is cut. The rates charged are determined annually, based on the relationship of unamortized timber costs to the estimated volume of recoverable timber. The costs of roads and land improvements are capitalized and amortized over their economic lives.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Timberlands

The Company adopted, effective January 1, 1985, a policy of commingling certain timber deeds with fee and long-term timber deeds for purposes of calculating cost of timber harvested (COTH). The change was made to reflect more accurately the Company's timber resource and silvicultural strategy. Management believes this change will provide a more meaningful representation of operating results.

The cumulative effect of the change on prior years to December 31, 1984 of $2 million is included in earnings for the year ended December 31, 1985. The effect of the change on the year ended December 31, 1985 and the effect of retroactive application on the years ended December 31, 1984 and 1983 was not significant.

During the first quarter of 1985, the Company contributed 6.3 million acres of timberlands and other assets to IP Timberlands, Ltd. (IPT), a limited partnership. At that time, IPT sold to the public 2,500,000 Class A Units of IPT (representing a 5.5% interest in the revenues and costs primarily associated with IPT's harvesting and sale of timber through December 31, 1999). These units carried a put option that would require IPT to repurchase Class A Units in the event certain tax legislation is enacted by the 99th Congress. Accordingly, a pre-tax gain of approximately $30 million on this sale has been deferred. During the fourth quarter of 1985, the Company completed a secondary offering of 4,800,000 Class A Units without put options. This sale resulted in a pre-tax gain of $56 million and increased public holdings of this class of units to approximately 16%.

At December 31, 1985, the Company, mainly through its majority ownership of IPT, controlled approximately 6.7 million acres of timberlands in the U.S. with an unamortized cost of $741 million.

Lease Acquisition Costs

THE STOP & SHOP COMPANIES, INC. (JAN)

	1986	1985
	(Dollars in thousands)	
Net property, plant and equipment	$466,684	$369,957
Net assets of discontinued operations	—	6,214
Deferred lease acquisition costs, less accumulated amortization	67,016	43,636
Other assets	4,389	3,409

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies:

Amortization of deferred lease acquisition costs: Amortization is primarily computed based on the longer of the remaining initial terms of the leases or 20 years. Amortization expense was $3,369,000 in 1985 and $1,908,000 in 1984.

The Company's acquisition of 18 Jefferson Ward leases resulted in approximately $27,000,000 of additions to lease acquisition costs.

CURRENT LIABILITIES

Paragraphs 7 and 8 of Chapter 3A of *ARB No. 43*, as amended by *Statement of Financial Accounting Standards No. 6*, discuss the nature of current liabilities. Examples of the various types of current liabilities follow:

SHORT-TERM DEBT

ABBOTT LABORATORIES (DEC)

	1985	1984	1983
	(dollars in thousands)		
Current Liabilities:			
Short-term borrowings	$112,508	$269,948	$145,860
Trade accounts payable	204,036	152,989	169,170
Other accrued liabilities	239,138	184,294	189,373
Salaries, wages and commissions	83,773	71,876	65,119
Dividends payable	41,800	36,057	30,344
Income taxes payable	96,860	85,954	72,048
Current portion of long-term debt	10,351	2,721	2,360
Total Current Liabilities	788,466	803,839	674,274

THE CLOROX COMPANY (JUN)

	1985	1984
	(In thousands)	
Current Liabilities		
Accounts payable	$ 79,287	$ 78,742
Accrued liabilities	67,585	64,772
Income taxes payable	13,139	14,866
Commercial paper	31,763	—
Current maturities of long-term debt	3,289	29,845
Total current liabilities	195,063	188,225

TABLE 2-20: SHORT-TERM DEBT

	1985	**1984**	**1983**	**1982**
Description				
Notes or Loans				
Payee indicated	110	133	128	131
Payee not indicated	171	162	170	184
Short-term debt or borrowings	108	103	96	89
Commercial paper	46	52	52	55
Other	27	24	28	25
Total Presentations	**462**	**474**	**474**	**484**
Number of Companies				
Showing short-term debt	411	413	413	422
Not showing short-term debt	189	187	187	178
Total Companies	**600**	**600**	**600**	**600**

EMERSON RADIO CORP. (MAR)

	1985	1984
	($000)	
Current Liabilities:		
Notes and acceptances payable	$40,979	$ 9,557
Accounts payable and accrued expenses	30,603	8,583
Income taxes payable	1,434	3,290
Total current liabilities	73,016	21,430

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D—Notes and Acceptances Payable:

Short-term notes and acceptances payable consisted principally of borrowings from banks which are collateralized by trust receipts representing a security interest in the underlying merchandise and proceeds of disposition. Following is a summary of such borrowings:

	March 31,		
	1985	1984	1983
Notes and acceptances payable to bank at March 31............	$40,979,000	$ 9,557,000	$ 9,509,000
Weighted average interest rate at March 31............	10%	11%	10%
Maximum amount of borrowings outstanding at any month-end...........	$76,572,000	$19,882,000	$23,227,000
Average amount of month-end borrowings	$41,092,000	$13,347,000	$14,793,000
Weighted average interest rate during the year	11%	11%	14%

The banks and the Company have informal oral credit agreements providing lines of credit totaling $130,000,000 for demand loans, bankers acceptances, and letters of credit. Such lines, which may be withdrawn at the banks' option, provide for both unsecured and secured loans. Interest is to be at the prime rate for the demand loans and is not to exceed 85% over the prevailing rate for bankers acceptances.

SPECTRUM CONTROL, INC. (NOV)

	1985	1984
Current Liabilities		
Accounts payable	$1,273,277	$1,417,277
Short-term debt (Note D)	3,000,000	3,303,897
Current maturities of long-term debt	471,533	125,805
Accrued items:		
Salaries, wages, commissions, and related payroll taxes	337,797	301,040
Vacation pay	412,041	356,617
Profit sharing	170,000	150,000
Interest	38,853	6,352
Federal and state income taxes ..	149,396	137,048
Total current liabilities	5,852,897	5,798,036

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D—Short-Term Debt

The company has negotiated a $6,000,000 unsecured line of credit with its principal depository, at interest rates at or below the prevailing prime rate. During 1985 and 1984, the line of credit reached month-end maximums of $4,313,897 and $4,445,000, respectively. The weighted average borrowings under this agreement amounted to $3,302,430 in 1985 and $3,605,670 in 1984. Weighted average interest rates of 9½% in 1985 and 12% in 1984 were calculated by dividing the interest expense during the year for such borrowings by the weighted average short-term borrowings.

JOSLYN CORPORATION (DEC)

	1985	1984
	($000)	
Current Liabilities:		
Short-term Bank Loan (Note 2)..........	$ 3,102	$ 3,275
Accounts Payable..........................	9,170	7,051
Accrued Liabilities	15,706	14,742
Income Taxes	146	1,007
Total Current Liabilities	$28,124	$26,075

Note 2. Financing Arrangements:

Information related to short-term credit agreements with banks is as follows:

	1985	1984	1983
At December 31:			
Lines of Credit Available....	$8,580,000	$8,790,000	$9,020,000
Loans Outstanding	3,102,000	3,275,000	3,664,000
Weighted Average Interest Rate........................	10.0%	11.3%	11.0%
Compensating Cash Balance Requirements..............	250,000	250,000	250,000
During the Year:			
Average Borrowings*........	3,233,000	3,265,000	3,800,000
Maximum Amount Borrowed	3,524,000	3,664,000	4,272,000
Weighted Average Interest Rate**......................	10.4%	12.3%	11.7%

*Average Borrowings for each year (at a Canadian subsidiary) were computed by dividing the sum of the month-end outstanding principal balances by twelve.

**Weighted average Interest Rates for each year were computed by dividing short-term interest expense by Average Borrowings.

During 1985, 1984 and 1983, the Corporation complied with the compensating cash balance requirements of all credit agreements with banks.

THE RYMER COMPANY (OCT)

	1985	1984
	(in thousands of dollars)	
Current liabilities:		
Notes payable—bank	$ 2,099	$ 2,896
Current maturities of long-term debt, including amounts to related parties	11,237	4,120
Accounts payable	3,967	3,188
Accrued liabilities	3,890	2,466
Total current liabilities	21,193	12,670

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Notes Payable and Lines of Credit

Notes payable at October 26, 1985 and October 27, 1984 consist of the following:

	1985	1984
	(in thousands of dollars except percentages)	
Bank note payable with interest at prime plus 1%		$ 1,000
Bank notes payable under lines of credit, due on demand, with interest at prime in 1985 and prime plus ¾% in 1984	$1,000	900
Bank note payable, due on demand, with interest at prime plus ½%	100	
Bankers' acceptances	999	996
	$2,099	$ 2,896
Weighted average interest rate at year-end on notes payable	9.5%	13.1%
Average borrowings during the year	$1,830	$ 9,446
Weighted average interest rate, based on average short-term borrowings	10.7%	13.3%
Maximum outstanding during the year	$3,599	$13,132

The Company had total lines of credit available under short-term borrowing agreements of $1,000,000 in both 1985 and 1984. At October 26, 1985, there were no amounts unused and at October 27, 1984, there was $100,000 unused. The Company was required to maintain average compensating balances of 5% of the available lines and 10% of amounts borrowed during 1985. The Company's compensating balance requirement at October 26, 1985 was $275,000. Withdrawal of the compensating balances was unrestricted.

The Company had a bankers' acceptance line of borrowing of $1,000,000 at October 26, 1985 and October 27, 1984. At October 26, 1985, $1,000 was unused and at October 27, 1984, $4,000 was unused.

The $1,000,000 bank note payable at October 26, 1985 was repaid on October 28, 1985.

The Company's lines of credit constitute business commitments and, accordingly, are subject to continued creditworthiness and review by the lending bank. It is anticipated that similar lines of credit will be maintained in the future.

A portion of the Company's current assets, equipment and intangibles is pledged as collateral either under the lines of credit or bankers' acceptance agreements.

THE QUAKER OATS COMPANY (JUN)

	1985	1984	1983
	Millions of Dollars		
Current Liabilities:			
Short-term debt	$144.9	$214.3	$178.0
Current portion of long-term debt	23.1	2.8	12.2
Trade accounts payable	179.1	196.1	140.0
Accrued payrolls, pensions and bonuses	81.3	82.1	66.4
Accrued advertising and merchandising	50.6	48.8	30.6
Income taxes payable	50.0	11.9	18.4
Other current liabilities	82.8	66.1	53.9
Current liabilities	611.8	622.1	499.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Short-Term Debt and Lines of Credit

Millions of Dollars	1985	1984	1983
Notes payable to banks—			
Non-U.S. subsidiaries	$ 45.9	$ 71.6	$101.2
Commercial paper—U.S.			
Dealer placed on the open market	64.0	117.7	47.8
Master trust demand notes held by banks	35.0	25.0	29.0
	$144.9	$214.3	$178.0
Weighted average interest rates on debt outstanding at end of year—			
Notes payable to banks—non-U.S.	44.0%	58.4%	53.9%
Commercial paper—U.S.	7.6%	10.9%	9.4%
Weighted average interest rates on debt outstanding during the year—			
Notes payable to banks—non-U.S. (computed on month-end balances)	45.9%	41.9%	32.8%
Commercial paper—U.S. (computed on daily balances)	9.8%	9.6%	9.9%
Weighted average amount of debt outstanding during the year	$212.4	$250.1	$175.3
Maximum month-end balance during the year	$325.4	$406.4	$244.6

The Company has a Revolving Credit Agreement which provides for borrowings of $300 million from June 16 through January 2, and $100 million at other times. The Agreement expires not sooner than June 30, 1990. A commitment fee of ¼% per annum is payable on any available and unused portion. The Company also has a commitment for $25 million, which has similar terms as the Revolving Credit Agreement. The Company's non-U.S. subsidiaries have additional unused lines of credit of approximately $146.2 million at June 30, 1985. Under the most restrictive terms of the various loan agreements in effect at June 30, 1985, minimum working capital of $175 million must be maintained.

TRADE ACCOUNTS PAYABLE

All the survey companies disclosed the existence of amounts owed to trade creditors. As shown in Table 2-21, such amounts were usually described as *Accounts Payable* or *Trade Accounts Payable*.

AFG INDUSTRIES, INC. (DEC)

	1985	1984
	(In thousands)	
Current liabilities:		
Current maturities of long-term debt	$ 4,501	$ 7,836
Trade accounts payable	11,193	10,804
Income taxes	912	
Accrued liabilities	25,093	20,216
Total current liabilities	41,699	38,856

CLAROSTAT MFG. CO., INC. (DEC)

	1985	1984
Current liabilities:		
Payable to suppliers and others	$ 514,290	$ 526,670
Accrued payrolls and other expenses	1,282,966	1,412,176
Federal income taxes	114,059	364,694
Current portion of long-term debt	30,000	30,000
Total current liabilities	1,941,315	2,333,540

FORD MOTOR COMPANY (DEC)

	1985	1984
	(in millions)	
Current Liabilities		
Accounts payable		
Trade	$ 4,751.9	$ 4,433.5
Other	1,825.6	1,757.0
Total accounts payable	6,577.5	6,190.5
Income taxes	446.6	509.7
Short-term debt	956.6	696.7
Long-term debt payable within one year	318.0	651.3
Accrued liabilities	4,478.7	3,919.5
Total current liabilities	12,777.4	11,967.7

GANNETT CO., INC. (DEC)

	1985	1984
	($000)	
Current Liabilities:		
Current maturities of long-term debt	$ 971	$ 1,178
Accounts payable:		
Trade	96,214	89,122
Other	12,407	11,468
Accrued liabilities:		
Compensation	38,619	36,289
Taxes other than income	5,202	4,157
Other	37,956	21,585
Dividend payable	33,763	29,717
Income taxes	51,572	81,505
Deferred income	26,438	18,402
Total Current Liabilities	303,142	293,423

TABLE 2-21: CURRENT LIABILITIES—TRADE CREDITORS

	1985	1984	1983	1982
Description				
Accounts payable	404	403	402	403
Trade Accounts Payable	99	98	109	111
Accounts payable combined with accrued liabilities or accrued expenses	76	79	68	67
Other captions	21	20	21	19
Total Companies	**600**	**600**	**600**	**600**

IPCO CORPORATION (JUN)

	1985	1984
	(In Thousands of Dollars)	
Current Liabilities		
Current maturities of long-term debt	$ 1,981	$ 2,085
Notes payable to banks	—	3,500
Accounts payable—trade	11,906	11,148
Accrued payroll and other compensation	4,103	5,197
Federal income taxes	315	65
Taxes other than Federal	1,996	2,590
Other current liabilities	4,035	3,865
Total Current Liabilities	24,336	28,450

EMPLOYEE RELATED LIABILITIES

Table 2-22 shows the nature of employee related liabilities disclosed by the survey companies as current liabilities. Examples of captions describing employee related liabilities follow.

ANCHOR HOCKING CORPORATION (DEC)

	1985	1984
	(In thousands)	
Current liabilities:		
Notes payable	$ 9,631	$ 32,770
Current maturities of long-term debt, less debentures repurchased	4,291	5,858
Accounts payable	34,660	46,543
Accrued compensation and employee benefits	32,617	32,487
Accrued retirement contributions	4,904	10,184
Accrued costs for plant closing	3,650	16,624
Accrued expenses and income taxes	21,420	25,050
Total current liabilities	111,173	169,516

BRIGGS & STRATTON CORPORATION (JUN)

	1985	1984
	($000)	
Current Liabilities:		
Accounts Payable	$30,733	$ 27,005
Foreign Loans	11,554	12,574
Accrued Liabilities—		
Wages and Salaries	13,793	15,496
Retirement Plan	6,750	13,341
Taxes, Other Than Income Taxes	4,655	3,880
Other	18,904	21,801
Total Accrued Liabilities	44,102	54,518
Federal and State Income Taxes	2,458	19,149
Total Current Liabilities	88,847	113,246

BROCKWAY, INC. (NY)

	1985	1984
	(in thousands)	
Current liabilities:		
Current maturities of long-term debt	$ 4,168	$ 1,405
Accounts payable	50,437	44,720
Accrued income and other taxes	12,460	8,757
Accrued wages, expenses and other liabilities (Note 7)	58,607	59,026
Total current liabilities	125,672	113,908

Note 7. Accrued Liabilities

The components of accrued liabilities at December 31, 1985 and 1984 are as follows:

	1985	1984
	(in thousands)	
Accrued vacation pay	$12,731	$13,597
Accrued workers' compensation insurance	7,514	8,060
Accrued group insurance	6,879	5,742
Other (each less than 5% of current liabilities)	31,483	31,627
	$58,607	$59,026

TABLE 2-22: EMPLOYEE RELATED LIABILITIES

	Number of Companies			
	1985	**1984**	**1983**	**1982**
Description				
Salaries, wages, payrolls, commission	333	330	324	331
Compensation and/or *Benefits*	161	155	123	114
Withholdings	7	9	14	24
Pension or profit-sharing contributions	119	116	123	126
Other	47	44	69	67
Number of Companies				
Disclosing employee related liabilities	492	481	484	476
Not disclosing	108	119	116	124
Total Companies	**600**	**600**	**600**	**600**

ANHEUSER-BUSCH COMPANIES, INC. (DEC)

	1985	1984
	(In millions)	
Current Liabilities:		
Accounts payable	$425.3	$338.2
Accrued salaries, wages and benefits	177.1	150.3
Accrued interest payable	30.1	26.8
Due to customers for returnable containers	33.1	31.8
Accrued taxes, other than income taxes	56.9	43.6
Estimated income taxes	31.3	39.0
Other current liabilities	84.0	66.3
Total current liabilities	837.8	696.0

BALL CORPORATION (DEC)

	1985	1984
	(dollars in millions)	
Current liabilities		
Accounts payable	$ 63.5	$ 73.1
Pension costs and other employee benefits	25.5	21.1
Salaries and wages	12.4	13.2
Current and current deferred taxes on income	9.9	12.8
Current portion of long-term debt and lease obligations	8.0	10.4
Other current liabilities	16.2	16.7
Total current liabilities	135.5	147.3

CROWN ZELLERBACH (DEC)

	1985	1984
	(In millions of dollars)	
Current Liabilities		
Trade accounts payable	$157.0	$177.6
Accrued income taxes	2.6	3.6
Accrued payrolls	47.2	51.4
Accrued interest	26.0	26.3
Accrued retirement plan contribution	25.6	21.7
Accrued restructuring costs	83.8	31.9
Other current liabilities	105.1	112.7
Long-term debt, installments due within one year	17.0	27.8
Total current liabilities	464.3	453.0

LOWE'S COMPANIES, INC. (JAN)

	1986	1985
	($000)	
Current liabilities:		
Current maturities of long-term debt	$ 8,673	$ 7,083
Accounts payable	168,068	125,003
Employee benefits payable (Note 7)	22,225	19,989
Accrued salaries and wages	13,258	14,652
Other current liabilities	37,128	22,141
Income taxes payable	2,317	550
Total current liabilities	251,669	189,418

Note 7. Employee Benefit Plans:

Lowe's Companies Profit-Sharing Plan and Trust held approximately 6% of the outstanding shares of the Company as of January 31, 1986. Contributions to this plan were discontinued effective December 31, 1977, and accounts of members became fully vested at that time.

The Board of Directors adopted an Employee Stock Ownership Plan (ESOP) effective January 1, 1978. The amount contributed by the Company to the ESOP is determined annually by the Board of Directors. For Fiscal 1985, 1984 and 1983, respectively, the Board authorized a contribution of 14%, 15% and 15% of eligible compensation. The ESOP includes a tax credit employee stock ownership plan which is fully funded by a federal income tax credit. On October 10, 1985, the Company issued 833,373 Lowe's common shares with an aggregate market value of $18.776 million to the ESOP as part of the Company's Fiscal 1984 contribution (Note 8). At January 31, 1986, the Employee Stock Ownership Trust held approximately 18% of the outstanding stock of the Company and was its largest shareholder.

The Company established an Employee Savings and Investment Plan during Fiscal 1984. Annually, the Board of Directors approves contributions to this plan based upon a matching formula applied to employee contributions.

PORTEC, INC. (DEC)

	1985	1984
	(Thousands of dollars)	
Current Liabilities		
Notes payable	$ 2,188	$ 9,832
Long-term debt due within one year	475	714
Accounts payable	8,903	9,567
Accrued payroll	1,372	2,304
Accrued pensions	1,140	459
Other accrued liabilities	8,430	6,839
Total current liabilities	22,508	29,715

TABLE 2-23: CURRENT INCOME TAX LIABILITY

	1985	1984	1983	1982
Income taxes	346	361	353	359
Taxes—type not specified	38	34	37	39
Federal income taxes	20	21	30	24
Federal, state, and foreign income taxes	15	16	17	20
Federal and state income taxes	31	32	28	24
Federal and foreign income taxes	12	15	19	19
U. S. and foreign income taxes	18	18	21	21
Other captions	23	20	26	22
	503	517	531	528
No amount for taxes payable	97	83	69	72
Total Companies	**600**	**600**	**600**	**600**

INCOME TAX LIABILITIES

Table 2-23 summarizes the descriptive balance sheet captions used to describe the current liability for income taxes.

AMERICAN MEDICAL INTERNATIONAL, INC. (AUG)

	1985	1984
	($000)	
Current Liabilities		
Current maturities of debt	$ 18,461	$ 17,436
Accounts payable	109,906	98,508
Accrued liabilities—		
Payroll	55,886	55,771
Interest	28,005	15,122
Other	107,578	80,444
Income taxes, principally deferred	115,909	81,108
Total current liabilities	435,745	348,389

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Income Taxes

Timing differences in the recognition of revenues and expenses between financial and tax reporting are accounted for as deferred taxes. Deferred taxes relating to timing differences in reporting income from contractual programs and cash basis tax reporting are included in current liabilities. U.S. income taxes have not been provided on unremitted earnings of foreign subsidiaries amounting to approximately $33,000,000 at August 31, 1985. It is the Company's intention to permanently reinvest such earnings.

Investment tax credits are deferred and amortized as reductions of income tax expenses on a sum-of-the-years-digits method over the useful lives of the property which gave rise to such credits. At August 31, 1985, approximately $36,100,000 was deferred.

AMERICAN STORES COMPANY (JAN)

	1986	1985
	(In thousands of dollars)	
Current Liabilities		
Short-term notes payable		$ 25,000
Current maturities of long-term debt	$ 17,835	34,122
Current obligations under capital leases	10,498	12,282
Trade accounts payable	647,148	662,144
Accrued wages payable	152,598	144,191
Other accrued liabilities	377,614	337,205
Federal and state income taxes	35,989	55,254
Total current liabilities	1,241,682	1,270,198

THE BARDEN CORPORATION (OCT)

	1985	1984
Current Liabilities:		
Current maturities of long-term debt	$ 555,556	$ 555,556
Loans payable—banks		430,364
Accounts payable and accrued expenses	6,800,893	6,187,298
U.S. and foreign income taxes	664,857	322,642
Total Current Liabilities	8,021,306	7,495,860

CHAMPION SPARK PLUG COMPANY (DEC)

	1985	1984
	(In millions)	
Current liabilities:		
Short-term borrowings	$ 76.9	$ 48.3
Current portion of long-term debt	4.0	1.2
Accounts payable	63.4	60.8
Accrued expenses:		
Salaries and wages	20.9	19.5
Taxes, other than federal and foreign income taxes	10.3	9.0
Other	26.8	21.6
Federal and foreign income taxes, including deferred income taxes of $7.0 in 1985	9.3	5.4
Total current liabilities	211.6	165.8

DENNISON MANUFACTURING COMPANY (DEC)

	1985	1984
	(in thousands)	
Current Liabilities:		
Notes payable to banks	$ 28,750	$18,770
Accounts payable	38,005	29,724
Accrued compensation and amounts withheld	19,347	20,424
Federal, state and foreign income taxes	649	3,883
Other accrued expenses	24,746	18,791
Current maturities of long-term debt	2,623	2,410
Total Current Liabilities	114,120	94,002

DOW JONES & COMPANY, INC. (DEC)

	1985	1984
	(dollars in thousands)	
Current Liabilities:		
Current maturities of long-term debt	$ 3,280	$ 4,893
Accounts payable—trade	33,071	25,801
Accrued wages, salaries and commissions	26,648	27,857
Profit sharing and other retirement plan contributions payable	16,138	14,511
Other payables	33,273	29,395
Federal and state income taxes	18,210	17,454
Unexpired subscriptions	127,237	111,571
Total current liabilities	257,857	231,482

THE FEDERAL COMPANY (MAY)

	1985	1984
	($000)	
Current Liabilities		
Notes payable	$	$
Accounts payable	40,366	42,999
Current portion of long-term debt	6,393	3,539
Accrued income taxes (Note 6)		
Current	619	3,955
Deferred	16,648	16,029
Other current liabilities	29,923	25,442
Total current liabilities	93,949	91,964

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

6 (In Part): Income Taxes and Tax Credits:

Current deferred income taxes, as shown on the consolidated balance sheets, result from timing differences between financial statement and tax return recognition of certain inventory costs. The provisions (credits) for current deferred taxes relative to these timing differences included in income tax expense were as follows: 1985—$619; 1984—$2,185.

SCHLUMBERGER LIMITED (DEC)

	1985	1984
	(Stated in thousands)	
Current Liabilities		
Accounts payable and accrued liabilities	$1,188,271	$ 942,196
Estimated liability for taxes on income	948,409	890,894
Bank loans	1,046,780	829,555
Dividend payable	89,357	86,597
Long-term debt due within one year	18,516	27,884
	3,291,333	2,777,126

CURRENT AMOUNT OF LONG TERM DEBT

Table 2-24 summarizes the descriptive balance sheet captions used to describe the amount of long term debt payable during the next year.

AMETEK, INC. (DEC)

	1985	1984
Current liabilities:		
Notes payable to banks	$ 28,000,000	$ —
Accounts payable	25,911,073	24,023,529
Income taxes	5,937,453	9,618,168
Accrued employee compensation and benefits	24,006,879	21,402,742
Other accrued liabilities	11,544,179	12,104,783
Current portion of long-term debt	6,027,000	5,565,000
Total current liabilities	101,426,584	72,714,222

ALBERTSON'S, INC. (JAN)

	1986	1985
	(in thousands)	
Current Liabilities:		
Accounts payable	$262,375	$249,397
Salaries and related liabilities	45,078	38,870
Taxes other than income taxes	14,482	15,331
Income taxes	8,088	11,743
Other current liabilities	11,153	10,574
Current maturities of long-term debt	5,329	5,291
Current obligations under capital leases	4,057	3,974
Total Current Liabilities	350,562	335,180

ALUMINUM COMPANY OF AMERICA (DEC)

	1985	1984
	(in millions)	
Current liabilities:		
Accounts payable, trade	$325.4	$357.4
Accrued compensation and retirement costs	226.4	165.5
Taxes, including taxes on income	27.9	20.5
Accrued interest	42.4	47.1
Other current liabilities	140.0	128.0
Long-term debt due within one year	52.6	48.4
Total current liabilities	814.7	766.9

MEREDITH CORPORATION (JUN)

	1985	1984
	(in thousands)	
Current Liabilities:		
Current portion of long-term indebtedness (Note 4)	$ 5,475	$ 5,495
Current portion of long-term film rental contracts (Note 5)	20,716	14,787
Note and accounts payable	26,948	20,881
Accruals:		
Income taxes	—	599
Other taxes	2,953	2,882
Salaries and wages	10,046	5,439
Other	16,725	19,919
Total accruals	29,724	28,839
Total Current Liabilities	82,863	70,002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Long-Term Indebtedness

The Company was indebted at June 30, 1985, for $28,000,000 ($1,500,000 due currently) under note agreements with insurance companies. These agreements provide for interest rates averaging approximately 10.25 percent per annum and provide for principal repayments of approximately $12,500,000 during fiscal 1987 and $3,500,000 per year during fiscal years 1988 through 1991.

The provisions of the agreements include a minimum working capital requirement, limitations on additional indebtedness and certain investments, and restrictions against cash dividend payments. Retained earnings available for cash dividend payments per the above limitations were approximately $20,000,000 at June 30, 1985.

All other indebtedness totaled $21,005,000 ($3,975,000 due currently) and carried interest rates averaging approximately 9.9 percent per annum.

Approximate principal payments on long-term indebtedness at June 30, 1985, for the succeeding fiscal years are as follows:

1986	$ 5,475,000
1987	16,496,000
1988	7,592,000
1989	7,487,000
1990	7,197,000
Later years	4,758,000

5. Film Rental Contracts Payable

Film rental contracts payable are noninterest-bearing, and the amounts due in the years after June 30, 1986, are $9,143,000 in 1987, $6,875,000 in 1988, $1,804,000 in 1989 and the balance of $140,000 after 1990. The Company is also obligated to make payments under contracts for programs not currently available for use and, therefore, are not included in the consolidated financial statements in the amount of $58,652,000 at June 30, 1985; the portion of these payments due in succeeding years is $6,633,000 in 1986; $16,507,000 in 1987; $15,470,000 in 1988; and $20,042,000 thereafter.

TABLE 2-24: CURRENT AMOUNT OF LONG-TERM DEBT

	Number of Companies			
	1985	1984	1983	1982
Description				
Current *portion* of long-term debt	207	215	212	196
Current *maturities* of long-term debt	187	183	193	188
Long-term debt *due* or *payable* within one year	67	73	79	80
Current *Installment* of long-term debt	38	42	40	44
Current amount of long-term leases	44	59	66	71
Other captions	11	6	6	3

PACCAR INC. (DEC)

	1985	1984
	($000)	
Current Liabilities		
Bank loans	$ 3,296	$ 9,426
Current installments on long-term debt	267	248
Accounts payable	189,089	144,983
Salaries and wages	32,987	32,232
Other accrued expenses	47,536	46,926
Income taxes	11,764	25,692
Dividend payable	18,140	18,138
Total Current Liabilities	303,079	277,645

VULCAN MATERIALS COMPANY (DEC)

	1985	1984
	Amounts in thousands	
Current liabilities		
Current maturities:		
Long-term debt	$ 2,933	$ 2,703
Capitalized lease obligations	396	385
Notes payable	690	1,931
Trade payables and accruals	66,570	62,436
Accrued income taxes	15,422	29,638
Accrued salaries and wages	11,656	13,708
Accrued interest	1,997	2,102
Other accrued liabilities	8,120	8,219
Total current liabilities	107,784	121,122

OTHER CURRENT LIABILITIES

Table 2-25 summarizes other identified current liabilities. The most common types of other current liabilities are taxes not combined with federal income taxes, accrued interest payable, and dividends payable. Unidentified other current liabilities, generally described as *accrued expenses*, *accrued liabilities*, or *other current liabilities* are not included in Table 2-25.

Taxes Other Than Federal Income Taxes

ASSOCIATED DRY GOODS CORPORATION (JAN)

	1986	1985
	(In thousands)	
Current liabilities:		
Notes payable	$ 69,455	$ 88,009
Accounts payable	268,166	271,084
Other accrued liabilities	135,756	114,230
Taxes other than income taxes	13,441	16,069
Dividends payable	14,019	13,269
Income taxes	164,102	140,628
Long-term debt due within one year	19,730	21,180
Total current liabilities	684,669	664,469

MACK TRUCKS, INC. (DEC)

	1985	1984
	in thousands	
Current Liabilities:		
Notes payable—banks	$ 22,196	$ 25,517
Current portion of long-term debt	2,472	63,398
Accounts payable:		
Trade	85,664	112,978
Affiliated companies	21,388	33,812
Total accounts payable	107,052	146,790
Accrued U.S. and foreign income taxes	2,203	20,099
Excise and other taxes payable	8,530	10,654
Accrued warranty	47,758	37,726
Accrued wages and commissions	37,668	40,610
Accrued liabilities to distributors	25,262	32,294
Other accrued liabilities	39,592	39,041
Total current liabilities	292,733	416,129

TABLE 2-25: OTHER CURRENT LIABILITIES

	Number of Companies			
	1985	1984	1983	1982
Taxes other than Federal income taxes	186	194	204	205
Interest	122	109	112	111
Dividends payable	87	96	93	101
Estimated costs related to discontinued operations	78	65	60	56
Customer advances, deposits	61	69	67	64
Deferred taxes	57	58	67	61
Insurance	47	41	35	20
Warranties	40	37	37	34
Deferred revenue	32	26	22	21
Billings on uncompleted contracts	27	28	24	23
Due to affiliated companies	26	19	22	24
Advertising	24	25	22	13
Other—Described	85	80	75	87

PALL CORPORATION (JUL)

	1985	1984
Current Liabilities:		
Notes payable to banks	$ 80,566,000	$ 57,996,000
Accounts payable—trade	20,469,000	17,992,000
Accrued liabilities:		
Salaries and commissions	6,224,000	5,644,000
Payroll taxes	2,031,000	1,708,000
Income taxes	13,436,000	13,613,000
Interest	456,000	380,000
Pension and profit sharing plans	3,443,000	2,926,000
Other	5,022,000	5,855,000
	30,612,000	30,126,000
Dividends payable	2,177,000	1,802,000
Current portion of long-term debt	2,580,000	2,545,000
Total Current Liabilities	136,404,000	110,461,000

ROHM AND HAAS COMPANY (DEC)

	1985	1984
	(Millions of dollars)	
Current liabilities		
Notes payable	$170	$135
Accounts payable and accrued liabilities (Note 17)	260	255
Federal, foreign and other income taxes	14	11
Total current liabilities	444	401

Note 17: Accounts Payable and Accrued Liabilities

(Millions of dollars)	1985	1984
Trade payables	$116	$119
Salaries and wages	44	44
Social Security and other taxes	13	13
Interest	7	7
Other	80	72
Total	$260	$255

Current Advances/Deposits

BAIRD CORPORATION (SEP)

	1985	1984
Current liabilities:		
Foreign bank loans	$ 3,311,804	$ 1,044,948
Current loans payable	5,239,780	2,544,820
Accounts payable	2,958,935	3,265,527
Accrued expenses	3,536,951	3,133,117
Advance payments from customers	1,451,166	235,355
Federal, state and foreign income taxes	439,535	434,770
Total current liabilities	16,938,171	10,658,537

DRESSER INDUSTRIES, INC. (OCT)

	1985	1984	1983
	In millions of dollars		
Current Liabilities			
Short-term debt	$ 140.7	$ 99.5	$ 57.5
Accounts payable	273.8	228.0	179.6
Accrued compensation and benefits	181.4	157.8	128.5
Accrued warranty costs	70.0	55.2	53.9
Accrued taxes other than income taxes	37.9	35.4	37.0
Advances from customers on contracts—Note D	45.0	32.8	28.0
Other accrued liabilities	233.6	167.1	148.1
Income taxes	19.6	42.8	16.8
Current portion of long-term debt.	26.2	60.7	44.5
Total Current Liabilities	1,028.2	879.3	693.9

Note D–Long-Term Contracts

Accounts receivable include $3.3, $13.8 and $13.5 million at October 31, 1985, 1984 and 1983, respectively, of excess of costs and related profits over amounts billed. Substantially all of the 1984 and 1983 amounts were billed in 1985 and 1984, respectively, and substantially all of the 1985 amount is expected to be billed in 1986. The accounts receivable do not include any significant amounts billed but not paid by customers under retainage provisions.

At October 31, 1985, 1984 and 1983, respectively, advances from customers on contracts include $22.0, $21.3 and $18.0 million received from customers in excess of costs and related profits on long-term contracts.

JOSTENS, INC. (JUN)

	1985	1984
	($000)	
Current Liabilities		
Trade accounts payable	$11,786	$12,144
Salaries, wages and commissions	15,712	15,310
Customer deposits	26,622	23,210
Other accrued liabilities	13,140	16,413
Dividends payable	4,336	3,792
Income taxes	19,330	17,588
Current maturities on long-term debt	1,079	711
Total Current Liabilities	92,005	89,168

Product Warranties

HURCO COMPANIES, INC. (OCT)

	1985	1984
	($000)	
Current liabilities		
Notes payable, banks	$ 9,799	$ 9,545
Accounts payable	6,146	7,496
Accrued expenses	5,213	3,326
Accrued warranty expenses	1,719	462
Contracts for future development services	—	182
Current portion of long-term debt	257	795
Total current liabilities	23,134	21,806

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Product Warranty

Expected future product warranty expense is recorded when the product is sold.

INTERMEC CORPORATION (MAR)

	1985	1984
Current liabilities:		
Accounts payable	$3,031,954	$2,642,801
Accrued wages, commissions and bonus	1,318,167	1,268,325
Accrued and withheld payroll taxes	391,560	267,066
Federal income tax payable	1,174,769	664,143
Accrued warranty expense	720,000	421,820
Other current liabilities	168,526	95,992
Total current liabilities	6,804,976	5,360,147

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

Warranties—The Company's products are generally under warranty against defects in material and workmanship for a period of one year. The Company has established an accrual for these anticipated future warranty costs.

UNIVERSAL VOLTRONICS CORP. (JUN)

	1985	1984
Current Liabilities:		
Current maturities of long-term debt	$ 258,267	$ 134,248
Notes payable under a General Loan and Security Agreement	1,282,811	936,615
Notes payable to vendors	51,100	58,500
Accounts payable—trade	608,421	1,262,687
Billings in excess of costs and estimated earnings on uncompleted contracts	—	177,338
Accruals:		
Compensation	175,050	250,489
Estimated product warranty costs	40,000	43,000
Other	437,414	462,511
Total Current Liabilities	2,853,063	3,325,388

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

Product Warranty Costs:

Provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience.

Costs/Liabilities Related to Discontinued Operations

J.P. STEVENS & CO., INC. (OCT)

	1985	1984
	(Dollar amounts in thousands)	
Current liabilities		
Current installments of long-term debt	$ 19,425	$ 19,407
Accounts payable—trade	84,471	146,349
Accrued and other liabilities	70,561	85,173
Accrued costs of restructuring	106,479	—
Income and other taxes	70,593	11,815
Total current liabilities	351,529	262,744

NOTES TO FINANCIAL STATEMENTS

Note B: Costs of Restructuring

During the current year, the Company made plans for the restructuring of certain of its operations, including possible divestiture of substantially all of its finished apparel fabrics businesses, which include the Delta Fabrics Division, the Woolen & Worsted Fabrics Division, the United Elastic Fabrics Division and the Stevcoknit Division. The restructuring plans were the result of the Company's decision to concentrate on consumer products along with certain specialty operations.

Total charges to operations during the year for the estimated costs of restructuring were $130,740,000 ($73,940,000 after taxes, or $4.24 per share). The charges to operations included expenses for closing certain plants and relocating productive equipment ($25,636,000), write down of certain equipment to net realizable amounts ($3,551,000), provisions for severance pay ($23,129,000), estimated losses on sale of certain divisions ($55,000,000) and other related costs ($23,424,000), including an estimated amount to be paid to an investment banking firm, in which a director of the Company is a general partner, for services relating to the planned divestments. During the year, the Company incurred actual costs of restructuring of $24,261,000 and charged this amount against the accrued liability for restructuring costs. At November 2, 1985, the amount remaining in the accrued liability for restructuring costs in the accompanying balance sheet is $106,479,000.

The Company is presently negotiating an offer for the sale of the Woolen & Worsted Fabrics Division with a management group of Company executives and, in addition, has received various offers for the Delta Fabrics, United Elastic Fabrics and Stevcoknit Divisions.

Total sales of these four divisions were $475,881,000 in 1985, $558,408,000 in 1984 and $597,225,000 in 1983.

COLT INDUSTRIES INC. (DEC)

	1985	1984
	(In thousands)	
Current Liabilities		
Notes payable to banks	$ 4,091	$ 12,120
Current maturities of long-term debt	4,489	3,889
Accounts payable	85,803	89,639
Accrued expenses—		
Salaries, wages, and employee benefits	68,406	45,311
Taxes	76,902	81,318
Other	39,260	31,651
	184,568	158,280
Current portion of liabilities of discontinued operations (Note 3)	7,008	17,350
Total current liabilities	285,959	281,278

Note 3. Discontinued Operations

Income and earnings per common share from discontinued operations included the following:

(In thousands, except per share data)	1985	1984	1983
Income (loss) from discontinued operations—			
Crucible Materials Corporation and Crusteel Limited, net of income taxes of $50 in 1985, $9,452 in 1984 and $151 in 1983	$(1,067)	$12,260	$1,860
Adjustment to the liability for facility disposition, net of income taxes of $8,400	9,800	—	—
Total	$8,733	$12,260	$1,860
Earnings (loss) per common share from discontinued operations—			
Crucible Materials Corporation and Crusteel Limited, net of income taxes	$(.05)	$.56	$.08
Adjustment to the liability for facility disposition, net of income taxes	.49	—	—
Total	$.44	$.56	$.08

In December, 1985, the company sold its Crucible Materials Corporation and Crusteel Limited subsidiaries to the management and employees of Crucible in a leveraged buyout. Accordingly, the financial statements of the company have been restated to account for the operations of Crucible Materials Corporation and Crusteel Limited as discontinued operations.

The purchase price was $135,000,000, subject to adjustment, which approximates book value. As part of the sale, the company has a $21,000,000 minority investment in Crucible Materials Corporation, principally non-voting, which is included in Other Assets in the Consolidated Balance Sheet, and a contingent liability as guarantor of $42,250,000 of debt. In addition, the company is contingently liable for $13,150,000 in industrial revenue bonds that were assumed by Crucible.

Net sales of the discontinued operations were $259,696,000, $288,033,000, and $234,749,000 in 1985, 1984, and 1983.

The $9,800,000 credit represents an adjustment, in the second quarter, to the liability incurred with the disposition in 1982 of the company's steelmaking facility in Midland, Pennsylvania. This adjustment is the result of having funded at favorable rates a portion of the liability. During 1985, the company settled the class action involving health insurance benefits for retirees of the discontinued steelmaking facility.

The liabilities of discontinued operations represent accruals for total future estimated costs of the disposition of Crucible Materials Corporation and Crusteel Limited and the steelmaking facility in Midland, Pennsylvania.

Deferred Revenue

INTEL CORPORATION (DEC)

	1985	1984
	(Thousands)	
Current liabilities:		
Short-term debt	$ 88,898	$ 65,533
Accounts payable	56,988	79,900
Deferred income on shipments to distributors	72,421	88,413
Accrued compensation and benefits	36,693	33,676
Profit sharing retirement plan accrual	1,643	34,641
Other accrued liabilities	47,155	48,506
Income taxes payable	2,893	39,711
Total current liabilities	306,691	390,380

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part):

Deferred Income on Shipments to Distributors

Certain of Intel's sales are made to distributors under agreements allowing price protection and right of return on merchandise unsold by the distributors. Because of frequent sales price reductions and rapid technological obsolescence in the industry, Intel defers recognition of such sales until the merchandise is sold by the distributors.

MSI DATA CORPORATION (MAR)

	1985	1984
	($000)	
Current liabilities:		
Accounts payable	$ 4,058	$2,692
Accrued payroll and related expenses	2,079	2,367
Sales and related taxes payable	525	776
Taxes based on income	—	544
Current portion of deferred revenues (Note 1)	1,725	979
Other accrued liabilities	1,717	434
Total current liabilities	10,104	7,792

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of significant accounting policies

Field service agreements: Substantially all of the Company's products are sold with field service maintenance agreements which provide revenues that generally offset the cost of both direct repair work and maintenance work performed by the Company. When such revenues are received prior to providing repair and maintenance service, they are deferred and recognized over the term of the related agreements.

AMERICAN BAKERIES COMPANY (DEC)

	1985	1984
	(In thousands)	
Current Liabilities:		
Current portion of long-term debt	$ 2,368	$ 1,930
Accounts payable	15,995	16,120
Accrued liabilities	25,313	22,585
Deferred revenues	2,062	—
Total Current Liabilities	45,738	40,635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies:

Deferred Revenues–

Deferred revenues represent payments received from Coast to Coast members for single and multi-year memberships to be earned in future periods.

Insurance

STEWART-WARNER CORPORATION (DEC)

	1985	1984
	($000)	
Current Liabilities:		
Current portion of long-term debt	$ 10	$ 115
Accounts payable	12,277	14,605
Salaries, wages and commissions	8,628	8,581
Accrued insurance	3,355	1,884
Taxes, other than on income	3,652	3,577
Accrued income taxes	1,289	2,037
Other accrued liabilities	2,098	5,562
Total Current Liabilities	31,309	36,361

AMERICAN BUILDING MAINTENANCE INDUSTRIES, INC. (OCT)

	1985	1984
	($000)	
Notes payable	$ 6,000	$ —
Current portion of long-term debt	1,777	762
Accounts payable, trade	8,652	7,761
Current deferred income taxes	12,664	8,524
Accrued liabilities:		
Compensation	8,106	5,905
Taxes—other than income	3,119	2,123
Insurance claims	12,019	9,701
Other	6,265	4,551
Total current liabilities	58,602	39,327

Advertising

LAMAUR INC. (DEC)

	1985	1984
	(Thousands of dollars)	
Current Liabilities		
Current portion of long-term debt	$ 100	$ 100
Current portion of capital leases	120	—
Accounts payable	2,946	3,451
Accrued expenses:		
Payroll	1,073	1,307
Taxes, other than income taxes	476	473
Cooperative advertising	1,644	464
Consumer advertising	1,740	1,539
Profit sharing trust	389	1,050
Other	2,210	1,552
Federal and state income taxes	1,120	411
Deferred income taxes	—	806
Total Current Liabilities	11,818	11,153

TONKA CORPORATION (DEC)

	1985	1984
	(In millions)	
Current liabilities:		
Notes payable	$ —	$ 9.8
Accounts payable	21.4	8.7
Accrued taxes	22.2	1.5
Accrued payroll	4.3	2.3
Accrued advertising	6.6	2.8
Other current liabilities	7.7	4.3
Total current liabilities	62.2	29.4

Royalties

FREEPORT-McMORAN INC.

	1985	1984
	(amounts in thousands)	
Current liabilities:		
Accounts payable and accrued liabilities	$161,046	$161,711
Royalties payable	24,861	51,780
Notes payable	71,850	1,619
Accrued income and other taxes	16,137	45,846
Total current liabilities	273,894	260,956

Long-Term Debt Classified As Current

BMC INDUSTRIES, INC. (DEC)

	1985	1984
	(in thousands)	
Current Liabilities		
Short-term borrowings	$ 240	$ 6,300
Long-term debt classified as current	100,253	132
Accounts payable	7,660	5,018
Accrued salaries and commissions	1,285	1,205
Accrued profit sharing contributions	1,084	1,067
Accrued interest	4,094	2,646
Income taxes payable	1,959	1,348
Other accrued expenses	4,507	3,799
Total Current Liabilities	121,082	21,515

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands except per share data)

6 (In Part): Debt

The following is a summary of long-term debt at December 31:

	1985	1984
Revolving credit agreement, 9.1% at December 31, 1985, due in quarterly installments of $4,667 beginning January, 1987	$ 70,000	$52,500
12½% convertible subordinated notes, due in annual installments of $7,500 beginning November, 1993	30,000	30,000
Foreign subsidiary notes:		
9% maturing 1985	—	10
6% maturing 1989	279	297
Capitalized lease obligations (10¾% to 12%), due through 1989	238	293
	100,517	83,100
Less amounts due within one year	100,253	132
Total long-term debt	$ 264	$82,968

The 1985 third quarter loss, which included the $46,300 provision for loss on disposal of discontinued operations, placed the Company in default of net worth covenants under both its revolving credit and subordinated debt agreements. Because the defaults triggered a technical acceleration of the Company's senior (revolving credit) debt and allow the subordinated lenders to accelerate, the related debt has been classified as current at December 31, 1985. The Company intends to eliminate defaults under its debt agreements by restructuring the agreements through the use of proceeds from divestitures. Until the Company is able to reduce its debt through divestitures and achieve a related restructuring of its debt agreements, it will remain in default of, and subject to the lenders' rights of acceleration under, those agreements.

Agreements Payable

THE FLUOROCARBON COMPANY (JAN)

	1986	1985
	(in thousands)	
Current liabilities:		
Accounts payable	$ 3,853	$ 5,078
Salaries and wages payable	2,906	3,142
Income taxes payable	854	370
Other liabilities	3,140	2,702
Accrued casualty liability	—	1,736
Agreements payable (Note 2)	702	—
Current portion long-term debt	220	799
Total current liabilities	11,675	13,827

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Disposal of Segment

On July 31, 1985, effective June 30, 1985, the Company sold substantially all of the assets of its semiconductor business segment (excluding the fluid handling department) for $10,621,000 in cash and notes and a $2,161,000 short-term receivable.

The Company indemnified the buyer against any loss incurred on one contract. In December 1985, the Company was informed that the customer refused delivery of certain equipment under the contract, resulting in a $702,000 current liability. Accordingly the Company reduced its recorded gain on the sale of discontinued operations by $375,000 (net of taxes) during the fourth quarter reducing the gain to $260,000 (net of income tax of $260,000) for the year ended January 31, 1986.

Due To Factor

SPENCER COMPANIES, INC. (MAY)

	1985	1984
Current liabilities:		
Notes payable—banks	$ 4,250,000	$ 1,000,000
Bankers' acceptances	1,041,960	2,294,879
Current maturities of long-term debt	600,000	807,380
Accounts payable	8,291,048	9,995,552
Due to factor (Note 8)	4,798,089	1,037,121
Accrued taxes	487,976	695,558
Accrued payroll, interest and other	986,832	1,081,312
Total current liabilities	20,455,955	16,911,802

Note 8: Due to Factor

	1985	1984
Due to factor	$4,494,464	$ 653,866
Allowance for returns, discounts and allowances	303,625	383,255
	$4,798,089	$1,037,121

Two of the Company's subsidiaries sell substantially all of their accounts receivable to a factor to avoid the cost of administering and collecting the receivables and to shift the credit risk associated with the collection of receivables from approved customers to the factor. In addition, the factor provided a credit facility for an over advance line of $3,000,000.

Due to factor represents amounts advanced by the factor to the Company in excess of the accounts receivable factored by the Company as of June 1, 1985 and June 2, 1984. As of June 1, 1985, such advances exceeded the factor's over advance credit line by $1,494,464. Management reviewed the excess advances with the factor and agreed with the factor that the advances would be reduced in the manner described below. Amounts advanced by the factor are guaranteed by Spencer Companies, Inc. As of August 23, 1985, the balance due to the factor was approximately, $1,108,000.

The factor's payment for the accounts sold is based on the monthly amounts of invoices sold, net of any discounts. The factor makes available to the Company a percentage of the net amounts of the accounts sold (presently 75%) with the difference being withheld to reduce any advances in excess of the accounts sold and to provide a reserve for credits allowed for returned merchandise, warranty claims, disputed items and other credits. When the over advances have been reduced to zero, no further borrowing will be available under the over advance line.

The factor charges a commission of a fraction of a percent on the accounts sold to it. If the Company draws against the available amount before the average due date of the supporting invoices, the factor charges a commission based at 1½% above prime from the date of the draw to the average due date.

The amounts due (to) from the factor averaged ($2,500,000), $1,303,000 and $1,928,000 in 1985, 1984, and 1983, respectively. The average interest rate on the borrowings outstanding at the end of 1985 and 1984 was 12% and 13.5%, respectively. The maximum amount of borrowings outstanding at any month end in 1985 and 1984 was $5,891,000 and $654,000, respectively. In 1983, there were no borrowings from the factor. The average interest rate during 1985, 1984, and 1983 were 13.18%, 13.5% and 12.75%, respectively.

LONG TERM DEBT

Table 2-26 summarizes the types of long term debt most frequently disclosed by the survey companies.

Paragraph 10b of *Statement of Financial Accounting Standards No. 47* requires that financial statements disclose for each of the five years following the date of the latest balance sheet presented the "aggregate amount of maturities and sinking fund requirements for all long term borrowings."

Twenty-one companies disclosed information about debt considered extinguished because assets were placed in trust for paying the interest and principal of the debt. *Statement of Financial Accounting Standards No. 76*, effective for transactions agreed to subsequent to December 31, 1983, "provides guidance to debtors as to when debt should be considered to be extinguished for financial reporting purposes."

Examples of long term debt presentations and disclosures follow. Examples of long term lease presentations and disclosures are presented in connection with Table 2-28.

TABLE 2-26: LONG-TERM DEBT

	Number of Companies			
	1985	1984	1983	1982
Unsecured				
Notes	432	442	440	467
Debentures	258	269	285	289
Loans	73	83	95	106
Commercial paper	63	56	53	65
Collateralized				
Capitalized leases	442	432	444	442
Mortgages	171	170	182	185
Notes or loans	104	104	99	90
Convertible				
Debentures	163	154	161	165
Notes	21	22	23	20

ACTION INDUSTRIES, INC. (JUN)

	1985	1984
Total Current Liabilities	$28,037,128	$40,054,610
Deferred Income Taxes	975,700	1,255,700
Long-Term Obligations	25,245,584	19,827,254

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C (In Part): Long-Term Obligations

Long-term Obligations consisted of the following:

	1985	1984
9% Convertible Subordinated Debentures, due 1998	$ 1,946,000	$ 1,946,000
11¼% Senior Sinking Fund Debentures, due 1992	2,687,000	2,687,000
Revolving Credit Loans	15,000,000	9,500,000
9¼% Equitable Life Assurance Society First Mortgage Payable, due in monthly installments of $34,242 including interest through 1997	2,976,485	3,105,511
2% Pennsylvania Industrial Development Authority Second Mortgage Payable, due in monthly installments of $10,533 including interest through 1991	677,415	789,055
4% Pennsylvania Industrial Development Authority Second Mortgage Payable, due in monthly installments of $3,461 including interest through 1998	414,265	438,692
Total Mortgages	4,068,165	4,333,258
Capital Lease Obligations	1,207,419	1,337,801
Other	945,600	720,884
	25,854,184	20,524,943
Less Current Maturities	608,600	697,689
	$25,245,584	$19,827,254

Convertible Subordinated Debentures: In April, 1983 the Company issued $17,500,000 principal amount of 9% Convertible Subordinated Debentures.

In September of 1983, holders of $15,514,000 principal amount converted those Debentures into common stock (Note K) pursuant to an amendment to the Indenture Agreement which temporarily reduced the conversion price from $9.87 to $8.97 per share of common stock. Also, during 1984 holders of $40,000 principal amount converted at the original conversion price of $9.87.

The remaining Debentures ($1,946,000) may be converted into common stock at a price of $9.87 per share at any time prior to maturity. If conversion does not occur, the Company is required to provide for the mandatory redemption of $1,750,000 aggregate principal amount of Debentures on April 1, 1996 and the remainder on April 1, 1997. The Debentures may be redeemed early, at the Company's option, upon payment of a premium.

Senior Sinking Fund Debentures: In September, 1977 the Company issued $12,000,000 principal amount of 11% Senior Sinking Fund Debentures.

The Company is required to provide for the mandatory redemption of $1,200,000 aggregate principal amount of the Debentures on September 15, 1985 and on each September 15 thereafter through September 15, 1991, retiring 90% of the issue one year prior to maturity, through the operation of a sinking fund. The Debentures may be redeemed early, at the Company's option, upon the payment of a premium.

During 1980 and 1982, the Company repurchased in the open market Debentures with a face value of $9.3 million, sufficient to satisfy the mandatory redemption requirements through 1989.

In 1982 the Company obtained the consent of 66⅔% of the holders of the Debentures to execute a Supplemental Indenture under which certain restrictive working capital and other covenants were eliminated in order to provide the Company greater flexibility in its operations. In addition, the interest rate on outstanding Debentures was increased from 11% to 11¼%.

Maturities of Debt: The aggregate maturities of long-term debt, including capital lease obligations for the five fiscal years subsequent to 1985 are as follows: 1986—$608,600, 1987—$3,664,640, 1988—$3,689,395, 1989—$3,540,878, and 1990—$3,369,524.

Credit Facilities: The Company has a Revolving Credit and Term Loan Agreement which provides for the Company to borrow up to an aggregate of $25 million at the prime rate of interest (or below the prime rate in certain circumstances). Borrowings may be made at any time through June 30, 1987, at which time all outstanding loans under the agreement are to be converted into term loans payable in twenty equal quarterly installments due from September 30, 1987 through June 30, 1992. The Company must pay a commitment fee of ⅜ of 1% annually on the unused portion of the commitment.

At June 29, 1985, the Company had other credit arrangements providing for up to $92 million in short-term borrowings, $65 million of which was unused. Borrowings are primarily in the form of letters of credit and bankers acceptances to finance trade purchases of imported products. Amounts payable for such purchases are classified as bankers acceptances payable in the accompanying consolidated balance sheet and are secured by related inventories. Maturities of bankers acceptances are generally 150 days. $19 million of the short-term line is available for borrowing on an unsecured basis.

The Company has agreed to maintain compensating balances of $825,000 for the lines of credit. These lines may be terminated at any time by either the bank or the Company. Short-term unsecured borrowings against the lines ranged from a high of $14.7 million to a low of zero during the year, and there were no borrowings outstanding at June 29, 1985. During the year ended June 30, 1984, borrowings against the lines ranged from a high of $11 million to a low of zero with $9.5 million outstanding at year end.

ARMADA CORPORATION (DEC)

	1985	1984
Total current liabilities	$11,789,000	$12,788,000
Long-term debt	23,269,000	24,429,000
Deferred pension and other	1,144,000	1,191,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Financing

Debt at December 31, 1985 and 1984 consisted of:

	1985	1984
Long-term debt		
Revolving credit agreement	$10,200,000	$ 9,450,000
Term loan	10,131,000	11,650,000
Industrial Revenue Bonds (7% due 1993)	598,000	660,000
Industrial Revenue Bonds (Variable interest rate based on a New York Bank's prime rate—6.6% at December 31, 1985, due 1999)	3,594,000	3,850,000
Other	665,000	735,000
	25,188,000	26,345,000
Less current maturities	1,919,000	1,916,000
	$23,269,000	$24,429,000

Maturities of long-term debt over the next five years are as follows:

1986	$ 1,919,000
1987	$ 3,193,000
1988	$ 3,202,000
1989	$13,647,000
1990	$ 360,000

The revolving credit loan is collateralized by accounts receivable and inventories. The agreement provides for borrowings of up to $13,000,000 through June 30, 1987, and bears interest at ½ percent above the bank's prime rate. Borrowings under the revolving credit are restricted to certain percentages of accounts receivable and inventories. The Company is required to pay a commitment fee of ⅜ of 1 percent per annum on the unused portion.

The revolving credit loan may be converted into a term loan after December 31, 1986, payable in equal quarterly installments on an eight year amortization basis due June 30, 1989.

The term loan is collateralized by the capital stock of each subsidiary and certain fixed assets. The loan is payable in equal quarterly installments on an eight year amortization basis (approximately $380,000 per quarter) and is due June 30, 1989. Interest on the term loan is ¾ percent above the bank's prime rate.

The revolving credit and term loan agreement as amended, contains various restrictive covenants which include, among other things, minimum tangible net worth, maintenance of a minimum working capital (as defined), restrictions on fixed asset additions, restrictions on certain additional indebtedness and requirements to maintain certain financial ratios.

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

	1985	1984
	(Dollars in millions)	
Total Current Liabilities	$1,607.4	$1,558.4
Long Term Debt and Capital Leases	997.5	656.8
Other Long Term Liabilities	301.6	293.9
Deferred Income Taxes	475.3	448.9
Minority Equity in Foreign Subsidiaries	64.3	65.0

NOTES TO FINANCIAL STATEMENTS

Long Term Debt and Capital Leases

(In millions)	1985	1984
Sinking fund debentures:		
8.60% due 1988-1994	$ 52.5	$ 59.9
7.35% due 1992-1997	38.9	75.1
Promissory notes:		
12.5% due 1987	—	75.0
11.90% due 1994-1999	50.0	—
12.15% due 1991-2000	50.0	—
Yen bonds.		
6.875% due 1994	62.2	49.6
7.125% due 1995	124.4	—
Swiss Franc bonds, 5.375% due 2000	115.5	—
Other domestic debt	164.6	96.5
Foreign subsidiary debt	245.0	201.4
Capital lease obligations:		
Industrial revenue bonds	97.3	103.6
Other	32.3	34.5
	1,032.7	695.6
Less portion due within one year	35.2	38.8
	$ 997.5	$656.8

Refer to note on Leased Assets for additional information on capital lease obligations.

The Yen denominated bonds due in 1994 and 1995 and the Swiss Franc denominated bonds due in 2000 are completely hedged by contract against future fluctuations in the U.S. dollar value of those currencies. At December 31, 1985, $51.4 million associated with these hedge contracts is recorded in long term accounts and notes receivable on the Consolidated Balance Sheet.

There are non-cancellable revolving credit agreements totaling $1,020.0 million which terminate subsequent to 1985 whereby the Company or GFC can borrow $595.0 million from major domestic banks and $425.0 million in various Euro-currencies from major foreign banks. Commitment fees are paid when the agreements are not fully utilized. In addition, foreign subsidiaries have credit facilities for $298.8 million under non-cancellable revolving credit agreements or unused term loan agreements which terminate subsequent to 1986.

Certain domestic and foreign subsidiary debt amounting to $116.2 million and $79.7 million, respectively, which by their terms are due within one year, are classified as long term where the obligation is incurred under or supported by non-cancellable long term credit agreements and it is the Company's intent to maintain them as long term.

The annual aggregate maturities of long term debt for the five years subsequent to 1985 are presented below. Maturities of debt incurred under or supported by revolving credit agreements have been reported on the basis that these agreements will not be renewed or replaced. However, it has been the Company's consistent practice to renew or replace these agreements so as to maintain the availability of this debt on a long term basis.

(In millions)	1986	1987	1988	1989	1990
Debt incurred under or supported by revolving credit agreements	$ —	$ —	$43.2	$ —	$ —
Other	27.7	57.3	28.4	54.9	43.7
	$27.7	$57.3	$71.6	$54.9	$43.7

W.W. GRAINGER, INC. (DEC)

	1985	1984	1983
	(In thousands of dollars)		
Total current liabilities	$134,894	$136,717	$142,108
Long-Term Debt (less current maturities)	29,408	21,855	33,588
Deferred Income Taxes	35,264	21,293	15,115

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Long-Term Debt

Long-term debt consisted of the following at December 31:

	1985	1984	1983
	(In thousands of dollars)		
Industrial development revenue bonds	$37,625	$32,805	$30,690
Other	4,435	1,265	3,089
	42,060	34,070	33,779
Less current maturities	12,652	12,215	191
	$29,408	$21,855	$33,588

The industrial development revenue bonds include various issues that bear interest at either fixed rates up to 8% or variable rates up to 65% of the prime rate. One of the bonds matures at the rate of $75,000 each year through 1994 with the remainder due in various amounts from 2001 through 2010. The Company may change the interest rates of the principal issues at certain dates in the future; however, the bondholders have the option to require the Company to redeem any bonds where such change occurs. At December 31, 1985, $28,420,000 of the bonds were subject to redemption options by the bondholders. $16,285,000 of these bonds are also subject to an agreement between a bank and the Company which provides that the bank will purchase any such bonds presented by the bondholder and hold them for a period of not less than one year. The Company complied with provisions of Statement of Financial Accounting Standards No. 78, "Classification of Obligations That Are Callable by the Creditor," effective in 1984, and included $12,135,000 of bonds subject to redemption options in Current Maturities of Long-term Debt for 1985 and 1984.

At December 31, 1985, 1984, and 1983 unexpended industrial development revenue bond proceeds of $4,943,000, $7,576,000, and $10,328,000, respectively, were restricted for use in the construction and equipping of certain facilities. These amounts are included in Other Assets.

The aggregate amounts of long-term debt maturing in each of the five years subsequent to December 31, 1985 are as follows:

	Amounts Payable Under Terms of Agreements	Amounts Subject to Redemption Options
1986	$517,000	$12,125,000
1987	590,000	16,285,000
1988	679,000	8,530,000
1989	783,000	—
1990	904,000	—

GREAT NORTHERN NEKOOSA CORPORATION (DEC)

	1985	1984
	$ millions	
Total current liabilities	$238.0	$245.2
Deferred taxes on income	280.0	258.5
Long-term debt, excluding current maturities:		
4.75% to 11.25% revenue bonds due in installments to 2014	220.0	223.4
7⅞% sinking fund debentures due 1998	21.0	22.5
8.70% sinking fund debentures due 2008	75.0	75.0
9½% convertible subordinated debentures due 2013	38.9	—
9¾% notes due 1995	50.0	—
Promissory notes	60.2	118.1
Mortgage debt and miscellaneous obligations	21.7	32.4
Total long-term debt	486.8	471.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Debt

At December 31, 1985 and 1984, $60.2 million and $118.1 million, respectively, of short-term promissory notes (commercial paper) were outstanding and classified as long-term debt, supported by a credit agreement.

Effective January 1, 1986, the company entered into a new $200 million credit agreement with 15 banks which permits issuance of short-term notes, convertible on December 31, 1989, into notes payable over six years in installments beginning in 1991.

In December 1985, the company issued $50 million of 9¾% notes due 1995. In addition, GNN entered into an interest rate swap agreement whereby interest on $50 million of its floating rate debt became fixed for 10 years.

The 9½% debentures, issued March 31, 1985, in exchange for the $4.75 preferred stock, may be converted at any time into shares of common stock at a price of $36.08 a share. The 4¼% debentures, $178,000 at December 31, 1985, may be converted at any time into shares of common stock at a price of $15.22 a share. Such conversion prices are subject to adjustment in certain events.

The provisions of the company's loan and credit agreements require the maintenance of $125 million of working capital, limit the amount of short-term borrowings at any one time to $300 million, except commercial paper, and set forth certain other restrictions.

The aggregate annual maturities of long-term debt for the next five years are:

$ millions	1986	1987	1988	1989	1990
	$10.5	$26.6	$9.9	$9.0	$8.4

G. HEILEMAN BREWING COMPANY, INC. (DEC)

	1985	1984
	($000)	
Total current liabilities	$105,689	$115,024
Long-Term Debt	145,867	59,094

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Long-Term Debt:

At December 31, 1985 and 1984, long-term debt consisted of the following:

	1985	1984
Liquid Yield Option Notes	$ 89,125,000	$ —
Sinking fund debentures	35,000,000	35,000,000
Commercial paper obligations	—	10,000,000
Economic, pollution control and industrial development revenue bonds, due in varying installments to 2008 with interest of 6⅞ to 12¾%	8,800,000	8,872,000
Other, due in varying installments thru 1998, with interest at 7¾ to 12%	17,275,000	7,685,000
Total	$150,200,000	$61,557,000
Less current maturities	4,333,000	2,463,000
Total long-term debt	$145,867,000	$59,094,000

Liquid Yield Option Notes—On August 1, 1985, the Company issued $345,000,000 principal amount of Liquid Yield Option Notes (LYONs) due April, 2003 with net proceeds to the Company of $83,250,000. The LYONs are unsecured zero coupon subordinated convertible obligations of the Company with a face amount of $1,000, issued at a price of $250 per LYON to yield 8% per annum to maturity. The LYONs are convertible at the option of the holder at any time into common stock of the Company. The conversion rate (11.43 shares of common stock per LYON) was established at the date of issuance and is not adjusted for accrued original issue discount. The Company has reserved 3,943,350 shares of its authorized but unissued Common Stock to permit the conversion of the outstanding LYONs.

The LYONs contain a provision which requires the Company to purchase each LYON, at the option of the holder, on June 30, 1988 and on each June 30 thereafter. The purchase price will yield 6% to the holder in 1988, 7% in 1989 and 8% in 1990 and thereafter.

The LYONs are also redeemable at the option of the Company, in whole or in part, at any time after June 30, 1987. Redemption prices reflect the original issue discount and a declining redemption premium. Prior to June 30, 1987, the LYONs are redeemable at the option of the Company only if the Company's common stock price equals or exceeds specified levels, as defined.

The net proceeds of the LYONs issue are included in temporary investments in the accompanying consolidated balance sheets at December 31, 1985. The original issue discount is being amortized to interest expense over the term of the LYONs.

Sinking Fund Debentures—The sinking fund debentures bear interest at 11⅝% and are an unsecured obligation of the Company maturing on June 15, 2005. Beginning in 1991, the debentures are subject to redemption through payment into a sinking fund of $2,000,000 annually. The sinking fund is scheduled to retire 80% of the issue prior to maturity.

Revolving Credit Agreement—Under terms of a revolving credit agreement, the Company may borrow up to $75,000,000 through June 30, 1988. Borrowings as of June 30, 1988 are to be repaid in 16 equal quarterly installments commencing on October 1, 1988. The Company is required to pay a fee of ¼ of 1 percent of the unused portion of the lending commitment. During the revolving credit period, the Company may choose from three interest rate alternatives including the prime rate, ½ of 1% over the fixed certificate of deposit rate of the participating banks, or ⅜ of 1% over the Libor (London inter-bank offered) rate. During the term loan credit period each of the rates is increased by ¼ of 1%. Among other matters, the credit agreement provides that the Company maintain net worth of $310,000,000 (increasing $25,000,000 annually), with net worth defined to include the total amount of LYONs outstanding as of the measurement date. In addition, the credit agreement requires the Company to maintain working capital (as defined) of $35,000,000, limits consolidated indebtedness and limits the payment of aggregate cash dividends to $50,000,000 plus 30 percent of cumulative net income subsequent to 1984.

Commercial Paper Obligations—As a condition of its sale of commercial paper, the Company has agreed to maintain unused credit availability under its revolving credit agreement equal to the amount of outstanding commercial paper. Accordingly, commercial paper has been classified as long-term in the accompanying consolidated balance sheet, as any borrowings under the revolving credit agreement would be classified as long-term debt.

The aggregate maturities under all long-term debt agreements are $3,163,000 in 1987, $2,492,000 in 1988, $2,990,000 in 1989 and $3,214,000 in 1990.

McDONALD'S CORPORATION (DEC)

	1985	1984
	(In thousands of dollars)	
Total current liabilities	$ 663,440	$ 514,435
Long-term debt	1,637,988	1,268,243
Security deposits by franchises	82,400	76,861
Deferred income taxes	414,500	360,900

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Debt Financing

Lines of credit

In 1985, the Company re-negotiated the terms of its lines of credit into a new agreement that increased the amount available to $400 million, all of which was unused at December 31, 1985. The lines continue indefinitely unless terminated by the participating banks upon advance notice of at least 18 months. Borrowings under the lines bear interest at approximately the banks' prime or base rates and provide for a commission of principally .25% per annum on the daily unused portion of the total commitment. The lines of credit (and for 1984, the Company's agreement to issue $98 million of 6½% Yen notes) supported the classification of notes maturing within one year as Long-term debt.

Certain of the Company's international subsidiaries had unused short-term bank lines of credit, denominated in various foreign currencies, of $253 million at December 31, 1985. These lines had a weighted average interest rate of 13.2%, which was generally based upon prime rates of local banks.

Long-term debt

Long-term debt consisted of the following at year-end:

(In thousands of dollars)	1985	1984
Notes maturing within one year, weighted average interest rate of 8.9% (8.6% in 1984)	$ 201,768	$ 352,507
Mortgage and installment notes, weighted average interest rate of 8.8% (8.8% in 1984), due through 2005	202,365	224,066
Eurodollar notes, 9⅞%, due 1993 and 11⅝%, due 1994	150,000	150,000
25 billion Yen notes, 6½%, due 1992	124,900	
300 million Deutsche mark borrowings, 7⅛% to 8¼%, due 1992 and 1994	122,700	95,250
$100 million debentures, 10⅞%, due 2015	100,000	
$100 million notes, 11⅝%, due 1995	99,567	
Dual currency Yen/U.S. Dollar notes, effective interest rate of 8.8%, due 1995	84,387	
Three-year extendible notes, 12¼%, due 1996	75,000	75,000
Promissory notes, weighted average interest rate of 10.2% (9.3% in 1984), due from 1990 to 2000	74,493	95,778
40 million Eurosterling notes, 10⅞%, due 1990	57,808	
Money multiplier notes (zero coupon)		
$120 million, 12.6% yield to maturity, due 1994	45,104	39,915
$40 million, 12.3% yield to maturity, due 1988	29,788	26,436
Other bank credit notes, weighted average interest rate of 10.1% (12.5% in 1984), due from 1986 to 1995	80,167	57,591
Obligations under capital leases	80,401	65,290
Other	109,540	86,410
	$1,637,988	$1,268,243

At December 31, 1985, the aggregate net book value of properties securing $113 million of mortgage notes was approximately $297 million.

In connection with the issuance of the Eurodollar notes at 11⅝%, the Company also issued 75,000 warrants, each of which entitles the holder to purchase $1,000 principal amount of 11⅛% notes due January 5, 1994. The warrants will expire unless exercised by January 5, 1989. The Company entered into ten-year foreign currency exchange agreements to exchange the note proceeds from this offering for a Sterling obligation.

The Company entered into interest rate exchange agreements which effectively converted, for three years, the $100 million debentures at 10⅞%, due 2015, into a floating-rate borrowing.

In November 1985, the Company issued Dual currency Yen/U.S. Dollar notes for 20 billion Yen. The notes have a principal amount of $96 million payable in U.S. Dollars and mature in 1995. Interest of 8% per annum is payable in Yen based upon the 20 billion Yen principal amount. The Company entered into foreign currency exchange agreements to convert the Yen proceeds and interest payments into ten-year, fixed-rate obligations denominated in various Western European currencies.

The Three-year extendible notes are subject to interest rate adjustments at the sole discretion of the Company on October 15, in the years 1987, 1990 and 1993. On such dates, the notes become payable at the option of the holders or redeemable at the option of the Company at par.

The Company has entered into foreign currency exchange agreements (which include exchange of interest payments) with certain banks, including those discussed above, whereby the Company has exchanged U.S. Dollars and foreign currencies. At December 31, 1985, U.S. Dollars have been exchanged for foreign currency amounts totalling $355 million ($204 million in 1984) and foreign currency amounts have been exchanged for U.S. Dollars totalling $61 million. These agreements provide for either a right of offset, or offset of payments upon default; therefore, the amounts are offset for reporting purposes. The amounts exchanged under these agreements are repayable from 1986 through 1996. At December 31, 1985, the net balance due to the Company was $30 million ($34 million in 1984), and the net balance owed was $20 million. The interest rate and related foreign currency translation effects of these agreements were not material.

Certain of the Company's debt agreements require the maintenance of specified debt coverage ratios. At December 31, 1985, the Company was in compliance with these requirements.

In January 1986, the Company issued $100 million Eurodollar notes, with warrants, at 10% due 1993. Proceeds were used to repay notes maturing within one year which were classified as Long-term debt at December 31, 1985.

Aggregate maturities of Long-term debt, excluding obligations under capital leases, for the five years ending after December 31, 1985, were as follows: 1986—$34 million; 1987—$230 million; 1988—$90 million; 1989—$61 million; and 1990—$101 million. Included in the 1987 maturities are $102 million of notes maturing within one year, as 1987 is the earliest time at which the banks can terminate the supporting lines and the Three-year extendible notes, as the notes become payable at the holder's option in that year. The Company has the option to retire, under certain debt agreements, the majority of its Long-term debt prior to maturity at par or a slight premium over par.

For additional information relating to obligations under capital leases, refer to Leasing arrangements below.

PEPSICO, INC. (DEC)

	1985	1984
	($000)	
Long-term Debt	$1,035,571	$536,076
Capital Lease Obligations	127,097	133,565
Other Liabilities and Deferred Credits	211,391	162,732
Deferred Income Taxes	813,700	618,600

NOTES TO FINANCIAL STATEMENTS

Notes Payable and Long-term Debt

Notes payable and long-term debt (less current maturities) at December 28, 1985 and December 29, 1984 are summarized below:

	1985	1984
	(in thousands)	
Notes Payable		
10⅛% notes due 1986	$150,000	$ —
8¼% Notes due 1985	—	100,000
Current maturities on other long-term debt and capital lease obligations	25,284	17,789
Other notes payable, primarily to foreign banks	168,853	163,007
	$344,137	$280,796

	1985	1984
	(in thousands)	
Long-term Debt (less current maturities)		
Commercial paper (7.97% weighted average interest rate)	$ 603,000	$ —
10⅛% notes due 1986	—	150,000
Zero coupon serial debentures, $850 million face value due 1988-2012 (13.91% semiannual yield to maturity)	89,361	78,014
13% notes, 50 million Australian dollars, due 1990 (After interest rate swap: Variable interest based on 90-day Australian Bank Bill rate—19.6% at year-end)	34,456	—
Zero coupon notes, $100 million face value due 1992 (14.42% semiannual yield to maturity)	42,758	37,213
Zero coupon notes, $125 million face value due 1994 (14.08% semiannual yield to maturity)	41,112	35,896
5¼% bearer bonds, 130 million Swiss francs, due 1995 (After exchange agreement: $50 million principal at maturity, 10.96% semiannual yield to maturity)	47,773	—
8% convertible subordinated debentures due 1996	40,088	73,184
Other (11.9% weighted average interest rate)	137,023	161,769
	$1,035,571	$536,076

The original issue discounts associated with the zero coupon issues listed above are being amortized over the lives of the issues on a yield-to-maturity basis. For tax purposes, the original issue discounts are deductible on a straight-line basis over the lives of the issues, thus reducing the effective costs of these transactions.

At the option of the holder, the convertible subordinated debentures are primarily convertible at a rate of approximately 26 shares for each $1,000 of principal. At December 28, 1985, 1.1 million shares were reserved for issuance upon conversion of the debentures.

During 1985 PepsiCo issued Swiss francs (SFr.) 130 million of 5¼ percent Bearer Bonds, due March 1995. Simultaneously with the issuance of the SFr. Bonds, PepsiCo entered into a currency exchange agreement. The debt issuance and related agreement created a U.S. dollar liability in the amount of $50 million at maturity with a semiannual yield to maturity of 10.96 percent.

Also in 1985 PepsiCo issued Australian dollar 50 million of 13 percent Guaranteed Notes due 1990. Subsequent to the issuance of the notes, PepsiCo entered into an interest rate swap converting the fixed interest rate to a variable interest rate based on the 90-day Australian Bank Bill rate which at year-end 1985 was 19.6 percent.

During 1984 PepsiCo issued $104 million Deutsche mark denominated bearer bonds yielding 7¼ percent, due February, 1994. A major portion of the bond proceeds were used to purchase higher yielding notes of the West German Government that produce cash flows sufficient to meet the interest and principal payments of the bearer bonds. PepsiCo defeased the bonds by depositing the Deutsche mark denominated government notes in an irrevocable trust established for the sole purpose of servicing the bearer bonds. This defeasance resulted in a $2 million ($.02 per share) gain, after related expenses and taxes. The bearer bonds and promissory notes of the West German Government offset each other in the Consolidated Statement of Financial Condition.

At December 28, 1985 PepsiCo had unused credit facilities aggregating $1.52 billion, providing it with domestic and international credit availability and support for the issuance of commercial paper. Of the total, approximately $17 million represents lines of credit and $1.5 billion represents revolving credit agreements covering maximum potential borrowings maturing January 2, 1991. These unused credit facilities of $1.52 billion provide PepsiCo the ability to refinance short-term borrowings and currently support the classification of $603 million of commercial paper as long-term debt, since it is PepsiCo's intent to refinance this commercial paper during 1986 on a long-term basis.

Maturities of long-term debt (excluding capital lease obligations) are as follows: 1986—$165 million; 1987—$6 million; 1988—$46 million; 1989—$14 million; and 1990—$43 million. The debt agreements to which PepsiCo is a party include various restrictions, none of which is presently significant to PepsiCo.

Interest capitalized as an additional cost of property, plant and equipment was $13 million in 1985, $8 million in 1984 and $7 million in 1983.

In February 1986 PepsiCo issued Australian dollar 75 million of 14⅛ percent notes due in 1989. Concurrently with the issuance, PepsiCo has committed to enter into a currency exchange agreement. The debt issuance and related agreement create a U.S. dollar liability in the amount of $51 million at maturity with a floating interest rate based upon the AA Federal Reserve Composite Commercial Paper rate.

WHITTAKER CORPORATION (OCT)

	1985	1984
	($000)	
Total Current Liabilities	$243,131	$316,931
Long-Term Debt (Note 3)	118,274	140,000
Deferred Income Taxes	26,696	30,843
Minority Interest in Subsidiaries	17,855	36,955

Note 3. Notes Payable and Long-Term Debt

At October 31, 1985, certain Whittaker subsidiaries had credit commitments for short-term borrowings from domestic and foreign banks totaling approximately $19,000,000, of which $6,500,000 was drawn, and commitments for a revolving credit term loan of $40,000,000, of which $23,000,000 was drawn. Interest rates on these lines are keyed primarily to prime or other prevailing rates. Interest rates on notes payable outstanding at October 31, 1985 approximated 13%.

The maximum amount of short-term borrowing outstanding at any month-end during the year ended October 31, 1985 was approximately $9,000,000, the average amount outstanding during 1985 was approximately $7,000,000, and the average interest rate during 1985 was approximately 12%.

Long-term debt consisted of the following:

At October 31 (Dollars in thousands)	1985	1984
Collateralized Debt—		
Notes collateralized primarily by certain real property and equipment maturing at various dates to 2005, with interest rates ranging to the higher of 16% or 70% of prime	$ 27,478	$ 28,771
Capitalized Lease Obligations—		
Obligations payable in varying monthly or quarterly installments through 1999, with interest rates ranging to the higher of 11% or 75% of prime (Note 8)	12,055	14,113
Uncollateralized Debt—		
Notes maturing at various dates to 1992, with interest rates ranging to 14% or 70% of prime	16,872	19,284
Bank loan due 1988 through 1991 with interest based on prime or LIBOR	23,000	30,000
Subordinated Debt—		
9⅝% subordinated debentures due 1986 through 1993	9,011	9,011
10% subordinated debentures due 1986 through 1988	8,230	8,230
10% subordinated debentures due 1986 through 1996 (less unamortized discount of $1,042,000 at October 31, 1985 and $1,193,000 at October 31, 1984)	27,420	32,269
Convertible Subordinated Debt—		
4½% convertible subordinated debentures due 1986 through 1988, convertible into common stock at $47 per share	3,717	3,717
4¾% convertible subordinated debentures due 1986 through 1987, convertible into common stock at $17 per share	303	352
	128,086	145,747
Less current maturities	9,812	5,747
	$118,274	$140,000

At October 31, 1985, the book value of collateral for notes payable and for long-term debt, consisting primarily of real property and equipment, amounted to approximately $28,000,000.

Maturities of long-term debt are as follows for the periods stated:

Year ending October 31 (Dollars in thousands)	
1986	$ 9,812
1987	11,790
1988	20,426
1989	16,785
1990	17,680

Covenants in connection with bank loan agreements, indentures, lines of credit and other long-term loan agreements require payments to sinking funds and impose restrictions with respect to, among other things, the maintenance of financial ratios and the disposition of assets.

CREDIT AGREEMENTS

As shown in Table 2-27, many of the survey companies disclosed the existence of loan commitments from banks or insurance companies for future loans. Examples of such loan commitment disclosures follow.

AMERICAN GREETINGS CORPORATION (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B—Long and Short-Term Debt ($000)

At February 28, 1985 and February 29, 1984, long-term debt, less current maturities, consists of the following:

	1985	1984
Notes Payable:		
11% notes, due 1989	$ 50,000	$ 50,000
Short-term notes supported by revolving credit agreements	29,531	32,092
Payable to bank, interest at approximately ½% above the London Interbank Offering Rate, due 1989	7,125	8,831
Other	2,660	3,843
Industrial revenue bond capitalized lease obligations, interest rates ranging from 4.7% to 14%, due variously to 2002	23,560	25,175
	$112,876	$119,941

On February 28, 1985, the Corporation entered into a $100,000 revolving credit agreement which extends through 1990 and is renewable thereafter on an annual basis. A commitment fee of ¼ of 1% is due on the unused portion. This agreement supports commercial paper issued by the Corporation in the United States to finance peak working capital requirements. In addition, the Corporation has two revolving credit agreements, one for $14,500 that extends to 1988 and is convertible to term loans thereafter, and one for $30,000 extending to 1993. The agreements provide for various borrowing alternatives with interest approximating prime lending rates.

TABLE 2-27: CREDIT AGREEMENTS

	1985	1984	1983	1982
Disclosing credit agreement	552	549	538	547
Not disclosing credit agreement	48	51	62	53
Total Companies	**600**	**600**	**600**	**600**

Aggregate maturities of long-term debt for years 1986 through 1990 are as follows: 1986—$4,359; 1987—$4,390; 1988—$6,537; 1989—$63,040; 1990—$5,881.

During 1985 the Corporation's short-term borrowings consisted of commercial paper and bank loans. Short-term debt at February 28, 1985 and February 29, 1984 consisted of notes payable to banks.

At February 28, 1985, the Corporation had credit arrangements to support the issuance of letters of credit in the amount of $43,762 with $18,850 of open credits outstanding. In addition to the previously noted revolving credit agreements, foreign subsidiary bank lines of credit total $26,361.

Provisions of certain loan agreements contain restrictions on the payment of cash dividends, under the most restrictive of which, retained earnings of approximately $84,654 are available for the payment of dividends.

BAXTER TRAVENOL LABORATORIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Credit Facilities

In connection with the merger with American, Baxter Travenol entered into a long-term revolving credit facility with a group of banks. The company could initially borrow up to $2.5 billion on an unsecured basis under this agreement at variable interest rates. Covenants contained in the agreement limit certain corporate acts, such as mergers and consolidations; require the company to maintain minimum levels of consolidated tangible net worth, consolidated cash flow coverage and current assets as compared to current liabilities; place limitations on the company's ability to incur additional debt or grant security interests in its assets; and require the company to apply the proceeds from the sale of assets outside the ordinary course of business or from the sale of debt securities, except short-term notes, to reduce indebtedness and the amounts which may be borrowed under the facility. Other customary covenants, representations, warranties, conditions and default provisions for such a credit facility are also present in the agreement. The company is in compliance with each of these covenants. A commitment fee of ⅜ of 1% is charged on the unused portion of the facility. At December 31, 1985, there were no borrowings outstanding under the revolving credit facility; however, this facility supported $2.1 billion in commercial paper and short-term notes. All commercial paper and short-term notes have been classified as long-term debt as a portion will be refinanced in the long-term debt market and the remainder will be rolled over in the short-term debt market and supported by the long-term revolving credit facility. At year-end, the maximum amount that could be borrowed under the facility was $2.5 billion.

Other domestic credit facilities available at December 31, 1985, totaled $11 million; $4 million was outstanding against these facilities.

Baxter Travenol also maintains multi-currency credit facilities. The total of such lines at December 31, 1985, was $60 million. The company has the option to cancel all or any portion of these facilities upon notice to the respective lenders. In addition, Baxter Travenol has short-term credit arrangements totaling the equivalent of $353 million in support of international operations. At December 31, 1985, approximately $145 million in loans were outstanding under these facilities.

FUQUA INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Notes Payable and Long-Term Debt (In Part)

On June 7, 1985 Fuqua entered into a seven-year Revolving Credit-Term Loan Agreement with a group of banks. The Loan Agreement provides for unsecured revolving credit notes of up to $65,000,000 until June 30, 1988. At Fuqua's option, interest is payable during the revolving credit period at either the Prime Rate, ⅜% above the London interbank offered rate or ½% above the secondary market rate for prime certificates of deposit. On or before June 30, 1988, at Fuqua's option, the notes may be converted to four-year term notes payable in equal quarterly installments with interest payable at varying percentages above the prime interest rate, the London interbank offered rate or the secondary market rate for prime certificates of deposit. The Loan Agreement provides for a commitment fee on the average daily unused portion of the commitment. The fee is ⅜% per annum times the average daily unused portion of the commitment from January 1 through June 30. From July 1 through December 31, the fee is ⅜% per annum on $32,500,000 and ¼% on $32,500,000. In the event that usage under the Loan Agreement exceeds $32,500,000 at any time from July 1 through December 31, the commitment fee will be calculated on the basis of ⅜% on the average daily unused portion of the total commitment. At December 31, 1985 there were no amounts outstanding under the Loan Agreement.

The Loan Agreement contains various covenants which place restrictions on Fuqua's current ratio, working capital, indebtedness and tangible net worth. The most restrictive of these covenants requires Fuqua to have tangible net worth at December 31, 1985 of $100,000,000 plus 50% of consolidated net income subsequent to December 31, 1984. On December 31, 1985 retained earnings of approximately $45,000,000 were not restricted as to the payment of cash dividends.

In connection with the $65,000,000 Loan Agreement, there are no requirements for compensating balances. For short-term unsecured borrowings, which are provided for under informal agreements, Fuqua is expected, but is not legally obligated, to pay a fee of ⅜% per year. Fuqua may, at its option, maintain average collected bank balances covering a 12-month period of up to 3% of the average commitments in lieu of such fees. During 1985 Fuqua paid fees under these informal agreements of $288,000.

HAMMERMILL PAPER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Bank Credit Agreements

Three bank credit agreements provide the company with a total availability of $350 million.

A revolving and term loan agreement provides for the availability of $182 million on a revolving basis through December 31, 1988. The amount outstanding may be converted to a four-year term loan at any time. Facility fees during the revolving period vary from ⅛ of 1% to ¼ of 13%. Borrowings during both the revolving loan period and the term loan period may be in either the domestic or Eurodollar market at the option of the company. Interest rates on amounts borrowed during the revolving period or during the term loan period vary depending upon the source, but do not exceed the corporate base rate plus ¼ of 1%.

A related agreement with a group of banks provides a $93 million unsecured line of credit. This agreement will be automatically renewable unless canceled upon 15 months notice to the company by each of the banks. Facility fees are ⅛ of 1% of the total available credit. Interest rates on borrowings under this facility are determined at the time of borrowing.

A revolving underwriting facility with a group of banks, consisting of a note issuance facility and a revolving credit agreement, provides for an aggregate availability of $75 million through December 31, 1989, with options for each bank to extend the facility for up to an additional three years. Notes with maturities of up to six months may be privately placed under the note issuance facility. Interest rates on notes placed are based on prevailing market conditions. Interest rates on amounts borrowed under the revolving credit agreement do not exceed the corporate base rate. Placement fees are ⅛ of 1% of the daily average of notes placed; facility fees are 3/16 of 1% of the $75 million revolving credit commitment.

The company has a seven-year interest exchange agreement with a major French bank which expires in 1989. Under the terms of the agreement, the company has fixed the gross interest payments on $50 million of commercial paper or similar short-term borrowings at the rate of 15.22% (compounded semiannually). The bank is required to pay the company the excess of the six-month London Interbank Offered Rate (LIBOR) over the fixed rate, and the company is required to pay the bank any excess of the fixed rate over LIBOR on the $50 million amount.

The company has an agreement with a commercial bank for the limited recourse sale to the bank of up to $18 million of the company's accounts receivable. The agreement expires in 1989. The maximum amount of receivables had been sold to the bank at December 29, 1985, December 30, 1984, and January 1, 1984.

STEIGER TRACTOR, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Credit Arrangements

Steiger has lines of credit and other borrowing arrangements, both committed and uncommitted, at various banks and in various currencies up to $8,186,000, all of which were unused at September 30, 1985. Borrowings bear interest at rates varying with prime or other indexes and portions of the lines require the payment of commitment fees. Borrowings under certain lines are secured by the assets of certain subsidiaries which totaled $4,791,000 at September 30, 1985. Terms of the arrangements, among other things, require Steiger to maintain minimum shareholders' equity of $35,000,000, specified debt-to-equity and current ratios, minimum working capital of $12,000,000, and limits the payment of dividends. Steiger was in compliance with the terms of the agreements at September 30, 1985.

Steiger Credit has committed credit lines up to $44,558,000 expiring at various dates through July 1988, of which $23,310,000 was outstanding at September 30, 1985. As security for the agreements, substantially all of Steiger Credit's assets are pledged and Steiger guarantees up to $14,558,000 of borrowings of which $7,425,000 were outstanding at September 30, 1985. Steiger Credit is required to maintain certain leverage ratios and, in addition, Steiger is required to maintain the same levels of shareholders' equity and working capital and specified debt-to-equity and current ratios as set forth above. Steiger Credit and Steiger were in compliance with these covenants at September 30, 1985.

The Company and Steiger Credit are currently negotiating with lenders to restructure the loan agreements to provide sufficient covenant relief to accommodate losses that are expected to continue into 1986.

SUN COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8) Lines of Credit

The Company had $632 million of credit facilities available as of December 31, 1985. These facilities consisted of $167 million of confirmed lines of credit, a revolving credit agreement totaling $260 million which provides for revolving credit through February 1987 and two revolving credit and term loan agreements totaling $205 million which provide for revolving credit through June 1986. The facilities available through June 1986 are subject to a one-year extension at the Company's option and are convertible into four-year term loans payable in quarterly installments. All of the above facilities are subject to compensating balance requirements and/or commitment fees, the amounts of which are not material. No funds were borrowed against these facilities at December 31, 1985.

At December 31, 1985, Suncor Inc. (Suncor), the Company's Canadian subsidiary, had revolving credit and term loan facilities aggregating approximately $286 million. Committed revolving credit will be available through January 1988 and at Suncor's option may then be converted principally to five-year term loans. The facilities provide for commitment fees, the amounts of which are not material. At December 31, 1985, $131 million was outstanding under the facilities which was classified as long-term debt since it is Suncor's intention to refinance that amount on a long-term basis (Note 9).

At December 31, 1985, a subsidiary of the Company had limited recourse credit facilities which make available, including the lenders' contingent obligations discussed below, up to $400 million through December 1987 and up to $70 million through June 1987. These facilities were established to finance Sun's share of the development costs of the Balmoral Field and the Thames Field, respectively, both of which are located in the United Kingdom sector of the North Sea. The agreements provide that amounts outstanding under the credit facilities are guaranteed by the Company until such amounts are converted to non-recourse loans. However, Sun's repayment obligations under the respective facilities during the guaranteed phase may be limited if there is a diminution of net revenues from the fields resulting from certain political events. After satisfaction of certain conditions, a portion or all of the borrowings may, at the option of Sun, be converted to non-recourse loans. Semi-annual repayments of the Balmoral credit facility will commence in March 1987 and end in March 1991, and semi-annual repayments of the Thames credit facility will commence in September 1987 and end in March 1993. At December 31, 1985, $175 and $29 million were outstanding under the Balmoral and Thames facilities, respectively, and, in accordance with the agreements, guaranteed by the Company (Note 9). Under circumstances which are generally those which also limit Sun's repayment obligations, the lenders may be obligated to increase the amounts outstanding under the credit facilities at their maturity. At December 31, 1985, this contingent obligation of the lenders under the Balmoral credit facility was $60 million.

TABLE 2-28: LONG-TERM LEASES

	Number of Companies			
	1985	1984	1983	1982
Information Disclosed as to Noncapitalized Leases				
Rental expense				
Basic	465	466	454	454
Contingent	93	94	103	109
Sublease	101	95	101	102
Minimum rental payments				
Schedule of	446	446	436	439
Classified by major categories of property	30	29	28	35
Renewal or purchase options	127	131	137	135
Information Disclosed as to Capitalized Leases				
Minimum lease payments	227	246	263	268
Imputed interest	216	232	242	256
Leased assets by major classifications	125	140	142	151
Executory costs	56	67	69	74
Number of Companies				
Capitalized and noncapitalized leases	364	369	367	362
Noncapitalized leases only	112	110	105	107
Capitalized leases only	78	63	74	80
No leases disclosed	46	58	54	51
Total Companies	**600**	**600**	**600**	**600**

LONG TERM LEASES

Effective for leasing transactions entered into on or after January 1, 1977, *Statement of Financial Accounting Standards No. 13* is the authoritative pronouncement on the reporting of leases in the financial statements of lessees and lessors.

Table 2-28, in addition to showing the number of survey companies reporting capitalized and/or noncapitalized lessee leases, shows the nature of information most frequently disclosed by the survey companies for capitalized and noncapitalized lessee leases. Forty-eight survey companies reported lessor leases.

Examples of long term lease presentations and disclosures follow.

Lessee—Capital Leases

THE AMERICAN SHIP BUILDING COMPANY (SEP)

	1985	1984
	(Amounts in Thousands)	
Current Liabilities and Deferred Revenues:		
Note payable	$ 3,643	$ —
Current maturities of long-term debt	400	1,265
Current maturities of capital lease obligations (Note 7)	484	452
Amounts payable	6,454	16,033
Dividends payable	—	1,197
Accrued liabilities	10,716	7,753
Accrued and deferred income taxes	8,318	8,080
Total current liabilities	30,015	34,780
Deferred revenues	4,821	17,466
Total current liabilities and deferred revenues	34,836	52,246
Long-Term Liabilities:		
Long-term debt	390	565
Long-term capital lease obligations (Note 7)	18,149	18,633
Deferred income taxes	15,292	9,398
Other long-term liabilities	3,730	3,717
Total long-term liabilities	37,561	32,313

7. Leases:

Capitalized Leases

Tampa Shipyards, Incorporated, a wholly-owned subsidiary, is a party to a long-term lease agreement involving dry dock facilities constructed in 1978. Construction was financed by $23,000,000 of Special Purpose Revenue Bonds issued by the Tampa Port Authority (the Lessor). These bonds and related interest costs are payable solely from rental payments from Tampa Shipyards, Incorporated which are unconditionally guaranteed by The American Ship Building Company. During fiscal 1984, Tampa Shipyards, Incorporated also entered into a long-term lease agreement for the acquisition of other equipment. The facilities and equipment have been capitalized and the related obligations are recorded in the accompanying financial statements based on the present value of future minimum lease payments.

The following is a summary of the assets under the capitalized leases:

	(Amounts in Thousands)	
	1985	1984
Assets under capitalized leases—		
Buildings and improvements	$ 21	$ 21
Other manufacturing facilities	18,395	18,395
Machinery and equipment	1,908	1,908
	20,324	20,324
Less—Accumulated amortization	4,248	3,582
	$16,076	$16,742

The following is a schedule of future minimum lease payments under the capitalized leases together with the present value of the net minimum lease payments as of September 30, 1985:

Fiscal Year:	(Amounts in Thousands)
1986	$ 2,096
1987	2,098
1988	2,098
1989	2,056
1990	2,030
Later Years	30,615
Total minimum lease payments	40,993
Less-Amount representing interest	22,360
Present value of net minimum lease payments including current maturities of $484,000, with interest rates ranging from 6.5% to 10.2%	$18,633

Operating Leases

The Company is committed under noncancelable operating leases involving certain facilities and equipment. A major operating lease requires contingent rentals, based upon certain revenues of Tampa Shipyards, Incorporated. The maximum annual contingent rentals is limited by the lease to $675,000. Total rent expense incurred under noncancelable operating leases are as follows:

	(Amounts in Thousands)		
	1985	1984	1983
Minimum rentals	$2,079	$1,847	$ 896
Contingent rentals	198	151	294
	$2,277	$1,998	$1,190

Future minimum rental commitments under these operating leases are as follows:

Fiscal Year:	(Amounts in Thousands)
1986	$ 1,802
1987	703
1988	611
1989	492
1990	492
Later Years	15,777
	$19,877

GENUINE PARTS COMPANY (DEC)

	1985	1984
	(dollars in thousands)	
Current Liabilities		
Trade accounts payable	$149,586	$150,898
Current maturities on long-term debt and capital lease obligations	1,207	1,677
Accrued compensation	15,187	14,891
Other accrued expenses	4,642	5,075
Dividends payable	15,695	13,854
Income taxes	19,248	16,871
Total Current Liabilities	205,565	203,266
Long-Term Debt, less current maturities	12,490	12,896
Capital Lease Obligations, less current maturities—Note E	10,465	12,630
Deferred Income Taxes	10,976	6,090
Minority Interests In Subsidiary	7,786	6,842

Note E: Leased Properties

The Company leases land, buildings and equipment. Certain land and building leases have renewal options for periods ranging from two to twelve years.

Property, plant and equipment include the following amounts for leases which have been capitalized:

	December 31	
	1985	1984
	(in thousands)	
Land	$ 1,024	$ 993
Buildings and improvements	13,922	14,842
Machinery and equipment	3,990	4,740
	18,936	20,575
Less accumulated amortization	4,791	5,137
	$14,145	$15,438

Lease amortization is included in depreciation expense.

Capitalized leases consist principally of leases for distribution centers and equipment and were primarily entered into in connection with industrial revenue bonds issued by local governmental units. Future minimum payments, by year and in the aggregate, under the capital leases and noncancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 1985:

	Capital Leases	Operating Leases
	(in thousands)	
1986	$ 1,716	$18,902
1987	1,482	15,144
1988	1,457	11,917
1989	1,312	9,252
1990	1,281	6,869
Subsequent to 1990	9,521	27,652
Total minimum lease payments	16,769	$89,736
Amounts representing interest	5,329	
Present value of future minimum lease payments	11,440	
Less amounts due in one year	975	
	$10,465	

Rental expense for operating leases was $29,325,000 in 1985, $29,301,000 in 1984 and $26,382,000 in 1983.

THE KROGER CO. (DEC)

	1985	1984
	($000)	
Current liabilities		
Current portion of long-term debt	$ 35,730	$ 57,233
Current portion of obligations under capital leases	5,920	5,601
Notes payable	122,170	4,216
Accounts payable	986,729	902,542
Other current liabilities	487,788	424,132
Accrued income taxes	89,124	69,783
Total current liabilities	1,727,461	1,463,507
Long-term debt	710,890	577,842
Obligations under capital leases	214,586	200,815
Deferred income taxes	314,390	274,576
Employees' benefit fund	21,810	21,810
Total Liabilities	2,989,137	2,538,550

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All dollar amounts are in thousands except per share amounts.

Accounting Policies (In Part)

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization, which include the amortization of assets recorded under capital leases, are computed over the estimated useful lives of individual assets, composite group lives or the initial or remaining terms of leases. Buildings and land improvements are depreciated based on lives varying from 10 to 40 years and equipment based on lives varying from three to 15 years. Leasehold improvements are amortized over their useful lives which vary from four to 25 years. Upon sale, retirement or other disposition of major capitalized assets, the cost and related accumulated depreciation are removed from the accounts with any resulting gain or loss reflected in earnings. Maintenance and repair costs are expensed in the year incurred.

Leases

The Company operates principally in leased premises. Lease terms generally range from 10 to 25 years with options of renewal for additional periods. Options provide in some cases for reduced rentals and/or the right to purchase. Certain of the leases provide for contingent payments based upon a percent of sales.

Rent expense (under operating leases) consists of:

	1985	1984	1983
Minimum rentals, net of minor sublease rentals	$207,597	$198,944	$190,822
Contingent payments	22,460	19,913	17,572
Total	$230,057	$218,857	$208,394

Assets recorded under capital leases consist of:

	1985	1984
Distribution and manufacturing facilities	$110,440	$114,389
Store facilities	158,990	143,197
Less accumulated amortization	(85,091)	(80,037)
	$184,339	$177,549

Minimum annual rentals, net of subleased rentals under operating leases of $430,119, for the five years subsequent to 1985 and in the aggregate are:

	Capital Leases	Operating Leases
1986	$ 31,725	$ 214,940
1987	31,643	210,348
1988	31,493	204,346
1989	31,475	201,366
1990	31,335	194,483
1991 and thereafter	382,687	1,955,628
	540,358	$2,981,111
Less estimated executory costs included in capital leases	(35,131)	
Net minimum lease payments under capital leases	505,227	
Less amount representing interest	(284,721)	
Present value of net minimum lease payments under capital leases	$220,506	

VULCAN MATERIALS COMPANY (DEC)

	1985	1984
	Amounts in thousands	
Current liabilities		
Current maturities:		
Long-term debt	$ 2,933	$ 2,703
Capitalized lease obligations	396	385
Notes payable	690	1,931
Trade payables and accruals	66,570	62,436
Accrued income taxes	15,422	29,638
Accrued salaries and wages	11,656	13,708
Accrued interest	1,997	2,102
Other accrued liabilities	8,120	8,219
Total current liabilities	107,784	121,122
Long-term debt	69,034	71,521
Long-term capitalized lease obligations (Note 8)	6,530	6,962
Deferred income taxes	95,479	85,238
Deferred management incentive and other compensation	13,904	8,153

NOTES TO FINANCIAL STATEMENTS

6. Property, Plant and Equipment

Balances of major classes of assets and allowances for depreciation and amortization at December 31 are as follows (in thousands of dollars):

	1985	1984
Land and land improvements	$ 63,825	$ 61,541
Buildings	44,735	41,884
Machinery and equipment	852,399	746,412
Leaseholds and leasehold improvements	11,309	12,714
Construction in progress	7,850	10,580
Total	980,118	873,131
Less allowance for depreciation and amortization	502,528	458,292
Property, plant and equipment, net	$477,590	$414,839

The company capitalized interest cost of $2,113,000 in 1985 and $189,000 in 1984 with respect to qualifying construction projects. Total interest cost incurred before recognition of the capitalized amount was $7,787,000 in 1985 and $8,244,000 in 1984.

Balances referable to capitalized leases, which are included in property, plant and equipment, at December 31 are as follows (in thousands of dollars):

	1985	1984
Land and land improvements	$ 3	$ 322
Buildings	4	81
Machinery and equipment	10,357	13,053
Leasehold improvements	68	68
Total	10,432	13,524
Less allowance for amortization	7,035	9,155
Property, plant and equipment, net	$ 3,397	$ 4,369

Amortization of capitalized leases amounted to $428,470 in 1985, $638,610 in 1984 and $699,417 in 1983.

8. Leases

Total rental expense of nonmineral leases, exclusive of rental payments made under leases of one month or less, is summarized as follows (in thousands of dollars):

	1985	1984	1983
Minimum rentals	$2,040	$2,351	$2,245
Contingent rentals (based principally on usage)	1,467	1,520	1,351
Total	$3,507	$3,871	$3,596

Future minimum lease payments under all leases with initial or remaining noncancellable lease terms in excess of one year, exclusive of mineral leases, at December 31, 1985 are as follows (in thousands of dollars):

Year Ending December 31	Capital Leases	Operating Leases
1986	$ 1,045	$ 4,936
1987	962	4,139
1988	934	3,523
1989	929	3,093
1990	930	1,963
Remaining years	6,454	2,117
Total minimum lease payments	11,254	$19,771
Less: Amount representing interest	4,328	
Present value of net minimum lease payments (including long-term obligations of $6,530)	$ 6,926	

Lease agreements frequently include renewal options and require that the company pay for utilities, taxes, insurance and maintenance expense. Options to purchase are also included in some lease agreements, particularly capital leases.

Loan agreements with insurance companies include covenants with regard to annual rentals on leases with a remaining term of more than five years, excluding capitalized leases and leases of mineral properties, office space and data processing equipment. For the company and its subsidiaries which are restricted under the loan agreements, those annual rentals may not exceed 3% of consolidated net worth, determined as of the end of the preceding year.

Lessee—Operating Leases

AMCAST INDUSTRIAL CORPORATION (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leases

The company has a number of operating lease agreements primarily involving machinery, physical distribution, and computer equipment. These leases are noncancellable and expire on various dates through 1998.

The following is a schedule by year of future minimum rental payments required under the operating leases that have initial or remaining noncancellable lease terms in excess of one year as of August 31, 1985:

1986	$ 3,525,000
1987	3,357,000
1988	3,224,000
1989	2,916,000
1990	1,852,000
1991 and thereafter	2,848,000
Total minimum lease payments	$17,722,000

Rent expense (including contingent rents) was approximately $4,169,000, $3,661,000, and $1,818,000 for the years ended August 31, 1985, 1984, and 1983. Contingent rents, which are based on vehicle mileage, approximated $246,000 in 1985, $198,000 in 1984, and $25,000 in 1983.

BURLINGTON INDUSTRIES, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note J—Leases

Minimum commitments for rental expenditures under noncancellable operating leases are presented for future fiscal years as follows (in thousands):

1986	$16,656
1987	14,616
1988	8,034
1989	5,244
1990	3,636
Later years	13,724
	61,910
Less sublease income	3,837
Total minimum lease payments	$58,073

Capital lease commitments are not significant. Approximately 61% of the operating leases pertain to real estate. The remainder covers a variety of machinery and equipment. Certain operating leases, principally for office facilities, contain escalation clauses for increases in operating costs, property taxes and insurance. Rental expense for all operating leases was $33,214,000 in 1985, $30,815,000 in 1984 and $30,844,000 in 1983. Sublease income was $2,894,000 in 1985, $3,056,000 in 1984 and $3,474,000 in 1983.

CHROMALLOY AMERICAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Operating Leases

Certain businesses of the Company utilize leased premises or equipment under noncancelable agreements having initial or remaining terms of more than one year. The majority of the real property leases require the Company to pay maintenance, insurance and real estate taxes. Total rental expense was $21.9 million, $20.6 million and $19.5 million in 1985, 1984 and 1983, respectively.

At December 31, 1985, future minimum lease payments under such noncancelable operating leases are as follows:

In thousands of dollars	
1986	$13,771
1987	12,494
1988	9,962
1989	9,283
1990	8,699
After 1990	34,215
	$88,424

COMPUGRAPHIC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Commitments and Contingent Liabilities

Lease Commitments

The Company and its subsidiaries occupy some facilities under long-term operating leases that expire at various dates through 2005. The leases, which are for periods of 1 to 25 years, generally provide extension privileges. Rentals under these long-term leases (exclusive of real estate taxes, insurance, and other expenses payable under the terms of the leases) amounted to $4,307,000 in 1985, $3,860,000 in 1984, and $3,399,000 in 1983.

The Company's aggregate lease commitments on December 28, 1985 were $27,769,000 with minimum rentals for the periods shown as follows:

(Dollars in thousands)	
1986	$ 8,435
1987	6,911
1988	3,348
1989	2,391
1990	1,556
1991-1995	4,865
1996-2005	263
Total	$27,769

The Company leases motor vehicles for sales representatives and service personnel and other operating equipment under agreements generally cancellable after 12 months. In addition, the Company leases other operating equipment under three-year, non-cancellable agreements. The rental expense under these leases for the three years ended December 28, 1985, December 29, 1984, and December 31, 1983 amounted to $8,985,000, $6,257,000, and $4,648,000 respectively.

THE PITTSTON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Leases

The Company leases facilities, aircraft, vehicles and other equipment under long-term operating leases with varying terms, and some contain renewal and/or purchase options. Aggregate future minimum lease payments under noncancellable operating leases are as follows:

	(In thousands)
1986	$ 38,262
1987	36,883
1988	33,976
1989	31,717
1990	28,583
Later Years	112,183
	$281,604

Included in the lease commitments are rentals for ten aircraft and the Fort Wayne, Indiana hub operation as part of a controlled airlift project by a wholly-owned subsidiary of the Company. The aircraft were acquired in 1985, then sold and leased back for periods of ten and twelve years. Certain costs of the project aggregating $4,223,000 will be amortized over the terms of their respective leases.

The Company also has purchase agreements for the delivery of three additional aircraft in early 1986. Total commitments for these acquisitions aggregate approximately $26,000,000, of which $16,149,000 had been advanced as of December 31, 1985 and is included in prepaid expense in the accompanying consolidated balance sheet. These aircraft will also be sold and leased back.

Rent expense on operating leases of continuing operations amounted to $29,136,000 in 1985, $24,282,000 in 1984 and $20,653,000 in 1983 and is net of sublease rentals of $1,333,000, $1,291,000 and $800,000, respectively.

The Company's obligations under capital leases are not significant at December 31, 1985.

Lessor Leases

CONTROL DATA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data)

H. Leasing Arrangements as Lessor

Control Data leases computer equipment under various agreements with terms ranging from one to seven years. Such leases are primarily accounted for under the operating method. Control Data pays taxes, licenses and insurance on such equipment and provides for its general maintenance. The cost of equipment and accumulated depreciation under operating leases at December 31, was $373.3 and $225.7 in 1985 and $395.3 and $215.2 in 1984.

Minimum Noncancellable Lease Payments to be Received	Operating Leases
1986	$181.0
1987	104.7
1988	57.9
1989	31.1
1990	9.5
Later years	.9

FOSTER WHEELER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

(In Thousands of Dollars, Except per Share Amounts)

7. Real estate and financing assets consist of the following:

	1985	1984
Properties leased to third parties	$ 40,417	$ 40,417
Less accumulated depreciation	7,474	5,946
	32,943	34,471
Properties under construction	18,195*	4,741
Net investment in sales-type leases	55,653	55,165
Other	17,486	10,651
	$124,277	$105,028

*Includes $11,750 for a build, own and operate facility.

The Corporation is the lessor in several operating lease agreements. The properties are leased for terms of up to 20 years. Depreciation expense related to these properties for the years 1985, 1984 and 1983 was $1,546, $1,528 and $1,527, respectively.

The minimum future rental income to be received on these operating leases is as follows:

1986	$ 3,248
1987	3,248
1988	3,248
1989	3,248
1990	1,446
Later years	14,458
	$28,896

The Corporation is also the lessor in two sales-type lease arrangements. The net investment in these sales-type leases consists of the following:

	1985	1984
Total minimum lease payments to be received	$164,903	$171,133
Estimated residual value of leased property	16,412	16,412
	181,315	187,545
Less unearned income	(125,662)	(132,380)
	$ 55,653	$ 55,165

At December 27, 1985 minimum lease payments to be received under these sales-type leases for each of the five succeeding years are as follows: $6,232 for 1986 and 1987, and $6,772 in 1988 and $7,312 for 1989 and 1990.

SEABOARD CORPORATION (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Lease Receivables

The Company has entered into equipment leases which are deemed to be direct financing leases. Accordingly, the discounted value of the aggregate payments under the leases including residual values have been recorded as noncurrent receivables. The unearned income is recognized over the term of the lease using the interest method. A summary of the Company's noncurrent lease receivables is as follows:

	1985	1984
Remaining aggregate rental payments	$8,716,349	$7,682,930
Estimated residual value of leased equipment	1,159,904	771,656
Unearned income	(1,927,854)	(1,961,184)
	7,948,399	6,493,402
Less current portion of lease receivables	(1,426,332)	(937,401)
	$6,522,067	$5,556,001

The stated interest rates in the leases range from 11¾% to 14% or, for certain leases, at a rate of 1% over prime. Income earned during the periods ended June 1, 1985 and June 2, 1984 amounted to $842,000 and $139,400, respectively. Aggregate minimum lease payments under these leases for the five succeeding years are as follows: $2,224,310 in 1986, $2,224,315 in 1987, $2,214,757 in 1988, $1,842,486 in 1989 and $210,481 in 1990.

MOUNTAIN MEDICAL EQUIPMENT, INC. (MAR)

	1985	1984
	Thousands of dollars	
Current Assets:		
Cash	$ 300	$ 277
Accounts receivable—		
Trade	4,883	3,661
Related parties	228	316
	5,111	3,977
Allowance for doubtful accounts	(228)	(202)
	4,883	3,775
Net investment in sales-type leases, current portion	15,204	11,551
Inventories	5,613	7,499
Other	381	416
Total Current Assets	26,381	23,518
Net Investment in Sales-Type Leases, noncurrent portion	10,493	12,778

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except per share amounts)

2 (In Part): Summary of Significant Accounting Policies

Leasing Operations

MML's standard lease contracts are noncancellable and provide for monthly equipment rental payments for a period of three to four years with an option to renew. The Company records these as sales-type leases in accordance with the provisions of Statement of Financial Accounting Standards No. 13 in accounting for lease contracts with customers. The aggregate lease payments receivable and estimated residual value are recorded at the inception of the lease contract. The difference between the aggregate and the present value of these two components is treated as unearned interest income and is recognized over the initial term of the lease using the interest method. The amount included in total sales from these leases (representing the present value at the inception of the lease term of total minimum lease payments to be received) was $9,335, $10,822, and $11,091 for the fiscal years ended March 31, 1985, 1984 and 1983, respectively.

For income tax reporting purposes, the Company reports these leases as operating leases. That is, net lease payments are recognized as rental income when received and the related leased equipment is depreciated. Provision has been made for deferred income taxes resulting from the difference in reporting. Investment tax credits on leased units are generally retained by the Company.

5. Net Investment in Sales-Type Leases

The net investment in sales-type leases consisted of the following:

March 31	1985	1984
Total minimum lease payments to be received	$28,193	$29,910
Allowance for doubtful accounts	(565)	(764)
Estimated residual value of leased equipment	3,784	3,016
Less unearned interest income	(5,715)	(6,833)
Net investment in sales-type leases	$25,697	$24,329
Current portion	$15,204	$11,551
Long-term portion	10,493	12,778
	$25,697	$24,329

Future minimum lease payments receivable consisted of the following as of March 31, 1985:

1986	$16,251
1987	8,778
1988	3,158
1989	6
1990	—
Total minimum lease payments receivable	$28,193

OTHER NONCURRENT LIABILITIES

In addition to long-term debt, many of the survey companies presented captions for deferred taxes, minority interests, employee related liabilities, estimated losses or expenses, and deferred credits. Table 2-29 summarizes the nature of such noncurrent liabilities and deferred credits.

Deferred Taxes

JOY MANUFACTURING COMPANY (SEP)

	1985	1984
	($000)	
Total Current Liabilities	$189,485	$252,528
Long-term Debt	96,400	66,914
Deferred Compensation and Deferred Credits	29,556	27,195
Deferred Income Taxes	52,062	46,384

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Accounting Policies

Income Taxes

Deferred income taxes are recorded for timing differences between financial and tax reporting. These differences are classified as current or noncurrent based upon the classification of the related asset or liability. For deferred charges or credits that are not related to an asset or liability, classification is based upon the expected reversal date of the specific timing difference. Principal timing differences relate to in come recognition on long-term construction contracts, funding of pension costs, depreciation expense, and changes in non-deductible estimated liabilities and asset valuation allowances. U.S. investment tax credits are recorded under the flow-through method as a reduction of the current provision for income taxes.

POTLATCH CORPORATION (DEC)

	1985	1984
	(Dollars in thousands)	
Total current liabilities	$126,799	$120,754
Long-term debt	337,668	285,939
Deferred taxes on income (Note 4)	146,961	134,919

Note 4 (In Part): Taxes on Income

Deferred income taxes of $147 million and $134.9 million at December 31, 1985 and 1984, respectively, resulted principally from deducting depreciation allowances for federal tax purposes in amounts greater than the allowances determined using the straight-line method for financial reporting purposes. Depreciation for tax purposes reflects use of Internal Revenue Service guidelines and permissible accelerated depreciation of certain assets.

Included in the balance sheet caption "Prepaid expenses" are the tax effects of other timing differences in the amounts of $12.2 million and $7.6 million at December 31, 1985 and 1984, respectively.

TABLE 2-29: OTHER NONCURRENT LIABILITIES

	Number of Companies			
	1985	1984	1983	1982
Deferred income taxes	497	504	504	506
Minority interest	124	124	137	137
Production payments	13	20	11	10
Employee Liabilities				
Pension or retirement plan	70	63	57	67
Deferred compensation, bonus, etc.	57	58	59	61
Other—described	39	38	31	32
Estimated losses or expenses				
Discontinued operations	34	29	31	31
Insurance	10	7	12	9
Warranties	7	9	10	10
Other—described	48	49	46	51
Deferred credits				
Deferred profit on sales	15	10	6	5
Pension plan termination	11	6	—	—
Payments received prior to rendering service	7	8	7	8
Excess of acquired net assets over cost	6	4	4	4
Other—described	8	11	9	6

Minority interests

ARMSTRONG WORLD INDUSTRIES, INC. (DEC)

	1985	1984
	(000)	(000)
Total current liabilities	$194,216	$165,635
Long-term debt	55,237	51,058
Deferred income taxes	95,998	69,219
Other long-term liabilities	10,000	15,527
Minority interest in foreign subsidiary	3,805	2,032
Total noncurrent liabilities	165,040	137,836

BAKER INTERNATIONAL CORPORATION (SEP)

	1985	1984
	In thousands of dollars	
Total current liabilities	$449,451	$433,111
Long-term debt	348,707	432,719
Deferred income taxes	183,624	157,349
Other long-term liabilities	14,984	7,228
Minority interests in subsidiary companies	7,928	7,007

GENERAL ELECTRIC COMPANY (DEC)

	1985	1984
	(In millions)	
Current liabilities	$ 8,919	$ 8,607
Long-term borrowings	753	753
Other liabilities	2,728	2,668
Total liabilities	12,400	12,028
Minority interest in equity of consolidated affiliates	128	129

MACK TRUCKS, INC. (DEC)

	1985	1984
	($000)	
Long-Term Debt:		
Notes and loans	$104,830	$78,402
Obligations under capital leases	7,386	6,799
Total long-term debt	112,216	85,201
Other Liabilities and Deferred Credits:		
Accrued termination and restructuring costs	70,000	—
Deferred income taxes	33,400	35,784
Payable to an affiliate	4,394	7,170
Other	4,868	5,679
Total other liabilities and deferred credits	112,662	48,633
Contingent Liabilities and Commitments	—	—
Redeemable Preferred Shares (Note 8)	8,400	10,212

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Redeemable Preference Shares

The redeemable preference shares represent securities issued by Mack Trucks Australia Pty. Ltd., the Company's wholly-owned Australian subsidiary. As of October 31, 1985, 120,000 shares of the $2 (Australian) par value per share securities were authorized and outstanding. The shares were issued at $100 (Australian) per share and annual dividends are based upon a fixed percentage of issue price. Dividends are cumulative. The shares are carried at the redemption amount and redemption dates are fixed and mandatory. In the event of default, holders may require purchase of the preference shares by the Company. The shares were issued in three separate series with applicable dividend rates and redemption dates as follows:

	Number of Shares	Carrying Amount (U.S. Dollars)	Annual Dividend Rate	Redemption Date
A Series	20,000	$1,400,000	9.75%	Feb. 8, 1987
B Series	70,000	$4,900,000	10.15%	Feb. 8, 1989
C Series	30,000	$2,100,000	9.60%	Feb. 8, 1987

NIKE, INC. (MAY)

	1985	1984
	(in thousands)	
Total current liabilities	$219,474	$274,512
Long-term debt	7,573	8,823
Non-current portion of purchased tax benefits	7,350	—
Commitments and contingencies	—	—
Minority interest in consolidated subsidiaries (Note 8)	(2,399)	988

Note 8—Minority Interest in Consolidated Subsidiaries:

As a result of operating losses in the current year, Nike Japan Inc., a 51 percent owned consolidated subsidiary of the Company, had a negative net equity of $5,077,000 at May 31, 1985. By agreement between the Company and the minority shareholder, each party intends to continue their obligation to financially support the subsidiary and, accordingly, the losses are being shared based upon each shareholder's ownership interest.

Employee Related Liabilities

AMERICAN BILTRITE INC. (DEC)

	1985	1984
	($000)	
Total Current Liabilities	$22,105	$17,189
Long-Term Debt, less current portion	2,482	6,574
Other Liabilities		
Pensions—Note G	5,103	5,607
Deferred income tases	844	969
Other	111	117
	6,058	6,693

Note G (In Part): Pension Plans

A long-term pension liability ($5,103,000 at December 31, 1985; $5,607,000 at December 31, 1984) represents principally the unfunded accrued liability for pension benefits for retired or terminated employees of discontinued businesses. The unfunded liability for those employees was accrued at the time the businesses were discontinued and is adjusted annually for payments and for the increase in the present value.

BRIGGS & STRATTON CORPORATION (JUN)

	1985	1984
	($000)	
Total Current Liabilities	$88,847	$113,246
Deferred Income Taxes	29,608	22,262
Accrued Employee Benefits	9,744	9,399

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies:

Accrued Employee Benefits: The Company's life insurance program includes payment of a death benefit to beneficiaries of retired employees. The Company accrues for the estimated cost of these benefits over the estimated working life of the employee. Past service costs for all retired employees have been fully provided for and the Company is accruing for the prior service costs associated with active employees over thirty years. The Company also accrues for the estimated cost of supplemental retirement and death benefit agreements with certain officers.

DRESSER INDUSTRIES, INC. (OCT)

	1985	1984	1983
	In millions of dollars		
Total Current Liabilities	$1,028.2	$879.3	$693.0
Long-Term Debt	403.2	410.6	471.3
Deferred Compensation—Note J	68.8	66.7	65.3

Note J—Deferred Compensation Plan

A portion of the incentive compensation for officers and key employees can be deferred for payment after retirement or termination of employment, either in common shares of the Company or in cash at the equivalent market value of the common shares. The accrued deferred compensation liability may be satisfied by the future issuance of authorized but unissued common shares or treasury shares. At October 31, 1985, 4,992,257 treasury shares were available to satisfy obligations under the Deferred Compensation Plan and other employee benefit programs.

INLAND STEEL COMPANY (DEC)

	1985	1984
	Dollars in Thousands	
Total current liabilities	$ 530,780	$ 441,921
Amounts due to raw material venture	4,789	9,122
Long-term debt	922,100	834,324
Deferred income taxes	12,314	13,192
Allowance for terminated facilities costs	45,586	46,039
Deferred employee compensation (Note 7)	157,636	115,960
Total liabilities	1,673,105	1,460,558

Note 7 (In Part): Retirement Benefits

Pension costs for the continuing workforce were $14,924,000 in 1985, $10,740,000 in 1984, and $64,214,000 in 1983. The balance sheet at December 31, 1985, includes as "Deferred Employee Compensation" $76,562,000 of pension liability as compared with $42,779,000 at December 31, 1984. The increase is comprised of the 1985 pension costs, which the Company is not required and does not expect to fund currently, and pension costs associated with provisions for facilities shutdown, salaried workforce reduction, and discontinued segments.

* * * * *

The cost of other industry welfare and retirement funds, primarily the multiemployer pension plan for the United Mine Workers of America, was $9,301,000 in 1985, compared with $8,835,000 in 1984 and $10,531,000 in 1983.

The cost of life insurance benefits for retired employees, also determined by consulting actuaries, was $6,095,000 in 1985, $5,840,000 in 1984, and $9,432,000 in 1983. The decrease in cost in 1984 and 1985 from 1983 resulted from a change in the salaried employee program which reduced benefits payable for future retirees, and from changes in actuarial assumptions. These amounts, which are unfunded, are included on the balance sheet as "Deferred Employee Compensation." At year-end 1985 and 1984 these amounts totaled $53,805,000 and $51,600,000, respectively.

The cost of medical insurance benefits for retired employees, which are charged to expense as incurred, was $17,071,000 in 1985, $16,995,000 in 1984, and $11,464,000 in 1983. In 1984, the Company revised the salaried employee retired medical insurance program to require co-insurance premium payments from new retirees in an effort to contain escalating health care costs.

SAVANNAH FOODS & INDUSTRIES, INC. (DEC)

	1985	1984
	(in thousands of dollars)	
Total current liabilities	$123,621	$102,158
Long-term debt	48,186	34,380
Deferred income taxes	19,595	12,513
Deferred employee benefits (Note 9)	6,379	4,219
Minority interest in subsidiaries	3,073	2,946

Note 9 (In Part): Employee Retirement Plans

Substantially all employees of the Company and its subsidiaries are covered by noncontributory defined benefit pension plans. Benefits under these plans become fully vested after ten years of service. Pension expense was $1,199,000 in 1985, $1,419,000 in 1984 and $1,039,000 in 1983. Cumulative pension expense accruals of $1,809,000 at the end of 1985 and $1,936,000 at the end of 1984 which have not been funded are included in "Deferred employee benefits" at the end of each of these respective years.

* * * * *

The Company initiated a non-qualified pension plan to supplement its qualified plan for certain management employees in 1983. The expense related to this plan was $869,000 in 1985, $700,000 in 1984 and $599,000 in 1983. Also, during 1983 the Company initiated a deferred compensation plan which permits directors and certain management employees to defer portions of their compensation and earn a guaranteed interest rate on the deferred amounts. The salaries which have been deferred since the plan's inception have been accrued and the only expense, other than salaries, related to this plan is the interest on the deferred amounts. Interest expense during 1985 and 1984 includes $118,000 and $82,000, respectively, related to this plan. The Company has included in "Deferred employee benefits" $4,570,000 at the end of 1985, $2,283,000 at the end of 1984 and $978,000 at the end of 1983 to reflect its liability under both of these plans. To fund these plans, the Company purchased wholelife insurance contracts on the related directors and management employees. The Company paid whole-life insurance premiums of $1,650,000 in 1985, $1,096,000 in 1984 and $969,000 in 1983 and has capitalized these premiums and included them in "Other assets." If all of the assumptions regarding mortality, interest rates, policy dividends and other factors are realized, the Company will ultimately realize its full investment plus a factor for the use of its money.

THE L.S. STARRETT COMPANY (JUN)

	1985	1984
	(in thousands)	
Total current liabilities	$ 21,404	$17,266
Deferred income taxes	764	1,214
ESOP guaranteed bank loan	10,308	
Stockholders' equity:		
Common stock (10,000,000 shares authorized)	3,638	3,744
Additional paid-in capital	17,934	9,061
Retained earnings reinvested and employed in the business	64,942	69,386
Foreign currency translation adjustment	(3,521)	(2,943)
ESOP guaranteed bank loan	(10,308)	
Total stockholders' equity	72,685	79,248
	$105,161	$97,728

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pension Plan and Employee Stock Ownership Plan

The Company has a noncontributory pension plan covering substantially all domestic employees and contributory plans covering certain employees of foreign subsidiaries. In addition, the Company established an Employee Stock Ownership Plan (ESOP) and Trust during fiscal 1985 for domestic employees and sold 400,000 treasury shares to the Trust for $10,850,000. The ESOP borrowed the funds to purchase the shares under a ten year bank term loan that was guaranteed by the Company. Dividends received by the ESOP on existing shares are used to purchase additional shares and Company contributions to the ESOP are used to repay the term loan. The 400,000 shares sold to the ESOP are being allocated to employee accounts at the rate of 10% per year.

Ninety percent of the actuarily determined annuity value of an employee's ESOP shares is used to offset retirement benefits otherwise due under the noncontributory pension plan. Total retirement expense for 1985, 1984 and 1983 was $1,328,000, $1,402,000 and $2,056,000, respectively, including $1,180,000 relating to the ESOP in 1985. It is the Company's policy to fund pension costs accrued; the assumed rate of return is 7%. A comparison of accumulated plan benefits and net assets for the domestic defined benefit plan and ESOP as of July 1 is presented below (in thousands):

	1984	1983	1982
Present value of accumulated benefits:			
Vested	$19,485	$19,327	$18,908
Nonvested	1,076	1,220	1,263
	$20,561	$20,547	$20,171
Net assets available for benefits	$28,050	$30,538	$20,672

In order to eliminate shareholder dilution resulting from the sale of shares to the ESOP, the Company made a tender offer to purchase its own shares in November, 1984. At the same time, the Company established a $15,000,000 line of credit with a group of banks that requires 3% compensating balances and a committment fee of .25%. There were no borrowings under this line during the year. The number of shares purchased under the tender offer was 330,314 for a total of $9,976,490.

MOTT'S SUPER MARKETS, INC. (DEC)

	1985	1984
Total Current Liabilities	$25,038,296	$27,566,986
Other Liabilities		
Long-Term Debt, net of current portion	1,364,659	2,280,259
Deferred Items		
Deferred Federal Income Taxes	1,537,203	1,243,777
Deferred Compensation (Note 11)	600,000	600,000
Deferred Pension Cost	1,262,586	929,227
	3,399,789	2,773,004
Total Liabilities	29,802,744	32,620,249

Note 11. Deferred Compensation

If the Chairman of the Board should die or become incapacitated while in its employ, the company has agreed to continue to pay his salary then in effect to him or his estate for ten years from the date of his death or incapacity. Such liability is being accrued based on actuarial life expectancy tables.

Estimated Losses or Expenses

AMERADA HESS CORPORATION (DEC)

	1985	1984
	($000)	
Total current liabilities	$1,720,875	$1,663,380
Long-Term Debt	1,670,292	1,848,321
Deferred Liabilities and Credits		
Accrued excess shipping costs	311,302	—
Capitalized lease obligations	3,470	4,046
Deferred income taxes	186,281	194,937
Other	66,643	68,930
Total deferred liabilities and credits	567,696	267,913

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Special Charge

In the fourth quarter of 1985, the Corporation recorded a special charge to earnings of $536,692,000 ($432,742,000 after income taxes, or $5.12 per share). The special charge consists of a $146,768,000 write-down in the book value of certain ocean-going tankers and a $389,924,000 provision for marine transportation costs in excess of market rates.

The U.S. income tax benefit applicable to the special charge was limited to the existing cumulative U.S. deferred income taxes of $103,950,000. For financial reporting purposes, the Corporation has an unrecorded income tax benefit of approximately $118 million, which will be reflected in future results of operations after reinstatement of the above-mentioned deferred income taxes.

INTERNATIONAL HARVESTER COMPANY (OCT)

	1985	1984
	($000)	
Non-current liabilities		
Long-term debt	$ 788,248	$1,237,898
Deferred pension contribution	228,117	228,479
Accrued restructuring costs (Note 4)	258,460	98,450
Other liabilities	102,232	125,020
Total non-current liabilities	1,377,057	1,689,847

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Discontinued operations and operational restructuring

Net assets being divested and accrued restructuring costs

Net assets of the operations to be divested, including the remaining agricultural equipment business assets, are reported in the Statements of Consolidated Financial Condition at their estimated realizable value. The estimated realizable values of these net assets are classified as current at October 31, 1985 if disposition is projected to occur on or prior to October 31, 1986, and non-current if disposition is scheduled after October 31, 1986.

Realizable value of net assets being divested is analyzed as follows as of October 31:

Millions of dollars	1985	1984
Discontinued operations:		
Agricultural equipment	$13.6	$ —
Construction equipment	.5	.7
Prior operational restructuring actions	47.5	74.5
Total realizable value	$61.6	$75.2
Current	$27.1	$39.1
Non-current	34.5	36.1
Total realizable value	$61.6	$75.2

Future costs associated with restructuring actions and the disposition of the agricultural equipment business are recorded in the Statements of Consolidated Financial Condition as Accrued Restructuring Costs. Costs for actions expected to be completed in fiscal year 1986 are classified as Current Liabilities as of the end of fiscal 1985. Costs expected to be incurred after October 31, 1986, are classified as Non-Current Liabilities. Non-current liabilities include $227 million which represents certain future pension and insurance costs expected to be amortized over an extended period of years.

Accrued restructuring costs are analyzed as follows as of October 31:

Millions of dollars	1985	1984
Discontinued operations:		
Agricultural equipment	$215.9	$ —
Construction equipment	24.8	37.4
Prior operational restructuring actions	129.8	90.3
Total accrued restructuring costs	$370.5	$127.7
Current	$112.0	$ 29.3
Non-current	258.5	98.4
Total accrued restructuring costs	$370.5	$127.7

INTERNATIONAL MINERALS & CHEMICAL CORPORATION (JUN)

	1985	1984
	(In millions)	
Long-term debt, less current maturities	$342.1	$388.1
Deferred income taxes	117.3	112.7
Net noncurrent liabilities from discontinued operations	28.8	28.6
Other noncurrent liabilities and deferred credits	75.1	70.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions except per share amounts)

Discontinued Operations

In 1984, IMC determined that its investment in a methanol joint venture, formerly part of the discontinued chemical segment, was permanently impaired and made provision for its shutdown and disposal. That provision, offset in part by a $3.5 million pretax gain from an adjustment of a 1982 provision for disposal of another portion of the chemical segment, resulted in a pretax loss of $43.8 million, reduced by income tax benefits (primarily deferred) of $17.9 million, for a net loss of $25.9 million, or $.97 a share.

The results of operations of these discontinued businesses are included in the accompanying Consolidated Statement of Earnings under the caption "Discontinued operations." These businesses had no effect on 1985 operating results. For the two previous years, the businesses' operating results were as follows:

	1984	1983
Revenues	$13.4	$14.4
Cost and expenses	22.2	21.7
Loss before income taxes	(8.8)	(7.3)
Provision (credit) for income taxes		
Current	(4.8)	(.8)
Deferred	.4	(3.9)
	(4.4)	(4.7)
Loss from discontinued operations	$(4.4)	$(2.6)
Loss per share from discontinued operations	$(.16)	$(.10)

A summary of related net current and noncurrent liabilities at June 30, 1985, and 1984, was as follows:

	1985	1984
Net current liabilities		
Accounts receivable		$(2.5)
Trade accounts payable		2.0
Accrued lease obligation	$ 2.9	3.3
Accrued plant shutdown costs	3.0	3.6
Industrial revenue bonds payable	1.7	2.6
Other accrued liabilities	3.2	3.2
	$10.8	$12.2
Net noncurrent liabilities		
Accrued lease obligation	$34.2	$33.2
Other accrued liabilities	1.4	1.4
Estimated salvage value of property, plant, and equipment	(6.8)	(6.0)
	$28.8	$28.6

FEDDERS CORPORATION (DEC)

	1985	1984
	($000)	
Total current liabilities	$22,799	$36,422
Long-term debt	59,731	63,184
Deferred taxes	400	400
Other long-term liabilities:		
Warranty	2,723	3,370
Other	5,299	4,062
	8,022	7,432

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (in part): Summary of Significant Accounting Policies

Warranty and Return Policy

The Company's warranty policy for its compressors provides coverage during the period from purchase through 40 to 60 months and provides a full one year warranty on all parts and labor related to the room air conditioners.

The policy with respect to sales returns provides that a distributor may not return inventory except at the Company's option.

UNIVERSAL LEAF TOBACCO COMPANY, INCORPORATED (JUN)

	1985	1984
	($000)	
Total current liabilities	$148,784	$110,788
Long-term policy and contract claims	55,816	
Long-term obligations	8,375	20,259
Deferred income taxes	13,602	16,265
Minority interests	663	2,895

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All dollar amounts are in thousands, except as otherwise noted)

Note 1 (In Part): Accounting Policies

Policy and contract claims. Liabilities for estimated losses and loss adjustment expenses are accrued when premium revenues are recognized and are based upon historical and anticipated loss experience. The resulting liability reflects the estimated net costs to settle all reported claims and discounted estimates for claims incurred but not reported. If these estimates had not been discounted for the year ended June 30, 1985, net income would have decreased $630.

Payables Due After One Year

GOULDS PUMPS, INCORPORATED (DEC)

	1985	1984
	(Dollars in thousands)	
Total current liabilities	$98,876	$50,635
Long-term debt	38,497	36,933
Deferred taxes and other	25,789	17,605
Deferred common stock agreement (Note 9)	3,090	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Acquisition

During November 1985, the Company acquired all of the outstanding common stock of Lowara S.p.A. for $19,840,000, consisting of 900,000 shares of the Company's common stock and $5,935,000 in cash. In connection with a Deferred Common Stock Agreement, 200,000 shares of the common stock have been withheld and will be remitted in future years barring any unforseen significant adjustments which may have existed at the acquisition date. The acquisition has been accounted for under the purchase method. Lowara S.p.A. is a stainless steel pump manufacturer located in Vicenza, Italy.

TRIBUNE COMPANY (DEC)

	1985	1984
	($000)	
Total current liabilities	$395,841	$342,857
Notes payable	306,898	66,130
Long-term debt (less portions due within one year)	425,623	178,852
Other non-current liabilities		
Deferred income taxes	143,634	144,549
Contracts payable for broadcast rights	144,896	86,248
Compensation and other obligations	88,807	57,232
Deferred income	28,717	31,476
Total other non-current liabilities	406,054	319,505

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Contracts Payable for Broadcast Rights

Contracts payable for broadcast rights are classified as current or long-term liabilities in accordance with the payment terms of the contracts. Payments required under contractual agreements for broadcast rights recorded at December 29, 1985 are:

(In thousands) Year	Amount
1986	$115,984
1987	82,372
1988	45,217
1989	11,516
1990	5,791

Deferred Credits

AMERICAN MOTORS CORPORATION (DEC)

	1985	1984
	(Dollars in Thousands)	
Total Current Liabilities	$816,510	$797,648
Long-Term Debt		
—Affiliated company	117,066	82,854
—Others	444,337	346,238
Other Liabilities	146,549	112,153
Subordinated Debentures Due Affiliated Company	240,000	140,000
Development Grant	13,523	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H—Development Grant

The Company and AMI have entered into agreements with the Canadian Federal and Ontario Provincial governments (the "Crown") in connection with the financing of the construction of a new assembly facility in Ontario, Canada and the acquisition of tooling and equipment for the production of a new line of Renault passenger cars. The agreement provides that the Crown will contribute, subject to certain conditions, up to $121,000,000 (January 1984 Canadian dollars). The Company and AMI have agreed to certain covenants and conditions under the agreement, including a required level of equity investments in AMI equivalent to the Crown's contributions. Under the terms of the agreement, AMI will pay royalties (a portion of which will be forgiven if AMI makes additional qualifying investments in Canada) based upon sales to dealers of vehicles produced at the facility during the first seven and one-half years of production. Other covenants in the agreement relate to a limitation on producing the line of vehicles elsewhere, Canadian content requirements and a restriction as to changes in control of the facility.

THE COCA-COLA COMPANY (DEC)

	1985	1984
	($000)	
Total Current Liabilities	$2,003,844	$2,022,802
Entertainment Obligations	270,676	175,234
Long-Term Debt	889,201	740,001
Deferred Income Taxes	320,832	241,966
Deferred Entertainment Revenue	434,096	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

The major accounting policies and practices followed by the Company and its subsidiaries are as follows:

Inventories and Film Costs: Inventories are valued at the lower of cost or market. In general, inventories are valued on the basis of average cost or first-in, first-out (FIFO) methods. However, certain soft drink and citrus inventories are valued on the last-in, first-out (LIFO) method. The excess of current costs over LIFO stated values amounted to approximately $38 million and $54 million at December 31, 1985 and 1984, respectively.

Film costs include film production, print, pre-release and other advertising costs expected to benefit future periods, accrued profit participations and capitalized interest. The individual film forecast method is used to amortize these costs based on the revenues recognized in proportion to management's estimate of ultimate revenues to be received. Based on the Company's estimate of revenues as of December 31, 1985, approximately 72% of unamortized film costs are expected to be amortized over the next three years.

The costs of feature and television films are classified as current assets to the extent such costs are expected to be recovered through the respective primary markets; remaining costs relating to film production are classified as noncurrent.

Revenues from theatrical exhibition of feature films are recognized on the dates of exhibition. Revenues from television licensing agreements are recognized when films are available for telecasting. Cash collected in advance of the time of availability is recorded as deferred entertainment revenue. Motion picture revenues are derived from the following markets: domestic and foreign theater, home video, pay television, network television and independent broadcast television. The Company's average revenue recognition cycle for motion pictures is approximately seven years.

HAMMERMILL PAPER COMPANY (DEC)

	1985	1984
	($000)	
Total current liabilities	$219,605	$188,351
Long-term obligations, less current maturities	309,824	250,898
Deferred items		
Deferred income taxes	148,607	135,956
Deferred gains and other items	37,843	38,272
Total deferred items	186,450	174,228

Acquisitions and Disposals (In Part):

Sale of Plant and Equipment

In December 1983, boilers and associated equipment at the Lock Haven plant of the Hammermill Papers Group were sold to become part of an electric power cogeneration facility which was financed and constructed by a third party for leaseback to the company. A gain of $23,023,000 was deferred and is being amortized over the 15-year term of the cogeneration facility lease, which began in January 1985. A charge to deferred taxes, related to the portion of the gain which was taxable in 1983, is now being reversed as a pro rata portion of the previously taxed gain is amortized for financial reporting purposes.

LONE STAR INDUSTRIES, INC. (DEC)

	1985	1984
	(Dollars in thousands)	
Total current liabilities	$149,167	$180,589
Long-term debt	257,709	298,255
Deferred income taxes	80,063	71,164
Production payments	96,750	113,000
Deferred pension credit	32,118	37,592
Other liabilities and deferred credits	39,552	42,964

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Production Payments

The company has in three separate transactions sold specific limestone reserves located adjacent to four of its cement plants and is obligated to extract and process those reserves into cement for the purchasers free and clear of all expenses. The proceeds have been deferred and are being reflected in income through 1994, together with related costs and expenses, as the limestone is produced into cement and the cement is sold. The purchasers are entitled to receive the income from mining, or specific fixed payments, whichever is less. An amount equivalent to interest, which is expensed currently, is payable by the company at a rate not exceeding the prime interest rate for $75,000,000 of unremitted production payments, at prime plus ½% for $25,000,000 of unremitted production payments and at a rate of 10% for $13,000,000 of unremitted production payments. As of December 31, 1985, the company expects to remit payments as follows: 1986, $16,250,000; 1987, $17,250,000; 1988, $18,250,000; 1989, $14,250,000; 1990, $8,000,000; 1991–1994, $39,000,000.

PUROLATOR COURIER CORP. (DEC)

	1985	1984
	(Dollars in thousands)	
Total current liabilities	$114,938	$104,044
Long-term debt, less current installments	115,769	113,271
Deferred gain on sale of aircraft (note 13)	11,111	—
Other long-term liabilities	23,867	22,127
Deferred taxes on income	500	16,010
Total liabilities	266,185	255,452

Note 13 (In Part): Leases

During 1985, Purolator Courier entered into sale and leaseback agreements for eight DC-9-15F aircraft and four 727-100C aircraft. Proceeds from these transactions totalled $45.5 million. The aggregate gain of $11.3 million is being amortized to income over lease terms of ten and 12¼ years.

TIME INCORPORATED (DEC)

	1985	1984
	(in thousands)	
Total Current Liabilities	$768,870	$691,213
Unearned Portion of Paid Subscriptions	333,673	258,764
Long-Term Debt	464,530	383,195
Deferred Federal Income Taxes	248,132	150,695
Other Liabilities	45,899	69,002

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part):

Unearned Portion of Paid Subscriptions. Revenues from magazine subscriptions are deferred at the time of sale. As magazines are delivered to subscribers, proportionate shares of the gross subscription price are credited to revenues. Costs connected with the procurement of subscriptions are expensed within the year incurred.

THE TIMKEN COMPANY (DEC)

	1985	1984
	(Thousands of dollars)	
Total Current Liabilities	$281,805	$320,398
Long-Term Debt	159,559	90,190
Deferred Income Taxes	52,189	78,665
Deferred Gain on Pension Termination/Reestablishment	92,585	0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note E (In Part): Employee Retirement Plans

Effective November 1, 1984, the Company terminated its salaried pension plan for U.S. employees and adopted a new plan, which is substantially a continuation of the previous plan. As a result of the termination, assets of the plan in excess of the amount required to purchase annuity contracts to provide for the payment of participant benefits reverted to the Company. As a result of this transaction, the Company recorded in 1985 a deferred gain of $100,767,000 before income taxes to be amortized on a straight-line basis over 15 years. The decrease in the actuarial present value of accumulated benefits and net assets available for benefits is a result of this pension plan termination/reestablishment and the changes in actuarial cost method previously described.

RESERVES—USE OF THE TERM "RESERVE"

Accounting Terminology Bulletin No. 1 recommends that the term reserve be used only to indicate, as an appropriation of retained earnings, that "an undivided portion of the assets is being held or retained for general or specific purposes . . ." Table 2-30 shows that the term *Reserve* appeared occasionally in the 1985 annual reports of the survey companies.

TABLE 2-30: USE OF TERM "RESERVE"

	Number of Companies			
	1985	1984	1983	1982
To describe deductions from assets for				
Reducing inventories to LIFO cost	45	41	47	45
Doubtful accounts	29	28	29	32
Accumulated depreciation	6	6	7	8
Other—described	3	7	8	3
To describe accruals for				
Estimated expenses relating to property abandonments or discontinued operations	17	17	15	15
Employee benefits or compensation	9	8	11	10
Insurance	6	5	6	5
Other—described	14	15	15	20
Other—not described	11	11	13	13

TITLE OF STOCKHOLDERS' EQUITY SECTION

Table 2-31 summarizes the titles used by the survey companies to identify the stockholder's equity section of the balance sheet.

TABLE 2-31: TITLE OF STOCKHOLDERS' EQUITY SECTION

	1985	1984	1983	1982
Shareholders' Equity	235	231	226	226
Stockholders' Equity	223	226	228	230
Common Shareholders' Equity	24	26	24	20
Shareowners' Equity	22	16	17	18
Common Stockholders' Equity	21	21	24	23
Shareholders' Investment	18	23	21	22
Stockholders' Investment	12	10	8	9
Other or no title	45	47	52	52
Total Companies	**600**	**600**	**600**	**600**

CAPITAL STRUCTURES

Table 2-32 summarizes the various classes and combinations of capital stock outstanding disclosed in the balance sheets of the survey companies. The need for disclosure in connection with complex capital structures is stated in Paragraph 19 of *APB Opinion No. 15*. Paragraph 19 states:

> The use of complex securities complicates earnings per share computations and makes additional disclosures necessary. The Board has concluded that financial statements should include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding. Examples of information which should be disclosed are dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking fund requirements, unusual voting rights, etc.

TABLE 2-32: CAPITAL STRUCTURES

	1985	1984	1983	1982
Common stock with:				
No preferred stock	406	389	381	378
One class of preferred stock	129	139	157	150
Two classes of preferred stock	47	53	47	55
Three or more classes of preferred stock	18	19	15	17
Total Companies	**600**	**600**	**600**	**600**
Companies included above with two or more classes of common stock	32	23	22	18

COMMON STOCK

Table 2-33 summarizes the valuation bases of common stock. As in prior years, the majority of the survey companies show common stock at par value.

Examples of common stock presentations are shown in connection with Table 2-34.

TABLE 2-33: COMMON STOCK

Bases	1985	1984	1983	1982
Par value stock shown at:				
Par value	520	506	508	506
Amount in excess of par	25	29	24	27
Assigned per share amount	19	19	20	14
No par value stock shown at:				
Assigned per share amount	13	17	17	21
No assigned per share amount	55	52	53	50
Issues Outstanding	**632**	**623**	**622**	**618**

PREFERRED STOCK

Table 2-34 summarizes the valuation bases of preferred stock. As with common stock, many of the survey companies show preferred stock at par value.

APB Opinion No. 10 recommends that a liquidation preference (excess of involuntary liquidation value over par or stated value) be disclosed in the equity section of the balance sheet in the aggregate.

SEC *Accounting Series Release No. 268* (Section 211 of *Financial Reporting Release No. 1*) requires that preferred stock with mandatory redemption requirements not be shown as part of equity. *ASR No. 268* does not discuss the valuation basis for such securities. A *Staff Accounting Bulletin* issued by the SEC staff states that preferred stock with mandatory redemption requirements should be stated on the balance sheet at either fair value at date of issue or, if fair value is less than redemption value, at fair value increased by periodic accretions of the difference between fair value and redemption value.

Paragraph 10C of *Statement of Financial Accounting Standards No. 47* requires that financial statements disclose for each of the five years following the date of the latest balance sheet presented the redemption requirements of redeemable capital stock.

Examples of preferred stock presentation follow.

Preferred Stock Extended at Par Value

ASSOCIATED DRY GOODS CORPORATION (JAN)

	1986	1985
	(In thousands)	
Shareholders' equity:		
Preferred stock, $50 par value per share—1,502,115 and 2,762,492 outstanding	$ 75,106	$138,125
Common stock, $.50 par value per share—34,966,516 and 15,467,105 issued	17,484	7,734
Additional paid-in capital	208,310	158,404
Retained earnings	752,037	687,742
Treasury stock, at cost	(329)	(6,536)
Total shareholders' equity	1,052,618	985,469

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Capital Stock

Preferred Stock

At the Company's annual meeting in June 1985, an amendment to the Articles of Incorporation was approved which increased the number of authorized shares of $50 par value preferred stock from 3 million to 15 million. The number of shares outstanding was 1,502,115, 2,762,492 and 2,783,433 at the end of 1985, 1984 and 1983, respectively. Each outstanding share has a .4 voting right and is convertible into 3.2 shares of common stock and, assuming total conversion on February 1, 1986, an additional 4,806,768 common shares would be outstanding. Subsequent to May 26, 1986, the Company may redeem the preferred stock at $50 per share plus accrued dividends. In the event of liquidation, the preferred stock would have to be redeemed for $50 per share plus accrued dividends prior to any distribution to common shareholders.

Common Stock

Sixty million shares are authorized at $.50 par value, of which 34,956,925; 15,367,328 and 15,309,745 were outstanding at the end of 1985, 1984 and 1983 and excludes 9,591; 99,777 and 124,289, respectively, in the treasury. The Board of Directors declared a two-for-one common stock split effective August 9, 1985.

COPPERWELD CORPORATION (DEC)

	1985	1984
	($000)	
Shareholders' Equity		
Convertible Exchangeable Cumulative Preferred Stock, $1 par value, 5,000,000 shares authorized; issued 1,000,000 (liquidation preference value $25,207)	$ 1,000	$ 1,000
Common Stock, $.83⅓ par value, 20,000,000 shares authorized; issued (less treasury shares of 133,041 in 1985, and 131,470 in 1984) 8,609,789 (8,611,360 in 1984)	7,175	7,176
Additional Paid-in Capital	48,800	48,823
Retained Earnings	77,142	104,029
	134,177	161,028

TABLE 2-34: PREFERRED STOCK

Bases	Number of Companies 1985	1984	1983	1982
Par value stock shown at:				
Par value	87	94	100	112
Liquidation or redemption value	20	23	20	24
Fair value at issuance date	11	8	9	9
Assigned per share amount	11	11	11	7
Other	10	12	8	6
No par value stock shown at:				
Assigned per share amount	42	45	41	45
Liquidation or redemption value	19	26	31	27
Fair value at issuance date	8	7	9	7
No assigned per share amount	29	29	29	32
Other	—	1	2	3
Number of Companies				
Preferred stock outstanding	194	211	219	226
No preferred stock outstanding	406	389	381	374
Total Companies	**600**	**600**	**600**	**600**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Capital Stock & Employee Stock Plans

During 1983, net proceeds of $23,976,000 were received from the sale of 1,000,000 shares of $2.48 Convertible Exchangeable Cumulative Preferred Stock, $1.00 par value, at a price of $25 per share. The Preferred Stock is convertible at the option of the holder at any time into Common Stock of the Corporation at a conversion price of $22.33 per share (equivalent to a rate of 1.1196 shares of Common Stock for each share of Preferred Stock), subject to adjustment under certain conditions. The Preferred Stock is redeemable at the option of the Corporation at any time after September 1, 1986, in whole or in part, at stated redemption prices subject to certain conditions. The Preferred Stock also is exchangeable in whole at the option of the Corporation on any dividend payment date, into new Convertible Subordinated Debentures Due 2008 at the rate of $25 principal amount of Debentures for each share.

The Debentures, if issued, will bear interest at an annual rate of 9.92% and will be convertible at the option of the holder at any time into Common Stock of the Corporation at an initial price equivalent to the conversion price applicable to the Preferred Stock for which the Debentures were exchanged. The Debentures will also be redeemable, in whole or in part, at the option of the Corporation at stated redemption prices subject to certain conditions. The Debentures will require mandatory annual payments commencing September 1, 1994 or the first September following the date of issue of the Debentures, whichever is later, calculated to retire 70% of the issue prior to maturity if such payments commence September 1, 1994. The Debentures will be subordinated to all Senior Debt and will mature on September 1, 2008.

The involuntary liquidation preference value of the Preferred Stock is approximately $25,207,000. The Corporation has been advised by counsel that the present balance of retained earnings is not restricted by such involuntary liquidation preference value.

CYCLOPS CORPORATION (DEC)

	1985	1984
	Dollars in Thousands	
Shareholders' equity (Note 6):		
Preferred stock, par value $1, authorized 1,573,020 shares:		
Convertible Preferred stock, Series A, issued 16,604 and 21,757 shares (involuntary liquidation preference $1,660 and $2,176)	$ 17	$ 22
Convertible Preferred stock, Series B, issued 85,927 and 134,426 shares (involuntary liquidation preference $1,976 and $3,092)	86	134
Common stock, par value $1, authorized 10,000,000 shares, issued 4,200,550 and 4,097,775 shares	4,201	4,098
Capital in excess of par value	46,109	45,249
Retained earnings	173,066	151,316
Less: Common stock in treasury, at cost (301,780 and 302,511 shares)	(7,034)	(7,051)
Total shareholders' equity	216,445	193,768

Note 6 (In Part): Shareholders' Equity

The Series A Preferred Stock, if called for redemption by the Company, is redeemable at $100 per share. This series votes on the basis of one vote per share and is convertible at the rate of 3.6510 shares of Common for each share of Series A Preferred. At December 31, 1985, a total of 60,621 shares of Common stock would have been issuable if all of the Series A Preferred shares were converted.

The Series B Preferred Stock, if called for redemption by the Company, is redeemable at $23.00 per share. This series votes on the basis of one-fourth of one vote per share and is convertible at the rate of 1.0536 shares of Common for each share of Series B Preferred. At December 31, 1985, a total of 90,533 shares of Common stock would have been issuable if all of the Series B Preferred shares were converted.

Dividends on the Series A and Series B Preferred stocks are cumulative from the date of issue.

MOHASCO CORPORATION (DEC)

	1985	1984
	(In thousands)	
Redeemable preferred stock (note 5):		
Cumulative preferred, par value $100 per share:		
3½% series; authorized and issued 5,807 and 7,007 shares, less 3,284 and 304 shares in treasury in 1985 and 1984, respectively	$ 252	$ 670
4.20% series; authorized and issued 9,325 and 11,097 shares, less 3,890 and 2,182 shares in treasury in 1985 and 1984, respectively	544	892
	796	1,562
Common stock and other shareowners' equity:		
Common stock, par value $5 per share. Authorized 12,500,000 shares; issued 6,992,969 and 6,841,388 shares in 1985 and 1984, respectively	34,965	34,207
Additional paid-in capital	35,938	34,300
Retained earnings	166,997	152,797
Less common stock in treasury, at cost: 930,319 and 101,951 shares in 1985 and 1984, respectively	25,383	1,595
	212,517	219,709

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Redeemable Preferred Stock

Provisions relating to each series of preferred stock require that the Company pay by April 30 of each year, into a sinking fund for the retirement of each series, an amount equal to the amount by which net earnings of the preceding fiscal year exceeds the sum of preferred dividends accrued plus $750,000, but the amount to be paid will not exceed $100,000. The Company is entitled to credit against such payments the cost of shares purchased prior to the payment date.

During 1985, the Company retired 1,200 shares of 3½% series and 1,772 shares of 4.20% series of preferred stock held in treasury to meet sinking fund requirements. Also in 1985, the Company purchased 4,180 shares of 3½% series at a cost of $354,000 (1,494 shares at a cost of $110,000 in 1984 and 25 shares at a cost of $1,000 in 1983) and 3,480 shares of 4.20% series at a cost of $272,000 (716 shares at a cost of $42,000 in 1984 and 120 shares at a cost of $6,000 in 1983). Both series of preferred stock are redeemable at any time at the option of the Company at $105.00 (3½% series) and $104.50 (4.20% series) per share.

TALLEY INDUSTRIES, INC. (DEC)

	1985	1984
	($000)	
Stockholders' equity:		
Preferred stock, $1 par value, authorized 5,000,000 shares; issued: 87,000 shares of Series A (98,000 in 1984) ($2,173,000 involuntary liquidation preference)	$ 87	$ 98
1,650,000 shares of Series B (1,783,000 in 1984) ($33,000,000 involuntary liquidation preference)	1,650	1,783
Common stock, $1 par value, authorized 20,000,000 shares; issued: 5,944,000 shares (5,925,000 in 1984)	5,944	5,925
Capital in excess of par value	44,821	46,486
Foreign currency translation adjustments	(622)	(1,081)
Retained earnings	56,691	48,376
Total stockholders' equity	108,571	101,587

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Capital Stock

Each share of Series A $1.10 Cumulative Convertible Preferred stock entitles its holder to receive an annual cash dend of $1.10 per share; to convert it into .76 of a share of Common stock, as adjusted in the event of future dilution; to receive up to $25.00 per share in the event of involuntary or voluntary liquidation; and, subject to certain conditions in loan agreements, may be redeemed at the option of the Company at a price of $25.00 per share.

Each share of Series B $1.00 Cumulative Convertible Preferred stock entitles its holders to receive an annual cash dividend of $1.00 per share; to convert it into 1.05 shares of Common stock, as adjusted in the event of future dilution; to receive up to $20.00 per share in the event of involuntary liquidation; and, subject to certain conditions in loan agreements, may be redeemed at the option of the Company at a price of $52.50 per share.

Dividends on the shares of Series A and Series B Preferred stock are cumulative and must be paid in the event of liquidation and before any distribution to holders of Common stock.

At December 31, 1985 there were 3,700,000 shares of Common stock reserved for conversion of the Series A and Series B Preferred stock, the 9% convertible subordinated debentures and the 5% convertible subordinated notes, for exercise of stock options, for the Long-Term Incentive and Restricted Stock Plans and for the Employee Stock Purchase Plan.

Preferred Stock Extended at Stated Value

BEATRICE COMPANIES, INC. (FEB)

	1985	1984
	($ Millions)	
Stockholders' equity:		
Preference stock (at stated values)	$ 243	$ 194
Common stock (at $1.85 stated value)	189	189
Additional capital	180	178
Retained earnings	2,304	2,005
Common stock in treasury, at cost	(344)	(353)
Cumulative foreign currency translation adjustment	(215)	(185)
Total stockholders' equity	2,357	2,028

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Stockholders' Equity

Preference Stock The components of outstanding preference stock are:

(Dollars in millions)	1985	1984
Series A Cumulative Convertible:		
3,222,509 shares in 1985 and 3,727,884 shares in 1984	$168	$194
Convertible Adjustable:		
1,500,000 shares in 1985	75	—
Total	$243	$194

Outstanding shares of Series A preference stock are convertible into common stock at a conversion price of $27.957 based upon the stated value of $52 and the annual dividend rate is $3.38 per share. The reduction of outstanding shares was primarily due to conversions into common stock. This preference stock may be redeemed at Beatrice's option, at $54 per share through August 7, 1985, declining one dollar each year thereafter to $52 beginning August 8, 1986. The stock can be redeemed prior to August 8, 1986 only if the dividends paid on the underlying common stock during the 12 months preceding the redemption total at least 105 percent of the dividends paid on the Series A stock. The Series A preference stock is preferred as to assets over common stock in the event of voluntary liquidation in an amount equal to the then current redemption price. Upon involuntary liquidation the Series A preference stock has preference by an amount equal to the stated value of such stock.

In connection with the exchange of equity for debt described in Note 8, Beatrice issued 1.5 million shares of a newly authorized series of convertible adjustable preference stock. The new series is without par and has a stated value of $50. Each share is convertible into Beatrice common shares based upon its stated value and the then current market value of the common stock; however, the conversion rate may not exceed 3.75 common shares to one preference share. Dividends are payable quarterly at a rate based on the then current interest rates for certain U.S. Treasury marketable securities, less 4.5%, but shall not be less than 6% nor greater than 12%. Beginning in fiscal 1990, Beatrice has the option to redeem this issue at its stated value. In the event of voluntary or involuntary liquidation, this preference stock is preferred as to assets over common stock in an amount equal to its stated value plus dividends accrued or in arrears. There is no established public trading market for the convertible adjustable preference stock.

DI GIORGIO CORPORATION (DEC)

	1985	1984
	(Dollars in thousands)	
Stockholders' Equity		
Preferred stock, no par value, authorized 2,000,000 shares:		
$2.25 preferred stock, stated value $25 per share, authorized and issued 1984 400,000 shares (Note 10)	$ —	$ 10,000
Series A preferred stock, stated value $25.30 per share, authorized and issued 1985 35,582 shares; 1984 42,026 shares; (preference in liquidation at December 31, 1985—$30 per share, or $1,067) (Note 10)	900	1,063
Common stock, par value $2.50 per share, authorized 1985 and 1984—15,000,000 shares; issued 1985 7,058,131 shares; 1984 6,331,323 shares (Note 10)	17,645	15,829
Additional paid-in capital	36,713	28,220
Equity adjustment from foreign currency translation	(1,905)	(3,174)
Retained earnings	67,864	61,429
	121,217	113,367
Cost of common stock held in treasury, 1985 239,515 shares; 1984 350,263 shares	(2,262)	(3,307)
Total stockholders' equity	118,955	110,060

Note 10 (In Part): Capital Stock

Preferred stock: The Series A Cumulative Convertible Preferred Stock, without par value, is entitled to cumulative dividends of $.88 per share per annum, payable quarterly. The Company may redeem the stock for $32.00 per share. Prior to redemption, each share of the Series A Preferred Stock may be converted into 1.65 shares of Common Stock. In the fourth quarter of 1985, the Company called for redemption all outstanding $2.25 Cumulative Convertible Preferred Stock. As a result, all such Preferred Stock was converted into Common Stock.

Supplementary earnings per share: If the conversion of all outstanding $2.25 Cumulative Convertible Preferred Stock had occurred on January 1, 1985, primary earnings per share (assuming no dilution) would have been $1.63, compared with $1.72 reported in the Consolidated Statement of Earnings.

CLEVELAND-CLIFFS INC. (DEC)

	1985	1984
	(In Millions)	
Shareholders' Equity		
Convertible Exchangeable Preferred Stock—Note J	$ 50.0	$ —
Common Shares—par value $1 a share Authorized—28,000,000 shares Issued—12,807,320 shares	12.8	12.8
Capital in excess of par value of shares	6.9	9.1
Retained income	319.4	313.4
Foreign currency translation adjustments	(13.4)	(9.4)
Cost of 373,202 Common Shares in treasury (1984—397,446 shares)	(5.7)	(6.0)
Total Shareholders' Equity	370.0	319.9

Note J—Preferred Stock

In 1985, the Company was authorized by shareholders to issue, without further shareholder action, up to 3,000,000 shares of Class A voting preferred stock, without par value, and up to 4,000,000 shares of Class B nonvoting preferred stock, without par value.

On August 13, 1985, 2,500,000 shares of $2.00 convertible exchangeable Class A preferred stock was issued at $20 a share. Each preferred share is entitled to one vote, an annual dividend of $2.00 (cumulative) and a preference of $20 in liquidation, and is convertible into common shares of the Company at a conversion price of $24 per share of common stock, subject to adjustment under certain conditions. The company may redeem the preferred stock at $20 a share plus a specified declining premium, but prior to September 15, 1988 only if certain conditions are met. Beginning September 15, 1988, the Company may exchange the preferred shares for 10% convertible subordinated debentures due 2015 at a rate of $20 principal amount per debenture for each preferred share exchanged.

EATON CORPORATION (DEC)

	1985	1984
	(Millions of Dollars)	
Shareholders' Equity		
Serial Preferred Shares (aggregate liquidation value of $12.3 million at December 31, 1985)	$ .2	$ .3
Common Shares (32.8 million and 32.6 million shares outstanding at December 31, 1985 and 1984, respectively)	16.4	16.3
Capital in excess of par value	327.4	314.9
Retained earnings	1,128.7	961.9
Foreign currency translation adjustments	(77.4)	(91.7)
Total Shareholders' Equity	1,395.3	1,201.7

FINANCIAL REVIEW

Shareholders' Equity (In Part)

There are 14.2 million Serial Preferred Shares authorized. Each outstanding $10 Serial Preferred Share, Series B ($2.50 stated value) bears an annual dividend of $10 on a cumulative basis, is convertible into four Common Shares, is redeemable in whole or in part at the Company's option beginning May 1, 1988 at $170 per share, has a liquidation value of $125 per share, and generally has the same voting rights as a Common Share. These shares were issued pursuant to the Company's April 1983 offer, in which shareholders exchanged 597,979 Common Shares for 119,406 $10 Serial Preferred Shares, Series B.

There are 100 million Common Shares authorized. In September 1985, the Company declared a dividend of one share purchase right (Right) on each of its Common Shares. Each Right entitles holders to buy from the Company one Common Share at an exercise price of $150. The Rights become exercisable if a person or group acquires, or tenders for, 20% or more of the Company's Common Shares. The Company is entitled to redeem the Rights at 10 cents per Right at any time before any person or group has acquired 20% of its Common Shares. Upon a merger or similar transaction between the Company and a party owning 20% or more of the Company's Common Shares, each Right, other than those held by the acquiring party, entitles the holder effectively to buy $300 worth of the shares of the surviving company at a 50% discount. The Rights attach to all of the Company's Common Shares outstanding as of October 8, 1985 or subsequently issued, and expire on October 8, 1995.

Common Shares held in treasury at December 31 were 1,475,253 in 1985, 1,502,073 in 1984 and 1,827,544 in 1983. At December 31, 1985, 3,195,023 Common Shares were reserved for conversion of outstanding preferred shares and convertible debentures, and exercise of stock options and 32,828,822 Common Shares were reserved for the Rights. At December 31, 1985, there were 22,862 holders of record of the Company's Common Shares. Cash dividends paid per Common Share for the quarter and year ended December 31, 1985 do not include the 40 cent dividend declared by the Board of Directors in December 1985 and payable in the first quarter of 1986.

PRATT-READ CORPORATION (JUN)

	1985	1984
Shareholders' Equity (Note H):		
Capital stock		
Preferred, Series A, $.66 cumulative, convertible, $12 stated value, authorized 450,000 shares, issued 268,498 shares	$ 3,221,976	$ 3,221,976
Common, par value $1.50, authorized 2,500,000 shares, issued 1,555,609 shares	2,333,413	2,333,413
Additional paid-in capital	619,500	619,500
Retained earnings	9,857,668	11,808,240
	16,032,557	17,983,129
Less, shares in treasury at cost, common (11,736) and Preferred (8,844)	126,376	126,376
Total shareholders' equity	15,906,181	17,856,753

Note H—Common Stock Reservations

As of June 30, 1985, 342,562 shares of common stock were reserved for issuance upon the conversion of preferred stock and the exercise of stock options as follows:

Preferred Stock Series A—218,109 shares

Each share of preferred stock is convertible into 84/100ths of one share of common stock and is redeemable at $12.00 at the option of the Corporation.

Stock Options—124,453 shares

Pursuant to a Stock Option Plan, options to purchase 124,453 shares of common stock may be granted to key employees at not less than 100% of their market value at the date of grant.

No options were granted, exercised or expired during 1985, 1984 or 1983 and there were no outstanding options at June 30, 1985.

INTERCO INCORPORATED (FEB)

	1985	1984	1983
		($000)	
Shareholders' equity:			
Preferred stock, no par value, authorized 10,000,000 shares—issued 733,037 shares in 1985, 802,085 shares in 1984 and 908,136 shares in 1983	$ 73,304	$ 80,209	$ 90,814
Common stock, $7.50 stated value, authorized 50,000,000 shares— issued 15,613,525 shares in 1985, 15,420,324 shares in 1984 and 15,113,074 shares in 1983	117,102	115,652	113,348
Additional paid in capital	91,496	84,242	66,885
Retained earnings	863,019	843,635	778,866
	1,144,921	1,123,738	1,049,913
Less 1,536,915 (587,465 and 687,465 in 1984 and 1983, respectively) shares of common stock in treasury, at cost	80,157	22,775	26,682
Total shareholders' equity	1,064,764	1,100,963	1,023,231

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

8. Preferred Stock

The company's preferred stock is issuable in series. At fiscal years ended 1985, 1984 and 1983, the outstanding preferred stock consisted of 733,037, 802,085 and 908,136 shares, respectively, of Series D $7.75 cumulative convertible with stated and involuntary liquidating value of $100.00 per share.

Each share of the Series D preferred stock is convertible into 2.1621 shares of the company's common stock. The Series D preferred stock may be redeemed at the company's option on or after January 29, 1989, at $104.75 per share, decreasing to $100.00 per share in 1994. Subject to the satisfaction of certain conditions relating to common stock dividends paid, the Series D preferred stock may be redeemed at the company's option on or after January 29, 1986 at $107.75 per share, decreasing to $100.00 per share in 1994.

At February 28, 1985, 2,265 shares of Series D preferred stock were reserved for the conversion of the 4⅞% convertible subordinated debentures.

Preferred Stock Extended at Redemption or Liquidating Value

BAXTER TRAVENOL LABORATORIES, INC. (DEC)

	1985	1984
	(in millions)	
Stockholders' Equity		
Cumulative convertible exchangeable preferred stock	$ 542	$ —
Adjustable rate preferred stock	339	—
Common stock	211	142
Additional contributed capital	971	148
Retained earnings	955	885
Common stock in treasury, at cost	(3)	(10)
Foreign currency adjustment	(52)	(58)
Total stockholders' equity	2,963	1,107

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Preferred Stock

The stockholders have authorized the issuance of 100 million shares of no par value preferred stock (previously referred to as preference stock). The preferred stock can be issued in series with varying terms as determined by the board of directors. The company has authorized the following series of preferred stock:

Cumulative convertible exchangeable preferred stock

The board of directors has authorized the issuance of up to 14,600,000 shares of cumulative convertible exchangeable preferred stock, no par value, liquidation value of $50 per share. The cumulative convertible exchangeable preferred stock is entitled to one vote per share and will vote as a single class with holders of Baxter Travenol common stock; convertible into 2.976 shares of Baxter Travenol common stock; entitled to receive quarterly cumulative dividends of $0.875 per share (7% per annum); exchangeable in whole on or after the fifth anniversary of the merger date at the option of the company, for convertible subordinated debentures of the company bearing the same interest rate and convertibility features; and, redeemable, at the company's option, after the fifth anniversary of the merger date at a redemption price of $51.75, declining $0.35 on each anniversary of the merger date through the tenth anniversary. The holders of cumulative convertible exchangeable preferred stock receive dividends and have liquidation rights on a parity with the adjustable rate preferred stock. There were 10,835,808 shares issued and outstanding at December 31, 1985. The dividend rate for the period ending January 1, 1986 was $0.36 per share.

Adjustable rate preferred stock

The board of directors has authorized the issuance of up to 9,125,000 shares of adjustable rate preferred stock, no par value, liquidation value of $50 per share. This stock is entitled to receive quarterly cumulative dividends at the (i) highest of the treasury bill rate, the ten year constant maturity rate and the twenty year constant maturity rate minus (ii) 180 basis points, subject to a maximum rate of 12¾% and a minimum rate of 5¾%; and, redeemable, at the company's option after the fifth anniversary of the merger date at a redemption price of $50 per share together with accrued and unpaid dividends. The holders of adjustable rate preferred stock receive dividends and have liquidation rights on a parity with the cumulative convertible exchangeable preferred stock. There were 6,771,665 shares issued and outstanding at December 31, 1985. The dividend rate for the period ending January 1, 1986, was $0.43 per share (8.35% per annum) and the rate was set at $0.9875 per share (7.90% per annum) for the period ending April 1, 1986.

ALCO STANDARD CORPORATION (SEP)

	1985	1984
	($000)	
Serial Preferred Stock, at redemption value (note 7)	$ 25,711	$ 29,158
Common Shareholders' Equity		
Common stock, no par value: authorized 50,000,000 shares; issued 1985—22,417,000 shares; 1984—22,286,000 shares	97,826	92,981
Retained earnings	394,704	375,461
Cost of common shares in treasury: 1985— 1,274,000 shares; 1984—1,107,000 shares	(42,391)	(34,525)
Excess of redemption value over carrying value of serial preferred stock	(8,186)	(9,408)
	441,953	424,509

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Serial Preferred Stock

At September 30, 1985, 2,533,325 shares of serial preferred stock were authorized and 360,237 shares were outstanding. Serial preferred stock has been issued with dividend rates varying from $1.80 to $6.05 per share and with rates of conversion into common stock varying from 1 to 10 shares. Shares are entitled to one vote each, cumulative annual dividends and conversion into common stock at any time.

Each series of preferred stock requires redemption at prices ranging from $47.50 to $200,000 per share unless previously converted into common stock, and upon liquidation has preference generally equal to the redemption price. Redemption requirements occur in fiscal years as follows: 1986-$90,000; 1987-$1,272,000; 1988-$1,628,000; 1989-$3,644,000; 1990-$5,027,000; 1991–1995-$13,911,000 total.

Changes in outstanding preferred shares, stated at redemption amounts, were:

(dollars in thousands)	Shares	Amount
Balance, September 30, 1982	262,250	$34,602
Issued in acquisitions	40,719	4,331
Retirements and conversions	(151,770)	(20,797)
Balance, September 30, 1983	151,199	18,136
Issued in acquisitions	291,493	17,696
Retirements and conversions	(45,245)	(6,674)
Balance, September 30, 1984	397,447	29,158
Retirements and conversions	(37,210)	(3,447)
Balance, September 30, 1985	360,237	$25,711

Fair Value

PENNWALT CORPORATION (DEC)

	1985	1984
	(Thousands of Dollars)	
Redeemable preference stock: Third series cumulative convertible preference stock, 28,054 shares (redeemable at $138,867,000 in 1990)	$121,757	$ —
Shareholders' investment		
Voting preference stock, $1 par value; authorized 4,260,603 shares; cumulative convertible issues outstanding:		
First series, 67,094 shares (liquidating value, $5,032,000)	67	80
Second series, 1,942,231 shares (liquidating value, $73,805,000)	1,942	1,988
Third series, 28,054 shares reported above		
Common stock, $1 par value; authorized 25,000,000 shares; issued 12,855,374 shares	12,855	12,798
Additional paid-in capital	213,119	214,690
Earnings retained for use in the business	273,997	332,020
Cumulative translation adjustment	(40,686)	(56,233)
	461,294	505,343
Less common stock in Treasury, at cost; 2,758,248 shares in 1985	(117,131)	(158)
Total shareholders' investment	344,163	505,185

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Preference Stock

Each share of the first series preference stock pays a dividend at the rate of $2.50 per annum and is convertible into 1.5 shares of common stock. The first series preference stock has a liquidation preference of $75 per share, which exceeds par value by an aggregate of $4,964,956 for all outstanding shares of first series preference stock. The first series preference stock is redeemable at the option of the Company in decreasing annual increments to $75 per share. The present redemption price is $78 per share, which exceeds par value by an aggregate of $5,166,238 for all outstanding shares of first series preference stock.

Each share of the second series preference stock pays a dividend at the rate of $1.60 per annum and is convertible into .58 shares of common stock. The second series preference stock has a liquidation preference of $38 per share, which exceeds par value by an aggregate of $71,862,547 for all outstanding shares of second series preference stock. The second series preference stock is redeemable at the option of the Company in decreasing annual increments to $38 per share. The present redemption price is $40.25, which exceeds par value by an aggregate of $76,232,566 for all outstanding shares of second series preference stock.

Each share of third series preference stock pays a dividend at the rate of $346.50 per annum. All, but not less than all, of the shares of the third series preference stock may be converted into common stock at any time after October 15, 1990 on the basis of 100 shares of common stock for each share of third series preference stock. The third series preference stock has a liquidation and base redemption price of $4,950 per share, which exceeds par value by an aggregate of $138,839,246 for all outstanding shares of third series preference stock. The Company has the option to redeem the third series preference stock at any time prior to April 15, 1990 and from October 15, 1991 to April 15, 1995. If redemption occurs after April 15, 1988 and before April 15, 1990, the base redemption price is subject to an increase equal to 50% of any amount by which the aggregate price of 100 shares of common stock of the Company exceeds $4,950. The value shown on the balance sheet for the third series preference stock is equal to $4,250 per share, the fair value of the shares on the date of their issuance as determined by the Company's Board of Directors, plus a pro rata increase to reflect the passage of time between the date of issuance of the shares and April 15, 1990 when the balance sheet value will be $4,950 per share. The outstanding shares of third series preference stock are subject to an agreement between the Company and the holder thereof as described in Note 11 Agreement with Anschutz Group.

The Company has reserved 4,032,535 shares of common stock for conversion of all series of preference stock.

CMI CORPORATION (DEC)

	1985	1984
	Dollars in thousands	
Redeemable Preferred Stock		
Redemption value—$4,800	$ 3,804	$ —
Shareholders' Equity		
Convertible preferred stock	—	534
Common stock	1,368	1,208
Shares issued: 13,681,762 in 1985; 12,080,059 in 1984		
Additional paid-in capital	44,914	40,681
Retained earnings (deficit)	938	(8,008)
Cumulative foreign currency adjustment	202	—
Less cost of treasury stock—12,199 shares	(56)	(56)
Total Shareholders' Equity	47,366	34,359

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Redeemable Preferred Stock

In connection with the acquisition of RayGo (note 2), the Company issued 4,800 shares of 7% Series B Preferred Stock with a $4,800,000 redemption value. The preferred stock accrues dividends at the rate of $70 per share per year. The cumulative dividends are payable each January and July commencing in 1986, and must be fully paid or declared with funds set aside for payment before any dividend can be declared or paid on any other class of the Company's stock. The preferred stock carries mandatory redemption rights of $1,000 per share and must be redeemed according to the following redemption schedule: 300 shares on December 31, 1988; 500 shares on December 31, 1989; 750 shares on each December 31, from 1990 through 1994; and 250 shares on December 31, 1995. In addition to the normal voting rights of the common stock, the preferred stock carries special voting rights relating to a default in dividend payments or scheduled redemption payments. The difference between the redemption value and the carrying value is being accreted over the redemption period.

ADDITIONAL PAID-IN CAPITAL

Table 2-35 summarizes captions used to describe additional paid-in capital and indicates a continuing gradual decline in the use of the term *surplus* to describe additional paid-in capital. This trend is in accord with a recommendation expressed by the AICPA's Committee on Terminology, a predecessor of the Accounting Principles Board, that use of the term *surplus*, either alone or combined, be discontinued in the balance sheet presentation of stockholders' equity.

Examples of descriptive captions used for additional paid-in capital, other than those italicized in Table 2-35, follow. Examples of descriptive captions used for additional paid-in capital are also shown in this section in connection with discussions of the other components of stockholders' equity.

TABLE 2-35: ADDITIONAL PAID-IN CAPITAL—CAPTION TITLE

	1985	1984	1983	1982
Additional paid-in capital	210	216	214	208
Capital in excess of par or stated value	161	159	158	160
Capital Surplus	45	47	47	50
Additional capital, or *other capital*	42	45	46	49
Paid-in capital or *other paid-in capital*	38	35	36	32
Paid-in surplus	9	9	10	13
Other captions	18	17	17	18
	523	528	528	530
No additional paid-in capital account	77	72	72	70
Total Companies	**600**	**600**	**600**	**600**

CUMMINS ENGINE COMPANY, INC. (DEC)

	1985	1984
	$ Thousands	
Common shareholders' investment:		
Common stock, $2.50 par value, 9,612,292 and 9,472,480 shares issued	$ 24,031	$ 23,681
Additional contributed capital	192,595	187,081
Earnings retained in the business	547,932	518,698
	764,558	729,460
Translation adjustments	(52,973)	(81,238)
	711,585	648,222

INTERNATIONAL PAPER COMPANY (DEC)

	1985	1984
	In millions of dollars	
Common Share Owners' Equity		
Common stock, $1 par value	$ 53	$ 50
Capital from conversion of 5% preferred stock	40	40
Paid in capital	875	754
Retained earnings	2,453	2,468
	3,421	3,312
Less: Common shares held in treasury, at cost	226	14
Total Common Share Owners' Equity	3,195	3,298

THE PERKIN-ELMER CORPORATION (JUL)

	1985	1984
	(Dollar amounts in thousands)	
Shareholders' Equity		
Capital stock		
Preferred stock, $1 par value: Shares authorized 1,000,000		
Common stock, $1 par value: Shares authorized 60,000,000		
Shares issued 44,399,032 (44,045,017-1984)	$ 44,399	$ 44,045
Capital contributed in excess of par value	99,804	93,441
Retained income	502,370	444,338
Cumulative translation adjustment	(27,245)	(19,122)
Total shareholders' equity	619,328	562,702

THE STOP & SHOP COMPANIES, INC. (JAN)

	1986	1985
	(Dollars in thousands)	
Stockholders' equity		
Preferred stock	$ —	$ —
Common stock	13,929	13,892
Capital in excess of par value of common stock	130,012	128,900
Retained earnings	263,716	248,233
Treasury stock, at cost	(1,987)	(2,195)
Total stockholders' equity	405,670	388,830

RETAINED EARNINGS

Accounting Terminology Bulletin No. 1 recommends:

> The term *earned surplus* be replaced by terms which will indicate source, such as *retained income*, *retained earnings*, *accumulated earnings*, or *earnings retained for use in the business*. In the case of a deficit, the amount should be shown as a deduction from contributed capital with appropriate description.

Table 2-36 indicates that most of the survey companies use the term *retained earnings.*

Examples of descriptive captions used for retained earnings are shown below and in connection with discussions of the other components of stockholders' equity in this section.

TABLE 2-36: RETAINED EARNINGS—CAPTION TITLE

	1985	1984	1983	1982
Retained Earnings	476	476	481	482
Retained earnings with additional words	19	17	17	22
Earnings with additional words	44	48	52	54
Income with additional words	19	19	20	20
Earned Surplus	3	3	3	3
Retained Earnings (Deficit)	19	22	12	9
Accumulated Deficit	20	15	15	10
Total Companies	**600**	**600**	**600**	**600**

AMERICAN CYANAMID COMPANY (DEC)

	1985	1984
	(Millions of dollars)	
Stockholders' Equity		
Common stock—par value $5 per share Authorized—100,000,000 shares Issued—49,107,473 shares in 1985 and in 1984.................	$ 245.5	$ 245.5
Additional paid-in capital................	47.4	50.1
Earnings employed in the business......	1,588.9	1,551.2
Accumulated translation adjustments ...	(124.3)	(160.0)
Treasury stock, at cost—2,201,075 shares in 1985 and 407,694 shares in 1984................................	(113.2)	(18.7)
Total Stockholders' Equity............	1,644.3	1,668.1

AMOCO CORPORATION (DEC)

	1985	1984
	millions of dollars	
Shareholders' equity		
Common stock (authorized 800,000,000 shares; issued 304,327,932 shares)................	$ 2,234	$ 2,238
Earnings retained and invested in the business	12,142	12,273
Foreign currency translation adjustment	(201)	(206)
	14,175	14,305
Less—Common stock held in treasury —at cost (1985—45,600,231 shares; 1984 — 32,898,992 shares)	2,587	1,781
Total shareholders' equity	11,588	12,524

ARMADA CORPORATION (DEC)

	1985	1984
	($000)	
Shareholders' Equity		
Preferred stock, $1 par: Authorized: 1,000,000 shares Outstanding: None		
Common stock, $1 par: Authorized: 4,000,000 shares Outstanding: 997,067 shares	$ 997	
967,070 shares		$ 967
Additional paid-in capital................	7,099	6,885
Earnings retained for use in the business	12,515	13,202
Cumulative foreign currency adjustment	(401)	(281)
	20,210	20,773

ARMCO (DEC)

	1985	1984
	(Dollars in millions)	
Shareholders' equity		
Preferred stock		
Class A—authorized 8,399,068 shares of no par value, issuable in series. Series issued: $2.10 cumulative convertible (involuntary liquidation value $25.5 in 1985 and 1984)...........	$ 7.2	$ 7.2
Class B—authorized 5,000,000 shares of $1 par value, issuable in series. Series issued: $4.50 cumulative convertible (involuntary liquidation value $50.0 in 1985 and 1984)...........	48.3	48.3
Common stock par value $5 per share authorized 150,000,000 shares; issued and outstanding 68,036,015 in 1985 and 67,047,742 in 1984...............	340.2	335.3
Additional paid-in capital..................	355.6	351.2
Income retained in the business...........	421.9	375.0
Net foreign currency translation adjustment	(79.7)	(117.6)
Total shareholders' equity	1,093.5	999.4

COLECO INDUSTRIES, INC. (DEC)

	1985	1984
	($000)	
Stockholders' Equity:		
Preferred stock-$1 par value, 300,000 shares authorized; no shares issued		
Common stock-$1 par value, 75,000,000 shares authorized; 1985-16,997,725 shares issued, 1984-16,154,704 shares issued	$ 16,998	$16,155
Common stock subscribed................	157	416
Capital in excess of par value...........	22,222	13,241
Retained earnings (deficit)...............	67,436	(15,479)
Equity adjustment from translation......	(3,927)	(2,507)
	102,886	11,826
Subscriptions receivable..................	(534)	(1,324)
Total stockholders' equity.............	102,352	10,502

GENERAL REFRACTORIES COMPANY (DEC)

	1985	1984
	(dollars in thousands)	
Common Shareholders' Equity		
Common shares, par value $.50, authorized 10,000,000 shares, issued 4,128,800 shares in 1985 and 3,873,358 in 1984	$ 2,065	$ 1,936
Paid-in capital............................	37,354	35,679
Accumulated deficit......................	(10,766)	(15,461)
Foreign currency translation adjustment	(3,032)	(6,493)
	25,621	15,661
Less 6,000 treasury shares, at cost....	83	83
Common shareholders' equity	25,538	15,578

STOCK OPTION AND STOCK PURCHASE PLANS

Chapter 13B of *ARB No. 43*, which discusses stock option and stock purchase plans, states in paragraph 15:

> In connection with financial statements, disclosure should be made as to the status of the option or plan at the end of the period of report, including the number of shares under option, the option price, and the number of shares as to which options were exercisable. As to options exercised during the period, disclosure should be made of the number of shares involved and the option price thereof.

APB Opinion No. 25, issued in October 1972 and applying "to all stock option, purchase, award, and bonus rights granted by an employer corporation to an individual employee after December 31, 1972," reaffirms the disclosure requirements of paragraph 15.

Recently, it has become common for companies to either grant stock options in tandem with stock appreciation rights or to convert stock options into incentive stock options. *FASB Interpretation No. 28* discusses stock appreciation rights while *FASB Technical Bulletin 82-2* discusses the conversion of stock options into incentive stock options.

Five hundred thirty-four companies disclosed the existence of stock option plans. Examples of stock option and stock purchase plans follow.

STOCK OPTION PLANS

ACME-CLEVELAND CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H (In Part): Capital Stock

Stock Options—In January 1985, the shareholders approved a 1985 Employees Stock Option and Stock Appreciation Rights Plan (the 1985 Plan), which provides for the granting of 300,000 stock options and stock appreciation rights (SARs) to key employees. Options granted may be either "incentive stock options", within the meaning of Section 422A of the Internal Revenue Code, or non-qualified options. The 1985 Plan replaced the 1980 Plan. In January 1981, the shareholders approved a 1980 Employees Stock Option and Stock Appreciation Rights Plan (the 1980 Plan) which provides for the granting of 250,000 nonqualified stock options and stock appreciation rights (SARs) to key employees. In May 1982, the Corporation's Board of Directors amended and restated the 1980 Plan to permit the granting of incentive stock options within the meaning of the Internal Revenue Code, as amended.

The stock options are exercisable over a period determined by the Board of Directors, but no longer than ten years after the date they are granted. SARs are exercisable at a time when the related options may be exercised. No SARs are outstanding as of September 30, 1985.

Information with respect to options under the above plans follows:

	Shares	Option or Rights Price Per Share	Aggregate
Outstanding at October 1, 1983	201,290	$14.50 to $30.625	$4,681,861
Cancelled or expired ..	13,500	$14,50 to $30.625	292,875
Exercised	10,220	$14.50	148,190
Granted	46,000	$12.875 to $23.625	753,500
Outstanding at September 30, 1984...	223,570	$12.875 to $30.625	4,994,296
Cancelled or expired ..	34,500	$19.25 to $30.625	821,969
Exercised	-0-		-0-
Granted	116,000	$13.25 to $17.25	1,761,000
Outstanding at September 30, 1985...	305,070	$12.875 to $30.625	5,933,327

301,570 shares (190,570 shares at September 30, 1984) were exercisable at September 30, 1985.

184,000 shares (69,125 shares at September 30, 1984) were available for future options.

ASTROSYSTEMS, INC. (AUG)

NOTES TO FINANCIAL STATEMENTS

Note D—Capital Stock, Options and Warrants:

1. The Company's stock option plan provides for the granting of options for up to 600,000 shares of its common stock to eligible employees and nonemployee directors.

A summary of stock option activity related to the Company's stock option plans is as follows:

	Number of Shares	Option Price Per Share	Number of Shares Exercisable
Outstanding at August 31, 1982	192,000		48,000
Granted	201,000	$4.50-$6.16	
Exercised	(134,000)	$3.78-$6.16	
Outstanding at August 31, 1983	259,000	$3.78-$5.50	238,000
Granted	2,000	$10.88	
Exercised	(2,000)	$3.78	
Outstanding at August 31, 1984	259,000	$3.78-$10.88	243,250
Granted	51,500	$5.50-$6.00	
Exercised	(18,750)	$3.78-$5.50	
Expired	(4,250)	$3.78-$5.50	
Outstanding at June 30, 1985	287,500	$3.78-$10.88	275,500

As at June 30, 1985 options for the purchase of 157,750 shares were available for future grant.

2. As at June 30, 1985, the company has outstanding warrants to purchase 851,705 shares of its capital stock at an exercise price of $5.75 per share which are exercisable through their date of expiration in January 1986. All of the warrants are redeemable at the option of the Company at a price of $3.00 per warrant. During the ten months ended June 30, 1985, and the years ended August 31, 1984 and 1983, 46,120, 500, and 10,675 warrants, respectively, were exercised.

COMPUGRAPHIC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Stock Options and Warrants

1977 Stock Option Plan

Under the terms of the Company's non-qualified 1977 Stock Option Plan (the "1977 Plan"), options may be granted at not less than fair market value as of the date of the grant. The options are exercisable each year starting one year from the date of grant, on a cumulative basis at the annual rate of 25 percent of the total number of shares covered by the option. In 1982, optionees exchanged substantially all outstanding options granted under the 1977 plan for new options under the Company's 1981 Stock Option Plan (the "1981 Plan").

1981 Stock Option Plan

On January 22, 1982, the Company's shareholders approved the 1981 Plan, which permitted the Company to grant new options for 250,000 shares of common stock. Also approved was the Company's proposal to exchange options for up to 357,000 shares of common stock previously granted under the 1977 Plan for new options to be granted under the 1981 Plan. On May 8, 1985, the Company's shareholders approved an amendment to the 1981 Plan, which increased the number of shares of common stock issuable by 250,000 shares. The 1981 Plan, as amended, provides for the issuance of a maximum of 857,000 shares of common stock. Under the terms of the 1981 Plan, the Company may grant "incentive stock options" or "non-qualified options" at not less than the fair market value as of the date of the grant. Both "incentive" and "non-qualified" options must be exercised within ten years of the date of the grant.

Options granted pursuant to the exchange proposal are exercisable at the date of grant for 25 percent of the shares, with the balance to become exercisable cumulatively in three installments of 25 percent each year thereafter. Options subsequently granted under the 1981 Plan are exercisable cumulatively in four installments of 25 percent of each year beginning one year after the date of grant.

Stock options exercisable were 81,372 on December 28, 1985, 53,643 on December 29, 1984 and 61,273 on December 31, 1983. Shares reserved but unissued under the stock option plans at December 28, 1985 and December 29, 1984 were 292,555 and 189,726 respectively.

Options exercisable at December 28, 1985 had an average price of $17.51.

Activity and price information is as follows:

	Shares	Stock Options Price Range
Outstanding, January 1, 1983	298,140	$12.25-15.00
Granted	166,100	17.63-28.13
Exercised	(78,615)	12.25-15.00
Cancelled	(10,467)	13.88-20.00
Outstanding, December 31, 1983	375,158	$12.25-28.13
Granted	29,400	29.00-35.00
Exercised	(92,114)	12.25-24.13
Cancelled	(19,102)	12.25-20.00
Outstanding, December 29, 1984	293,342	$12.25-35.00
Granted	202,500	24.50-26.00
Exercised	(82,075)	12.25-20.00
Cancelled	(19,244)	13.88-34.38
Outstanding, December 28, 1985	394,523	$12.25-35.00

Accounting for Options

No accounting recognition is given to stock options until they are exercised, at which time the proceeds are credited to the capital accounts. With respect to non-qualified options, the Company recognizes a tax benefit upon exercise of these options in an amount equal to the difference between the option price and the fair market value of the common stock. With respect to incentive stock options, tax benefits arising from disqualifying dispositions are recognized at the time of disposition. Tax benefits related to stock options are credited to capital in excess of par value.

Warrants

In connection with the 1975 sales of 11 percent subordinated notes by Graphic Credit Corporation, now known as

Compugraphic Financial Corporation, the Company sold warrants to purchase 240,000 shares of the Company's common stock for $10 per share. Warrants for the purchase of 60,000 common shares had been exercised in fiscal 1979. The remaining warrants were exercised during fiscal 1985.

ECHLIN INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Stock Option Plans:

Under the Company's stock option plans, 1,667,900 shares of common stock were reserved for issuance to officers and key employees for options outstanding at August 31, 1985.

All options outstanding under the 1970 Plan are nonqualified options and no further options may be granted as the Plan expired on December 17, 1980.

The 1976 Plan, as amended in 1981, permits the granting of nonqualified stock options or incentive stock options (ISOs). At August 31, 1985, 1984 and 1983, 872,250, 1,394,100 and 1,571,100 shares, respectively, were available for future grant under the 1976 Plan.

Options are granted at 100% of the fair market value on the date of grant. Nonqualified options and ISOs are exercisable one year from the date of grant and expire ten years after the date of grant, except in the event of the termination, retirement or death of the employee.

Information regarding the Company's stock option plans is summarized below:

	1970 Plan	1976 Plan	Total
Shares under option:			
Outstanding at August 31, 1982	607,600	945,600	1,553,200
Granted	—	271,100	271,100
Exercised	(127,000)	(206,800)	(333,800)
Terminated	(23,800)	(29,200)	(53,000)
Outstanding at August 31, 1983	456,800	980,700	1,437,500
Granted	—	197,800	197,800
Exercised	(42,000)	(249,700)	(291,700)
Terminated	(200)	(20,800)	(21,000)
Outstanding at August 31, 1984	414,600	908,000	1,322,600
Granted	—	540,700	540,700
Exercised	(24,000)	(131,750)	(155,750)
Terminated	(22,400)	(17,250)	(39,650)
Outstanding at August 31, 1985	368,200	1,299,700	1,667,900
Option price range per share:			
At August 31, 1985	$5.00-$6.37	$5.31-$13.50	$5.00-$13.50
At August 31, 1984	$4.47-$6.37	$5.31-$11.19	$4.47-$11.19
At August 31, 1983	$4.47-$6.37	$5.31-$8.12	$4.47-$8.12
Options exercisable:			
At August 31, 1985	368,200	760,850	1,129,050
At August 31, 1984	414,600	714,250	1,128,850
At August 31, 1983	456,800	709,600	1,166,400
Price range per share of options exercised:			
Year ended August 31, 1985	$6.37	$5.31-$11.19	$5.31-$11.19
Year ended August 31, 1984	$6.37	$5.31-$8.12	$5.31-$8.12
Year ended August 31, 1983	$5.68-$6.37	$5.31-$7.25	$5.31-$7.25

All stock option data presented above have been retroactively adjusted to reflect the 2 for 1 stock split in August, 1985 (see Note 8).

DANA CORPORATION (DEC)

COMMENTS ON FINANCIAL STATEMENTS

Stock Option Plan

Dana has in effect several stock option plans through which options have been granted to officers and other key employees for the purchase of common stock. Options may be granted at prices equal to the market value at the date of grant and are exercisable during periods of five to ten years from that date. One plan provides that, at the discretion of the Compensation Committee of the Board of Directors, an optionee may surrender one non-qualified option for each option exercised and receive in cash the difference between the exercise price and the market value of the stock at date of surrender. Dana paid $148,000, $75,000 and $537,000 in 1985, 1984 and 1983, respectively, for stock options surrendered. Charges (credits) to compensation expense for the estimated amount which will be paid in future years to employees who elect to surrender options amounted to $105,000, $(318,000) and $232,000 in 1985, 1984 and 1983, respectively.

The Company's Incentive Stock Option Plans provide for the granting of options at prices equal to the market value at the date of grant and the options are exercisable for a period not to exceed ten years from date of grant. One of the plans also provides for the granting of stock appreciation rights in conjunction with all or any part of an option, either at the time of grant or at any subsequent time during the term of the option. A stock appreciation right is a right to receive, without payment to the Company, upon surrender of all or a portion of the option, an amount (in cash, common stock or a combination of both) equal to the excess of the market value of the shares covered by the option on the date the stock appreciation right is exercised over the option price. No amounts are charged to expense upon the granting of options under the plans. Upon granting of stock appreciation rights, the difference between the option price and the market value of the shares which are exercisable is charged to expense. At December 31, 1985 stock appreciation rights relating to 242,114 shares have been exercised. Charges to expense relating to stock appreciation rights amounted to $474,000 in 1985, $4,000 in 1984 and $1,090,000 in 1983.

The following summarizes the stock option transactions for the years ended December 31, 1985 and 1984:

	Number of shares	Per share option price
Outstanding at		
December 31, 1983	1,981,901	$5.33-26.54
Granted	345,900	$22.13
Exercised	(167,581)	$5.33-18.63
Surrendered	(25,553)	$5.33-18.63
Cancelled	(82,431)	$5.33-22.13
Outstanding at		
December 31, 1984	2,052,236	$14.29-26.54
Granted	198,513	$25.73
Exercised	(286,291)	$14.29-22.13
Surrendered	(78,388)	$14.29-18.63
Cancelled	(13,348)	$14.29-22.13
Outstanding at		
December 31, 1985	1,872,722	$14.29-26.54
Exercisable at		
December 31, 1985	1,174,026	

At December 31, 1985 there were 2,253,210 shares available for future grants.

FORT HOWARD PAPER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Capital Stock

On April 24, 1985, the shareholders approved the 1985 Incentive Stock Plan reserving 1,400,000 shares of common stock for sale or award to officers and key employees as stock purchase agreements, stock awards, stock options, stock appreciation rights or stock equivalents. In addition, any shares available for benefits under the prior incentive stock plans may become available for benefits under the 1985 plan. As of January 24, 1986, there are approximately 125 employees eligible to receive benefits under the 1985 plan and there are 110 employees who currently hold benefits granted under the 1985 plan and its predecessors.

Stock options may be granted under the 1985 plan at a price not less than the fair market value of the stock on the date the option is granted and must be exercisable not later than ten years after the date of grant. The expiration dates of the outstanding stock options range from 1986 through 1995. Stock appreciation rights may be granted with respect to either stock options granted or previously outstanding. Upon exercise of a stock appreciation right, the holder will receive cash, common stock, or a combination thereof, as determined by the form of the grant made by a committee of the Board of Directors, equal to the increase in market value over the underlying option price times the number of shares to which the right applies. Stock appreciation rights become exercisable and expire on the same dates as the related options. Exercise of either the option or the right results in the surrender of the other.

H.J. HEINZ COMPANY (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands except per share data)

5. Employees' Stock Option Plans and Management Incentive Plans

Under the company's stock option plans, officers and other key employees may be granted options, each of which allows for the purchase of one share of the company's common stock. The option price on all outstanding options is equal to the fair market value of the stock at the date of grant. In December, 1984, the Board of Directors approved, subject to the approval of the shareholders at the annual meeting in September, 1985, an additional stock option plan, providing for the grant of up to 5,000,000 shares through December, 1994. As of May 1, 1985, options for approximately 1,780,000 shares have been granted under this plan, subject to approval of the plan by the shareholders. In general, this plan has terms similar to the company's current stock option plans.

The company's stock option plans permit the granting of stock appreciation rights (SAR's) in conjunction with options. These SAR's enable the holder to surrender unexercised options and receive in exchange therefor shares of common stock with an aggregate market value or, at the company's option, cash, equal to the excess of the fair market value of the shares under options surrendered over the option price. The amounts charged to earnings with respect to SAR's were $4,813 in 1985, $3,267 in 1984 and $3,119 in 1983. In calendar year 1985, all outstanding SAR's were surrendered effective January 31, 1985. No further amounts will be charged to earnings with respect to the surrendered SAR's.

Data regarding the company's stock option plans appear in the table below.

	Shares	Range of Option Price
Shares under option April 27, 1983	2,537,592	$8⅞-28⅝
Options granted	1,117,955	28-38
Options or SAR's exercised	(422,261)	8⅞-29¼
Options surrendered	(8,135)	17⅛-38
Shares under option May 2, 1984	3,225,151	$10¾-38
Options granted	2,529,050	33-44
Options or SAR's exercised	(510,792)	10¾-38
Options surrendered	—	—
Shares under option May 1, 1985	5,243,409	$10¾-44
Options exercisable at:		
May 2, 1984	1,218,408	
May 1, 1985	2,060,352	

The company's management incentive plans cover certain key employees of the company and its subsidiaries. Participants in the plans may elect to be paid on a current or deferred basis. The aggregate amount of all awards may not exceed certain limits in any year. Management incentive plan expense was $15,620 in 1985, $11,879 in 1984 and $10,792 in 1983.

IPCO CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4—Stock Option Plans

Stock options (including incentive stock options) are available for grant to certain officers and employees of the Company at prices ranging between 50% and 100% of the market value on the date of grant. All options granted to date by the Company have been at 100 percent of the market value on the date of grant.

Shares under option at June 30, 1985 were granted at prices ranging from $4.25 to $15.50 per share. Options under the Company's plans are granted for terms of between 5 and 10 years and become exercisable on dates determined by a committee of the Board of Directors. At June 30, 1985, 1,130,400 shares were reserved for issuance under the Company's stock option plans. There were 338,639 and 107,889 shares exercisable as of June 30, 1985 and 1984, respectively.

Changes in the Company's stock options for the three years ended June 30, 1985 were as follows:

	Shares		
	1985	1984	1983
Shares under option at beginning of year	392,750	300,549	284,750
Granted	183,000	231,350	229,550
Exercised ($4.25 to $10.25)	(32,200)	(74,499)	(213,751)
Cancelled or expired	(6,900)	(64,650)	—
Shares under option at end of year	536,650	392,750	300,549

For nonqualified options issued to officers (214,125 shares at June 30, 1985) the Board of Directors has authorized, in appropriate circumstances and in accordance with applicable law, the Chairman to offer to officers the opportunity to cancel one-half of each installment and receive cash equal to the difference between the exercise price ($7.00 to $12.25 per share) of the option and the then current market price.

In fiscal 1985 a committee of the Board of Directors granted to certain key officers of the Company a tax offset bonus on newly granted nonqualified stock options (180,000 shares). Such bonus will offset the tax due on the spread between the exercise price and the market price on the date of exercise. In this connection, the Company recorded a $100,000 charge to operations in fiscal 1985 to reflect such estimated bonus based on the closing market price of the Company's common stock at June 30, 1985.

RTE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G—Shareholders' Equity

Holders of the 16% senior notes (see Note F) also hold detachable warrants to purchase 262,347 shares (after exercise of 58,996 and 78,662 shares in 1985 and 1984, respectively) of the Company's common stock at $10.17 per share at any time prior to October 2, 1991. The estimated fair value of the warrants at the date issued ($1,000,000) was recorded as an increase to additional paid-in capital and as debt discount to the 16% senior notes. Holders of the 8.93% promissory notes (see Note F) have been issued detachable warrants to purchase 87,873 shares of the Company's common stock at $17.07 per share at any time prior to November 2, 1991.

At December 28, 1985, 107,698 shares of the Company's common stock were reserved for issuance under an employee stock purchase plan. Company contributions (as defined in the stock purchase plan) range from 10% to 25% of employee contributions.

The Company has three nonqualified stock option plans, which provide for the issuance of up to 700,000 shares of common stock. One of the plans provides for the issuance of stock appreciation rights aggregating up to 100,000 shares. Stock appreciation rights granted under this plan permit the optionee to receive cash from the Company, at the date the option is exercised, in the amount of the difference between the option price and the market price times the number of shares exercised. The stock appreciation rights are exercisable in whole or pro rata and at the discretion of the Company may be exercised without the exercise of the option. For options containing stock appreciation rights, a charge is made against earnings based on the excess of the common stock market value over the grant price. The amounts charged (credited) to operations in fiscal 1985, 1984 and 1983 were $359,000, $(84,000) and $304,000, respectively.

Transactions with respect to the Company's stock option and stock appreciation right plans, for each of the three years in the period ended December 28, 1985, are as follows:

	Option prices	Number of shares Stock options	Stock appreciation rights
Balances, January 2, 1983	$8.19 to $12.69	89,400	89,400
Granted	$15,13 to $17.75	149,000	11,000
Exercised	$8.19 to $8.38	(9,200)	(9,200)
Cancelled	$8.19	(4,800)	(4,800)
Balances, December 31, 1983	$8.19 to $17.75	224,400	86,400
Granted	$13.81 to $14.75	66,000	
Exercised	$8.19 to $8.38	(4,800)	(4,800)
Cancelled	$8.38 to $17.75	(23,000)	(8,000)
Balances, December 29, 1984	$8.19 to $17.75	262,600	73,600
Granted	$17.00 to $18.63	30,000	
Exercised	$8.19 to $17.75	(16,400)	(15,600)
Cancelled	$8.19 to $17.75	(10,800)	(3,600)
Balances, December 28, 1985	$8.19 to $18.63	265,400	54,400
At December 28, 1985:			
Exercisable	$8.19 to $18.63	96,520	37,320
Available for future grants		403,200	15,000

WETTERAU INCORPORATED (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Option Plan

The company's 1971 Stock Option Plan terminated in fiscal 1982 except with respect to outstanding options which will remain exercisable until 1989.

The company's 1981 Stock Option Plan will terminate on June 30, 1991. Under this option plan, 250,000 shares of common stock were reserved for issuance at a price not less than 75% of the fair market value of the stock at the time of the granting of the option.

The adoption of the 1983 Stock Incentive Plan was approved at the Annual Meeting of Shareholders held on August 16, 1983. Under this plan, 500,000 shares of common stock were reserved for issuance. The plan is comprised of two parts: the 1983 Stock Option and Stock Appreciation Rights Plan, and the Career Stock Purchase Plan. Under the 1983 Stock Option and Stock Appreciation Rights Plan, there are two types of options, incentive stock options and nonqualified stock options. The purchase price of common stock covered by an incentive stock option shall not be less than the fair market value of the common stock at the time the incentive stock option is granted. The purchase price of common stock covered by a nonqualified stock option shall not be less than 66⅔% of the fair market value of the common stock at the time the nonqualified stock option is granted. Under the Career Stock Purchase Plan the purchase price per share of stock shall equal the book value per share of stock as of the end of the fiscal year of the company preceding the date of the offer to the participant. The company's 1983 Stock Incentive Plan will terminate on June 30, 1993. Changes in the number of shares subject to option are summarized as follows:

	1985	1984	1983
Outstanding and exercisable at beginning of year	172,923	213,833	267,731
Granted	16,500	10,000	—
Exercised	(29,361)	(44,496)	(38,196)
Cancelled	(3,540)	(6,414)	(15,702)
Outstanding and exercisable at end of year	156,522	172,923	213,833
Exercise price of options exercised and outstanding	$8.25-19.87	8.25-13,69	8.25-10.78
Aggregate value of options outstanding	$1,609,000	1,671,000	1,996,000

STOCK PURCHASE PLANS

THE BLACK & DECKER CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Capital Stock

Under the Employees' Stock Purchase Plan, employees were able to subscribe through April 1985 to purchase shares of the Corporation's common stock at the lower of 90% of the market value on the date offered or on the date purchased. As of September 29, 1985, there were 376,512 shares of common stock reserved for subscriptions. Transactions are summarized as follows:

	Common Shares Subscribed	Price Range
September 26, 1982	44,066	$ 11.75
Subscriptions	21,102	17.75
Purchases	(40,827)	11.75-17.75
Cancellations	(4,693)	11.75-17.75
September 25, 1983	19,648	17.75
Subscriptions	23,026	21.63
Purchases	(18,789)	17.75
Cancellations	(2,335)	17.75-21.63
September 30, 1984	21,541	21.63
Subscriptions	23,060	22.25
Purchases	(18,785)	19.13
Cancellations	(4,844)	21.63-22.25
September 29, 1985	20,972	22.25

HONEYWELL INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

13 (In Part): Capital Stock

Employee Stock Purchase Plans—Options have been granted to eligible employees of Honeywell and certain subsidiaries to purchase common stock principally at the lower of 85 percent of the market price at the time of grant or at the time of exercise. At December 31, 1985 there were 3,233,901 shares reserved for employee stock purchase plans. The following is a summary of shares issued under these plans:

	1985	1984	1983
Number of shares........	963,184	841,695	1,117,332
Average price per share	$49	$50	$35

LEE ENTERPRISES, INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Stock Option and Purchase Plans

Stock purchase plan:

The Company has 108,000 additional shares of common stock available for issuance pursuant to a non-officer employee stock purchase plan. April 30, 1986 is the exercise date for the current offering. The purchase price is the lower of 85% of the fair market value at the date of the grant or the exercise date which is one year from the date of the grant.

In 1985, 1984 and 1983 employees purchased 55,000, 55,000 and 70,000 shares at a per share price of $18.54 in 1985, $18.70 in 1984 and $10.94 in 1983.

THE STANLEY WORKS (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G (In Part): Employee Benefit Plans

Employee Stock Purchase Plan

The Employee Stock Purchase Plan enables substantially all employees in the United States and Canada to subscribe to shares of Common Stock on annual offering dates at a purchase price of 85% of the fair market value of the shares on the offering date or, if lower, 100% of the fair market value of the shares on the exercise date. A maximum of 2,750,000 shares are authorized for subscription over a ten year period. During 1985, 1984 and 1983 shares totaling 155,336; 210,189 and 233,420, respectively, were issued under the Plan at average prices of $22.52, $18.08 and $14.91 per share, respectively. At December 28, 1985, subscriptions were outstanding for 111,078 shares at $25.45 per share.

TREASURY STOCK

APB Opinion No. 6 discusses the balance sheet presentation of treasury stock. As shown in Table 2-37, the prevalent balance sheet presentation of treasury stock is to show the cost of treasury stock as a reduction of stockholders' equity.

Examples of treasury stock presentations follow.

Cost of Treasury Stock Deducted From Stockholders Equity

AEL INDUSTRIES, INC. (FEB)

	1985	1984
	Dollars in thousands	
Shareholders' equity:		
Class A common stock (non-voting), $1 par value; 5,000,000 shares authorized; shares issued and outstanding, 1985—2,897,000; 1984—1,910,000	$ 2,897	$1,910
Class B common stock (voting), $1 par value; 600,000 shares authorized; shares issued and outstanding, 1985—312,000; 1984—212,000..	312	212
Capital in excess of par value...........	3,416	5,049
Retained earnings.........................	44,841	2,014
	51,466	9,185
Less shares of class A common stock in treasury, at cost: 1985—137,000; 1984—69,000	927	347
Total shareholders' equity	50,539	8,838

INGERSOLL-RAND COMPANY (DEC)

	1985	1984
	($000)	
Shareowners' equity:		
$2.35 preference stock, no par value, authorized 10,000,000 shares; issued: 2,663,495 (liquidating preference—$36,907)...............	$ 5,434	$ 5,434
Common stock, $2 par value, authorized 30,000,000 shares; issued and outstanding: 1985—19,891,849; 1984—19,849,364..	39,784	39,699
Capital in excess of par value..........	162,576	160,606
Earnings retained for use in the business..................................	964,866	941,422
	1,172,660	1,147,161
Less—$2.35 preference stock in treasury—at cost, shares: 1985—818,143; 1984—657,317..........	28,709	23,004
—foreign currency equity adjustment	111,991	127,426
Shareowners' equity.....................	1,031,960	996,731

TABLE 2-37: TREASURY STOCK—BALANCE SHEET PRESENTATION

	1985	1984	1983	1982
Common Stock				
Cost of treasury stock shown as stockholders' equity deduction	359	346	339	353
Par or stated value of treasury stock deducted from issued stock of the same class	32	34	38	37
Cost of treasury stock deducted from stock of the same class	11	17	19	17
Cost of treasury stock shown as noncurrent asset	4	3	3	4
Other	7	7	4	6
Total Presentations	**413**	**407**	**403**	**417**
Preferred Stock				
Cost of treasury stock shown as stockholders' equity deduction	7	15	14	19
Par or stated value of treasury stock deducted from issued stock of the same class	8	4	4	4
Other	5	8	5	4
Total Presentations	**20**	**27**	**23**	**27**
Number of Companies				
Disclosing treasury stock	414	410	408	421
Not disclosing treasury stock	186	190	192	179
Total Companies	**600**	**600**	**600**	**600**

KELLY SERVICES, INC. (DEC)

	1985	1984
	(In thousands)	
Stockholders' Equity:		
Capital stock, $1 par value—		
Class A common stock, issued 13,823 shares in 1985 and 10,989 shares in 1984	$ 13,823	$ 10,989
Class B common stock, issued 3,731 shares in 1985 and 3,054 shares in 1984	3,731	3,054
Paid-in capital	18	28
Earnings invested in the business	123,025	102,094
	140,597	116,165
Less—Treasury stock, at cost—		
Class A common stock, 978 shares in 1985 and 817 shares in 1984	(5,504)	(5,545)
Class B common stock, 429 shares in 1985 and 273 shares in 1984	(6,035)	(1,857)
	(11,539)	(7,402)
Total stockholders' equity	129,058	108,763

CULBRO CORPORATION (DEC)

	1985	1984
	($000)	
Shareholders' equity		
Common stock, par value $1		
Authorized—10,000,000 shares		
Issued—4,456,867 shares (1984—4,405,500)	$ 4,457	$ 4,405
Capital in excess of par value	11,438	10,670
Retained earnings	136,826	128,678
	152,721	143,753
Less—Treasury stock, at cost, 206,281 shares (1984—154,768)	(4,063)	(2,824)
Total shareholders' equity	148,658	140,929

WARNER COMMUNICATIONS INC. (DEC)

	1985	1984
	(Dollars in thousands)	
Shareholders' equity:		
Preferred shares issued, $1 par value, 50,000,000 shares authorized, $348,630 liquidation preference ($201,415 after eliminating WCI's interest therein)	$ 22,460	$ 22,463
Common shares issued, $1 par value, 500,000,000 shares authorized	62,898	62,097
Paid in capital	767,883	759,741
Foreign currency translation adjustment	(24,959)	(24,279)
Accumulated deficit	(87,987)	(273,429)
	740,295	546,593
WCI's interest in its stock owned by BHC	(189,415)	(183,474)
Common shares in treasury, at cost, 1,198,000 shares in 1985 and 1984	(25,585)	(25,585)
Total shareholders' equity	525,295	337,534

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. (In Part): Investments in Broadcast and Cable Television Companies

b. BHC

In January 1984, WCI acquired preferred stock convertible into 42.5% of the common stock of BHC, Inc. in exchange for 15,200,000 shares of WCI Series B preferred stock convertible into 12,001,920 shares of WCI common stock. Wholly-and-partially-owned subsidiaries of BHC purchased 7,075,744 shares of WCI Series C preferred stock, convertible into 2,021,540 shares of WCI common stock, pursuant to a rights offering in May 1984. As of December 31, 1985, BHC and its 50.3% subsidiary, United Television, Inc. (UTV), also have acquired 4,271,100 shares of WCI common stock and 9,000 shares of WCI Series C preferred stock through open market purchases. The effect of those transactions through December 31, 1985, after eliminating WCI's interest in its securities held by BHC and subsidiaries, has been to increase WCI's investment in broadcast and cable television businesses by $96,192,000 and shareholders' equity by $141,903,000. The excess of WCI's investment over its equity in the underlying net assets of BHC is being amortized over 40 years and amounted to $130,000,000 (net of amortization of $6,400,000) at December 31, 1985. WCI does not include any income or loss recorded by BHC from its ownership of WCI securities when WCI records its equity in BHC's results.

* * * * *

WCI's interest in its securities owned by BHC, at cost, has been deducted from WCI's investment in BHC and shareholders' equity.

WM. WRIGLEY JR. COMPANY (DEC)

	1985	1984
	($000)	
Stockholders' equity:		
Capital stock, no par value—		
Preferred stock		
Authorized—2,000,000 shares		
Issued—None		
Common stock		
Authorized—20,000,000 shares		
Issued—8,000,000 shares	$ 19,535	$ 19,386
Retained earnings	303,766	282,093
	323,301	301,479
Foreign currency translation adjustment	(21,187)	(28,642)
Common stock in treasury, at cost (1985—960,415 shares; 1984—969,283 shares)	(43,305)	(43,705)
Total stockholders' equity	258,809	229,132

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Stock in Treasury

In July, 1983 the Company agreed to an unsolicited offer by American Home Products Corporation (AHP) to sell to the Company AHP's entire holdings of Wrigley Company common stock. The shares of common stock were purchased in four equal installments of 189,000 shares at prices determined in accordance with a formula based on the market price of Wrigley common stock during the respective installment periods. In 1984, 378,000 shares were acquired for $19,479,000 completing the AHP agreement. In 1983, 378,000 shares were acquired from AHP for $19,711,000.

All of the acquired shares are held as common stock in treasury for internal purposes. In 1985 and 1984 treasury shares were distributed to employees under a stock award plan and, in 1984, to a payroll-based employee stock ownership plan. The difference between the fair market value at the date the shares were distributed and the average acquisition cost of the shares was added to common stock. Following is a summary of the activity in the common stock in treasury:

	Number of shares	Cost in thousands of dollars
Balance at December 31, 1983	611,164	$25,113
Additions in 1984	378,000	19,479
Issuances in 1984	(19,881)	(887)
Balance at December 31, 1984	969,283	43,705
Additions in 1985	—	—
Issuances in 1985	(8,868)	(400)
Balance at December 31, 1985	960,415	$43,305

Par Value of Treasury Stock Deducted from Issued Stock

CLAROSTAT MFG. CO., INC. (DEC)

	1985	1984
Shareowners' equity		
Common stock, $1 par value:		
Authorized—750,000 shares		
Outstanding—466,977 and 476,094 shares (after deducting 112,526 and 103,409 shares in treasury)	$ 466,977	$ 476,094
Capital in excess of par value	825,695	841,815
Retained earnings	10,590,837	9,420,176
	11,883,509	10,738,085

CROWN CORK & SEAL COMPANY, INC. (DEC)

	1985	1984
	($000)	
Shareholders' Equity		
Common Stock		
Authorized, 40,000,000 shares with $5.00 par value per share;		
Outstanding:		
1985—10,532,996 shares (excluding 2,632,650 in treasury)	$ 52,665	
1984—11,481,121 shares (excluding 1,684,525 in treasury)		$ 57,405
Retained Earnings	617,321	591,851
Equity adjustment from foreign currency translation	(138,445)	(151,482)
Total Shareholders' Equity	531,541	497,774

THE EASTERN COMPANY (DEC)

	1985	1984
Shareholders' Equity		
Common Stock, par value $10 a share:		
Authorized: 1,875,000 shares		
Issued: 1,091,705 shares in 1985 and 1,097,871 shares in 1984 (excluding 190,234 shares in 1985 and 173,195 shares in 1984 held in treasury)	$10,917,050	$10,978,710
Retained earnings	14,037,420	12,702,028
Accumulated foreign currency translation adjustments (deduction)	(154,030)	(117,872)

THE NEW YORK TIMES COMPANY (DEC)

	1985	1984
	Dollars in thousands	
Stockholders' Equity		
5½% cumulative prior preference stock of $100 par value—authorized 110,000 shares; outstanding: 1985 and 1984, 27,884 shares (excluding treasury shares: 1985 and 1984, 63,775)	$ 2,788	$ 2,788
Serial preferred stock of $1 par value—authorized 200,000 shares—none issued	—	—
Common stock of $.10 par value		
Class A—authorized 54,000,000 shares; outstanding: 1985, 38,146,241 shares; 1984, 37,504,171 shares; (excluding treasury shares: 1985, 845,253; 1984, 755,107)	3,815	3,751
Class B—authorized 6,000,000 shares; outstanding: 1985, 2,305,695 shares; 1984, 2,356,899 shares; (excluding treasury shares: 1985, 694,305; 1984, 643,101)	231	236
Additional capital	56,400	45,789
Earnings reinvested in the business	525,129	435,662
Total stockholders' equity	588,363	488,226

Cost Of Treasury Stock Classified As Asset

GENERAL MOTORS CORPORATION (DEC)

	1985	1984
	(Dollars in Millions)	
Total Current Assets	$24,256.0	$23,713.3
Equity in Net Assets of Nonconsolidated Subsidiaries and Associates (principally GMAC and its subsidiaries)	5,718.5	4,603.0
Other Investments and Miscellaneous Assets—at cost (less allowances)	3,069.8	2,344.4
Common Stocks Held for the GM Incentive Program (Note 3)	190.2	144.2

Note 3 (In Part): General Motors Incentive Program

Common stocks held for the Incentive Program are stated substantially at cost and used exclusively for payment of Program liabilities.

(Dollars in Millions)	1985		1984	
	Shares	Amount	Shares	Amount
Bal. at Jan. 1	2,072,694	$144.2	828,273	$ 56.3
Acquired: $1⅔	1,629,809	118.7	1,869,391	133.1
Class E*	29,427	1.0	38,268	.7
Delivered: $1⅔	(1,023,688)	(73.0)	(663,238)	(45.9)
Class E*	(38,578)	(.7)	—	—
Bal. at Dec. 31: $1⅔	2,640,547	189.2	2,034,426	143.5
Class E*	29,117	1.0	38,268	.7
Total	2,669,664	$190.2	2,072,694	$144.2

*Post-split basis.

OTHER ACCOUNTS SHOWN IN STOCKHOLDERS' EQUITY SECTION

In recent years there has been a significant increase in the number of survey company balance sheets showing stockholder equity accounts other than Capital Stock, Additional Paid-In Capital, Retained Earnings, and Treasury Stock. Stockholder equity accounts other than those traditionally appearing on a balance sheet include, but are not limited to, cumulative translation adjustments (350 companies in 1985), unearned or deferred compensation related to employee stock award plans (31 companies in 1985), amounts owed to a company by employees for loans to buy company stock (31 companies in 1985), and valuation allowances for marketable equity securities classified as noncurrent assets (16 companies in 1985).

During 1985 and the early part of 1986, 33 survey companies disclosed that purchase rights had been distributed to common shareholders. The rights enable the holder to purchase additional equity in a company should an outside party acquire or tender for a substantial minority interest in the subject company. Such rights do not appear on the balance sheet.

Cumulative Translation Adjustments

CHESEBROUGH-POND'S INC. (DEC)

	1985	1984	1983
Shareholders' Equity:			
Common stock (shares issued: 36,180,438—1985; 36,180,436—1984; 36,111,956—1983)	$ 36,180	$ 36,180	$ 36,112
Additional paid-in capital	92,678	96,331	95,079
Retained earnings	671,210	659,152	606,834
Foreign currency translation adjustment	(88,973)	(89,892)	(67,408)
	711,095	701,771	670,617
Less treasury stock, at cost	32,822	76,154	20,672
Total shareholders' equity	678,273	625,617	649,945

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Foreign Currency Translation

All assets and liabilities in the balance sheets of foreign subsidiaries whose functional currency is other than the U.S. dollar are translated at year-end exchange rates. Translation gains and losses are not included in determining net income but are accumulated in a separate component of shareholders' equity. For subsidiaries considered to be operating in highly inflationary countries and for certain other subsidiaries, the U.S. dollar is the functional currency, and translation gains and losses are included in determining net income. Foreign currency transaction gains and losses generally are included in determining net income.

CHEVRON CORPORATION

	1985	1984
	Millions of Dollars	
Stockholders' Equity		
Common Stock—$3.00 Par Value......	$ 1,026	$ 1,026
Authorized—500,000,000 shares		
Issued—342,109,258 shares		
Capital in Excess of Par Value..........	859	864
Currency Translation Adjustment........	(12)	(79)
Retained Earnings.........................	13,681	12,952
Total Stockholders' Equity............	15,554	14,763

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Millions of Dollars)

Note 1 (In Part): Summary of Significant Accounting Policies

Currency Translation

The U.S. dollar is the functional currency for the company's consolidated operations as well as for substantially all operations of its equity method companies. For those operations, all gains or losses from currency translations are included in income currently. Prior to its sale in August 1985, Gulf Canada Limited was included in the company's financial statements using the Canadian dollar as its functional currency. The cumulative translation effects for the few equity method companies identified as having functional currencies other than the U.S. dollar are included as a currency translation adjustment in stockholders' equity.

RAYTHEON COMPANY (DEC)

	1985	1984
	(In thousands)	
Stockholders' equity		
Common stock, par value $1.00 per share		
Authorized: 125,000,000 shares		
Outstanding: 1985—77,668,000 shares; 1984—84,354,000 shares (after deducting shares in treasury: 1985—11,066,000; 1984—4,380,000).....................	$ 77,668	$ 84,354
Additional paid-in capital............	152,219	154,403
Foreign exchange translation adjustments (note A)................	(36,471)	(61,134)
Retained earnings....................	1,735,566	1,801,580
Total stockholders' equity......	1,928,982	1,979,203

Note A (in Part): Accounting Policies

Translation of Foreign Currencies

The company follows the translation principles established by Statement No. 52 of the Financial Accounting Standards Board. Assets and liabilities of foreign subsidiaries are translated at current exchange rates and the effects of these translation adjustments are reported as a separate component of stockholders' equity. Foreign exchange transaction gains and losses during 1985, 1984 and 1983 were not material.

UNIVAR CORPORATION (FEB)

	1985	1984
	($000)	
Shareholders' Equity:		
Preferred stock, no par value, authorized 750,000 shares	$ —	$ —
Common stock, par value $.33⅓ per share—		
Authorized—14,000,000 shares		
Issued—6,893,820 shares..........	2,298	2,298
Additional paid-in capital................	1,729	15,895
Retained earnings.........................	114,506	105,475
Cumulative translation adjustment (Note 1)......................................	(2,625)	(795)
Treasury stock, at cost, 1,281,590 shares in 1985 and 1,354,780 in 1984....................................	(20,027)	(20,924)
Total shareholder's equity.........	95,881	101,949

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Accounting Policies

Translation of Canadian Currency

The accounts of the Canadian subsidiary are translated in accordance with Statement of Financial Accounting Standards No. 52, which requires that foreign currency assets and liabilities be translated using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates prevailing throughout the period. The effects of unrealized exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are accumulated as the cumulative translation adjustment in shareholders' equity. Realized gains and losses from foreign currency transactions are included in net earnings for the period.

Unearned Compensation

AMSTED INDUSTRIES INCORPORATED (SEP)

	1985	1984
	In Thousands	
Stockholders' Equity		
Preferred stock		
Authorized—1,000,000 shares, no par value, none issued		
Common stock		
Authorized—25,000,000 shares, $1 par value		
Issued—12,491,720 shares	$ 12,492	$ 12,492
Capital in excess of par value...........	49,218	44,417
Net income employed in the business ..	341,991	330,184
Translation adjustment	(1,428)	(1,520)
	402,273	385,573
Less—1,474,047 shares and 1,642,047 shares of common stock held in the treasury at cost...........	13,516	15,056
—Unamortized deferred compensation—restricted stock...	4,880	—
Total Stockholders' Equity..........	383,877	370,517

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted Stock Incentive Plan

The Restricted Stock Incentive Plan, which was approved by stockholders in January 1985, provides for awards to eligible employees of the company, consisting of shares of restricted common stock of the company and an equal number of cash units. Such shares are held by the company for future distribution in accordance with the restrictive provisions of the plan. Payment for cash units is made at the time of distribution of common stock, when restrictions lapse.

During the year, 168,000 shares were awarded of which 37,866 shares were distributed. Total expense is determined based on the market value of the stock at the date of distribution and is being accrued over the period the restrictions lapse. Expense in 1985 was $2.9 million.

CLARK EQUIPMENT COMPANY (DEC)

	1985	1984
	($000)	
Stockholders' Equity:		
Capital stock common—authorized 40,000,000 shares, $7.50 par value—issued 19,037,431 shares at December 31, 1985 and 16,260,490 shares at December 31, 1984	$142,781	$121,953
Capital in excess of par value of stock	175,397	110,367
Income retained and used in the business	220,909	325,583
Cumulative translation adjustment	(12,354)	(29,116)
	526,733	528,787
Less common stock held in treasury, at cost—354,150 shares and 488,442 shares at respective dates	12,935	17,847
Less LESOP shares at December 31, 1985 (Page 23)	85,000	—
Total stockholders' equity	428,798	510,940

Leveraged Employee Stock Ownership Plan

In the fourth quarter of 1985, the Company established a Leveraged Employee Stock Ownership Plan (LESOP) for eligible U.S. employees of the Company and certain subsidiaries. In October 1985, the LESOP used the proceeds of a loan from Clark to the LESOP to purchase 2,741,936 shares of Clark Equipment Company Common Stock in the aggregate amount of $85 million. Clark borrowed the $85 million from a group of 11 banks.

The Clark Common Stock purchased by the LESOP with this money borrowed from Clark is held by the LESOP trustee as collateral for the loan from Clark to the LESOP in a "suspense account." Each year, commencing in 1986, the Company will make contributions to the plan which the plan trustee will use to make loan interest and principal payments. With each loan payment, a portion of the Common Stock is released from the "suspense account" and allocated to participating employees. Any dividends on unallocated shares will also be used to pay principal, interest, and expenses of the plan.

The LESOP is designed to fund employee benefit programs in up to three ways each year. These include funding for (a) the Company's matching portion of contributions to the Clark Savings and Investment Plan (CSIP), (b) the payroll tax credit allocation for the Clark Employee Stock Ownership Plan, and (c) the Clark Retirement Program for Salaried Employees, by allocation of the Common Stock to eligible employees.

The loans from the banks to Clark and from Clark to the LESOP are repayable in semi-annual installments commencing January 1, 1988 and ending in July 1992. Interest is payable quarterly commencing January 1, 1986 at a rate equal to 82 percent of the Chemical Bank prime rate. The loan obligation of the LESOP is considered unearned employee benefit expense and is recorded as a separate reduction of the Company's stockholders' equity. Both the loan obligation and the unearned benefits expense are reduced by the amount of any loan repayments made by the LESOP.

EMERSON RADIO CORP. (MAR)

	1985	1984
	($000)	
Shareholders' Equity		
Common shares—$.10 par value, authorized 20,000,000 shares; issued 15,903,251 and 14,371,520 shares	1,590	1,437
Capital in excess of par	35,966	18,001
Retained earnings	12,407	13,559
Deferred compensation	(3,370)	
Treasury shares at cost—13,109 and 11,917 shares	(4)	(4)
Total shareholders' equity	46,589	32,993

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H (In Part): Stock Options and Grants:

(3) Deferred compensation represents the difference between the market value at the date of the stock grants and the price the employee will pay upon exercise. Such amounts are being amortized over the periods the employee will provide services to the Company.

CENTRONICS DATA COMPUTER CORP. (DEC)

	1985	1984
	(Amounts in thousands)	
Stockholder's equity		
Common stock, $.01 par value; Authorized 40,000,000 shares; Issued 1985, 12,366,091; 1984, 11,461,708 shares; (net of 827,000 shares held in treasury)	$ 124	$ 115
Capital in excess of par value	74,897	71,815
Accumulated deficit	(16,720)	(17,368)
	58,301	54,562
Unearned compensation	(1,959)	(1,447)
	56,342	53,115

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Capital Stock

Restricted Stock Purchase Plans: Under the Company's 1979, 1984, and 1985 Restricted Stock Purchase Plans, it may offer to sell shares of common stock to employees of the Company and all of its subsidiaries at a price per share of not less than par value ($.01) and not more than 10% of market value on the date the offer is approved, and on such terms as deemed appropriate. The shares issued under the plans are in all events subject to rights of repurchase (the restriction), whereby the Company may reacquire the unvested portions of the shares for the original issue price if such employees are terminated for reasons other than death or permanent and total disability. The 1979 Restricted Stock Purchase Plan terminated in July, 1984. Restrictions on shares issued under this plan lapse as to 25% of the purchased shares on the second, third, fourth and fifth anniversaries of the purchase date. Under the 1984 plan, such restrictions lapse as to 20% of the purchased shares on each anniversary of the grant date. Under the 1985 plan, such restrictions lapse as to 25% of the purchased shares on each anniversary of the grant date. Common stock reserved for future grants aggregated approximately 1.2 million shares at December 29, 1985. The following table summarizes the activity of the Restricted Stock Purchase Plans during the respective fiscal years (fair market value determined at date of purchase).

	Fiscal Years Ended					
	December 29, 1985		December 30, 1984		January 1, 1984	
(Amounts in thousands)	Number of Shares	Fair market value	Number of Shares	Fair market value	Number of Shares	Fair market value
Unvested shares outstanding beginning of year	162	$1,909	238	$3,142	336	$4,138
Shares issued	361	2,012	71	781	52	1,038
Shares repurchased	(109)	(996)	(98)	(1,391)	(73)	(1,032)
Shares vested	(42)	(489)	(49)	(623)	(77)	(1,002)
Unvested shares outstanding end of year	372	$2,436	162	$1,909	238	$3,142

Unvested shares outstanding at December 29, 1985 were issued at various dates during the following periods: Fiscal 1985 (295,000 shares), Fiscal 1984 (40,000 shares), Fiscal 1983 (5,000 shares), and prior to Fiscal 1983 (32,000 shares). The difference between the issue price and the fair market value of the shares at the date of issuance is accounted for as unearned compensation and is being amortized to expense as the employees perform the services. During Fiscal 1985, Fiscal 1984 and Fiscal 1983 unearned compensation charged to operations was $481,000, $335,000 and $675,000, respectively. To the extent the amount deductible for federal income taxes exceeds the amount charged to operations for financial statement purposes the related tax benefits are credited to additional paid-in-capital when realized.

Receivable From Sale of Stock

DENNISON MANUFACTURING COMPANY (DEC)

	1985	1984
	(in thousands)	
Shareholders' Equity:		
Capital Stock:		
$1 Cumulative Convertible Preferred Stock, par value $10 per share; authorized shares less retirements, 200,000 in 1985 and 265,000 in 1984; issued and outstanding, 110,000 in 1985 and 160,000 in 1984	$ 1,100	$ 1,600
Common Stock, par value $1 per share; 30,000,000 shares authorized; issued and outstanding, 14,986,404 in 1985 and 14,636,140 in 1984	14,986	14,636
Capital in excess of par value	37,769	33,102
Earnings reinvested	185,654	197,298
Equity adjustment for foreign currency translation	(13,484)	(13,190)
	226,025	233,446
Less account receivable from Employee Stock Ownership Trust	11,082	5,811
Total Shareholders' Equity	214,943	227,635

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H: Employee Stock Benefit Plans

The Company has an Employee Stock Ownership Plan (ESOP) and a Stock Savings Plan (SSP) which enable most employees to acquire shares of the Company's common stock. The cost of the ESOP is borne by the Company through annual contributions to an Employee Stock Ownership Trust in amounts determined by the Board of Directors.

Shares of common stock acquired by the plans are to be allocated to each employee and held until the employee's retirement or death. The employee can also choose early partial withdrawal under certain circumstances. Contributions to the plans amounted to $1,355,000 in 1985, $1,844,000 in 1984, and $1,658,000 in 1983.

At December 31, 1985 and 1984, indebtedness of the Employee Stock Ownership Trust to the Company in the amount of $11,082,000 and $5,811,000, respectively, has been shown as a deduction from shareholders' equity in the consolidated balance sheet. At December 31, 1985, the Employee Stock Ownership Trust owned 2,117,333 shares of common stock (of which 1,426,802 shares have been allocated to employees) and 70,000 shares of preferred stock. Employees are entitled to vote allocated shares. The Trustees are entitled to vote unallocated common shares and all preferred shares.

TASTY BAKING COMPANY (DEC)

	1985	1984
Shareholders' Equity		
Common stock, par value $.50 per share, and entitled to one vote per share: Authorized 5,150,000 shares, issued 2,884,650 shares and 2,880,400 shares, respectively	$ 1,442,325	$ 1,440,200
Capital in excess of par value of stock	17,999,421	17,897,792
Retained earnings	19,265,932	16,819,145
	38,707,678	36,157,137
Less:		
Treasury stock, at cost: 259,017 shares and 264,283 shares, respectively	3,026,233	3,102,623
Management Stock Purchase Plan receivables and deferrals	867,731	859,404
	34,813,714	32,195,110

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Management Stock Purchase Plan:

The Management Stock Purchase Plan provides that common shares may be sold to management employees from time to time at prices designated by the Board of Directors (not less than 50% of the fair market value at date of grant) and under certain restrictions and obligations to resell to the company. During 1985 and 1984, a total of 11,500 and 6,750 shares of common stock was sold at 50% of fair market value at date of grant. The aggregate sales price of these shares was $157,344 and $77,063, respectively, for which collateral judgment notes were obtained to be paid in equal quarterly installments (not to exceed 40) with interest on the unpaid balance at 5¼% and 4¾% in 1985 and 5½% and 6½% in 1984. At December 28, 1985, a total of 331,224 common shares was authorized under the plan, of which 100,261 shares remain available for issuance.

For accounting purposes, the difference between the fair market value of the stock at the date of grant and the purchase price represents compensation. The compensation is deferred and, together with the notes receivable, is shown as a deduction from shareholders' equity. The deferred compensation is amortized over a ten year period or the period the employees perform services, whichever is less. Amortization charged to income amounted to $55,916, $69,059 and $49,534 in 1985, 1984 and 1983, respectively.

In accordance with an Internal Revenue Service regulation, the company includes both the dividends paid on shares restricted under the plan, and the difference between the purchase price of the stock at the date of the grant and the fair market value at the date the plan restrictions lapse as employee compensation for federal income tax purposes. The tax benefits relating to the difference between the amounts deductible for federal income taxes over the amounts charged to income for book purposes has been credited to capital in excess of par value of stock.

Investment Valuation Allowances

ANDERSON, CLAYTON & CO. (JUN)

	1985	1984
	(In thousands of dollars)	
Common stockholders' equity:		
Common stock—$1 par value, authorized 20,000,000 shares, issued 14,802,580 shares	$ 14,803	$ 14,803
Additional paid-in capital	82,679	82,899
Net unrealized gain (loss) on marketable equity securities of the insurance subsidiaries (note 15)	275	(3,299)
Retained earnings	522,909	522,305
	620,666	616,708
Less treasury common stock—at cost	50,457	52,111
	570,209	564,597

Note 15.

Marketable equity securities held by the insurance subsidiaries are valued at market in accordance with Statement of Financial Accounting Standards No. 60. Accumulated unrealized gains on marketable equity securities of $275,000 (consisting of gains of $1,483,000, net of deferred taxes and losses of $1,208,000) at June 30, 1985 and unrealized losses of $3,299,000 (consisting of gains of $428,000 and losses of $3,727,000) at June 30, 1984 were recorded in the Company's stockholders' equity section.

SPECTRUM CONTROL, INC (NOV)

	1985	1984
Stockholders' Equity		
Common stock, no par value, authorized 25,000,000 shares, issued and outstanding 5,342,699 in 1985 and 5,316,399 in 1984	$ 6,349,970	$ 6,270,353
Retained earnings	11,625,105	9,276,747
Net unrealized loss on noncurrent marketable equity securities (Note C)	(23,185)	(1,365,182)
Total stockholders' equity	17,951,890	14,181,918

Note C—Investments in Marketable Equity Securities

At November 30, 1985 and 1984, aggregate cost and market value, and gross unrealized gains and losses for noncurrent marketable equity securities are as follows:

	1985	1984
Aggregate cost	$7,665,356	$8,794,062
Aggregate market value	7,642,171	7,428,880
Gross unrealized gains	242,879	165,913
Gross unrealized losses	266,064	1,531,095

At November 30, 1983, to reduce the carrying amount of the marketable equity securities to market value, a valuation allowance in the amount of $725,714 was established by a charge to stockholders' equity representing the net unrealized loss. At November 30, 1984, the valuation allowance was increased by $639,468. At November 30, 1985, the valuation allowance was decreased by $1,341,997 to reflect the net unrealized loss of $23,185 as of that date. Net realized losses of $53,238 and $52,282 and net realized gains of $253,348 on the sale of marketable equity securities were included in the determination of net income for the years ended November 30, 1985, 1984 and 1983, respectively. The cost of the securities sold was determined on a first-in, first-out basis.

Common Stock Purchase Warrants

GULF RESOURCES & CHEMICAL CORPORATION (DEC)

	1985	1984
	($000)	
Stockholders' investment:		
Preferred stock, $1 par, authorized 4,000,000 shares, involuntary liquidating preference of $9,093,591 at December 31, 1985		
Series A	$ 53,145	$ 55,824
Series B	372,267	373,171
Common stock, $.10 par, authorized 20,000,000 shares, outstanding 9,278,312 and 9,269,944 shares (Note 9)	927,831	926,994
Common stock purchase warrants (Note 9)	1,158,816	1,158,816
Capital in excess of par	78,009,832	77,951,566
Cumulative foreign translation losses	—	(748,802)
Retained earnings	96,363,315	37,877,883
	$176,885,206	$117,595,452

NOTES TO FINANCIAL STATEMENTS

9 (In Part): Common Stock and Warrants:

At December 31, 1985, shares of GRE's Common Stock were reserved for issuance as follows:

Conversion of—	
Series A Preferred Stock	106,290
Series B Preferred Stock	465,334
Exercise of—	
Common stock options	138,300
Warrants	683,533
Issuance of stock pursuant to future stock options	275,000
	1,668,457

At December 31, 1985, GRE had exercisable warrants outstanding to purchase 467,200 shares of its Common Stock at $10.00 per share and 128,333 shares at $15.00 per share (both subject to adjustment). As a result of the refinancing of a portion of GRE's senior installment notes in 1980, the warrant agreements were amended to extend the expiration dates of certain of the warrants to January 1, 1990. Also, as a result of the refinancing, special warrants becoming exercisable on January 1, 1984, and expiring on January 1, 1990 were issued to purchase an additional 88,000 shares of Common Stock at prices of $19.00 and $23.00 per share.

Reciprocal Shareholdings

ASARCO INCORPORATED (DEC)

	1985	1984
	(dollars in thousands)	
Common Stockholders' Equity		
Authorized common shares without par value: 1985—80,000,000; 1984—40,000,000		
Issued: 1985—34,928,233; 1984—31,478,223	$502,355	$426,639
Additional Capital	15,402	22,072
Retained Earnings	438,473	519,377
Treasury Stock (at cost)—common shares: 1985—2,881,380; 1984—3,103,487	(162,131)	(174,629)
Asarco's cost and pro rata interest in the cost of its shares held by M.I.M. Holdings Limited	(152,620)	(100,871)
Total Common Stockholders' Equity	641,479	692,588

NOTES TO FINANCIAL STATEMENTS

7 (In Part): Investments

M.I.M. Holdings Limited—In October 1985, MIM purchased from a major shareholder of Asarco 4,245,800 Asarco common shares at a cost of $23 per share plus expenses. At December 31, 1985, Asarco owned 44.0% of MIM's common shares and MIM owned 10,353,363 (1984—5,607,563) common shares or 32.3% (1984—19.8%) of Asarco. This reciprocal shareholding results in Asarco having a pro rata interest of 14.2% (1984—8.7%) in its own shares. Thus, the Company's MIM investment carrying value and common stockholders' equity have been reduced by the cost to MIM of this pro rata interest in the Asarco shares. Asarco's equity in earnings of MIM excludes any Asarco dividends included in MIM earnings. The Company's MIM investment carrying value and retained earnings are adjusted to reflect Asarco's pro rata interest in its dividends paid to MIM.

Stock Purchase Rights

ANHEUSER-BUSCH COMPANIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Common, Preferred and Redeemable Preferred Stock

On December 27, 1985, the company distributed a dividend of one preferred stock purchase right for each outstanding share of common stock. Under certain conditions, each right may be exercised to purchase one one-hundreth of a share of a new Series B Junior Participating Preferred Stock, par value $1.00, for $100. The rights may only be exercised after a third party acquires 20% or more of Anheuser-Busch Companies, Inc. common stock or after commencement of a tender offer by a third party, which upon consummation would result in such party's control of 30% or more of the company's common stock. The rights, which do not have voting rights, expire on December 18, 1995 and may be redeemed by the company at a price of 5 cents per right at any time prior to expiration or the date on which the company's Board of Directors permits the rights to become non-redeemable.

If Anheuser-Busch Companies is the surviving corporation in a merger, or if an acquirer becomes the beneficial owner of more than 50 percent of the company's common stock, each right will entitle its holder, other than the acquirer, to purchase common shares of the surviving company at a substantial discount from market value at that time. If Anheuser-Busch Companies is not the surviving corporation in a merger, each right will entitle its holder, other than the acquirer, to purchase common shares of the surviving company at a substantial discount from market value at that time.

In March 1984, the Board of Directors amended a 1982 resolution to authorize the company to purchase up to 14.4 million shares of its common stock. The shares will be used for the conversion to common stock of preferred stock issued in connection with the acquisition of Campbell Taggart. In 1985 and 1984, 3,448,400 and 4,333,800 shares were purchased for $109.0 million and $92.6 million, respectively.

In connection with the acquisition of Campbell Taggart, the company authorized 7,502,000 shares and issued 7,500,766 shares of convertible redeemable preferred stock, par value $1. The convertible redeemable preferred stock has a redemption value of $40, requires dividend payments at a rate of $3.60 per year, is non-callable for five years from the date of acquisition of Campbell Taggart and is subject to mandatory redemption at the end of fifteen years. The preferred shares are also convertible into 1.935 of a share of the company's common stock and have voting rights in this ratio. The difference between the redemption value and the carrying value is being amortized over fifteen years.

DART & KRAFT, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Shareholders' Equity

Common Stock Purchase Rights

At December 28, 1985, there were issued and outstanding 144.3 million common stock purchase rights. The rights were declared as a dividend in September 1985 at the rate of one right for each outstanding share of common stock. Each right entitles the holder to purchase one share of common stock at an exercise price of $100. The rights are not exercisable or transferable apart from the common stock until a person or group has acquired 20 percent or more, or makes a tender offer for 30 percent or more, of the common stock. If the company is acquired in a merger or other business combination transaction, each right will entitle the holder to purchase common stock of the acquiring company having a market value of two times the exercise price of the right. The rights are redeemable at ten cents each prior to public announcement that a person or group has acquired beneficial ownership of 20 percent or more of the outstanding common stock. The rights expire on September 16, 1995.

FEDERATED DEPARTMENT STORES, INC. (JAN)

NOTES TO FINANCIAL STATEMENTS

12 (In Part): Shareholders' Equity

On January 23, 1986, the company declared a dividend of one preferred stock purchase right on each outstanding share of common stock. Under certain conditions, each right may be exercised to purchase one one-hundredth of a share of a new series of preferred stock at an exercise price of $250 per one one-hundredth of a share, subject to adjustment. The rights may only be exercised after a public announcement that a party acquired or obtained the right to acquire 20% or more of the outstanding shares of the company's common stock or after commencement or public announcement of an offer for 30% or more of the company's common stock. The rights, which do not have voting rights, expire on February 5, 1996, and may be redeemed by the company at a price of $.05 per right at any time prior to 10 days (or such longer period as the Board of Directors may determine) after the acquisition of 20% of the company's common stock.

In the event that the company is acquired in a merger or other business combination transaction or a party acquires more than 50% of the company's common stock or in the event of a self-dealing by an acquiring party, each holder of a right shall have the right to receive, upon exercise thereof at the then current exercise price, that number of shares of common stock (or, in certain circumstances, cash, property or other securities) of the surviving company which at the time of such transaction would have a market value of two times the exercise price of the right.

GENERAL HOST CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Shareholders' Equity

Each share of the Company's common stock carries with it one right to purchase one additional share of common stock from the Company for $40. The rights cannot be traded apart from the common stock until ten days after a public announcement that a person or group has acquired, or has commenced or intends to commence a tender offer for, 15% or more of the Company's common stock, at which time the rights become exercisable, separate rights certificates will be issued and the rights can be traded separately. In the event the rights become exercisable and thereafter the Company is acquired in a merger or other business combination, each right will entitle the holder to purchase from the surviving corporation, for the exercise price, common stock having a market value of twice the exercise price of the right. At the Company's option, the rights are redeemable in their entirety, prior to becoming exercisable at $.10 per right and after becoming exercisable at $.20 per right, under certain specified conditions. The rights are subject to adjustment to prevent dilution and expire March 7, 1990.

PHILLIPS PETROLEUM COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 11—Note Purchase Rights

Note Purchase Rights were distributed to holders of the company's common stock on February 18, 1985, with one Right being distributed for each share of common stock. Such Rights become exercisable only if a person or group acquires 30 percent or more of the company's outstanding common stock. After adjustment to reflect the common stock split and preferred stock dividend, a Note Purchase Right, when exercisable, entitles the holder to exchange one share of the company's common stock for $19.31 principal amount of one-year 15% Senior Notes, subject to adjustment in certain specified events. Note Purchase Rights held by the person or group acquiring 30 percent or more of the company's common stock become null and void upon such acquisition. The adjusted redemption price is 8⅓ cents per Right. The Note Purchase Rights will expire on February 28, 1995, unless previously exercised or redeemed. At December 31, 1985, there were 227 million outstanding Rights.

SCHERING-PLOUGH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Shareholders' Equity (In Part)

On November 11, 1985, the Company's Board of Directors declared a dividend distribution, payable November 22, 1985, to shareholders of record on that date, of one Common Share Purchase Right on each outstanding common share of the Company. The Rights will be exercisable only if a person or group acquires 20 percent or more of the Company's common shares or makes a tender offer for 30 percent or more of the Company's common shares. When exercisable, each Right entitles its holder to buy one newly issued common share of the Company at an exercise price of $175, subject to certain antidilution adjustments. If at any time after the Rights become exercisable the Company is involved in a merger or other business combination transaction, each Right will entitle its holder to purchase common shares of the surviving company having a market value of twice the exercise price of the Right. If a shareholder, owning 20 percent or more of the Company's common shares, acquires the Company or is involved in certain self-dealing transactions, each Right not owned by the control shareholder will entitle its holder to purchase common shares of the Company having a market value of twice the exercise price of the Right.

The Rights, which do not have voting privileges, may be redeemed by the Company at a price of $.05 per Right at any time prior to the earlier of expiration of the Rights on November 22, 1995, or the public announcement that a person or group has acquired beneficially 20 percent or more of the Company's common shares.

Section 3: Income Statement

TITLE OF INCOME STATEMENT

Table 3-1 summarizes the key word terms used in income statement titles.

TABLE 3-1: INCOME STATEMENT TITLE

	1985	1984	1983	1982
Income	319	321	329	342
Earnings	155	166	167	172
Operations	116	108	98	79
Other	10	5	6	7
Total Companies	**600**	**600**	**600**	**600**

INCOME STATEMENT FORMAT

Table 3-2 shows that in 1985 and 1984, in contrast to prior years, more survey companies used a multiple-step income statement to summarize revenue and expense amounts than a single-step income statement. A substantial number of income statements, both single-step and multiple-step, showed income taxes, or equity in operating results of investees, or minority interest as a separate caption immediately preceding *net income* or *income before extraordinary item*.

Effective for fiscal years ending after December 15, 1980, the Securities and Exchange Commission requires that annual reports to stockholders include a statement of income presenting the 3 most recent fiscal years.

TABLE 3-2: INCOME STATEMENT FORMAT

	1985	1984	1983	1982
Single-step Form				
Federal income tax shown as separate last item	265	275	291	306
Federal income tax listed among operating items	15	20	23	22
Multiple-step Form				
Costs and expenses deducted from sales to show operating income	181	169	155	144
Costs deducted from sales to show gross margin	139	136	131	128
Total Companies	**600**	**600**	**600**	**600**

REVENUES AND GAINS

Paragraph 63 of FASB *Statement of Financial Accounting Concepts No. 3* defines revenues as "inflows or other enhancements of assets of an entity or settlements of its liabilities" resulting from the entity's "ongoing major or central operations." Paragraph 67 of *Concepts No. 3* defines gains as increases in an entity's net assets resulting from all other transactions and events affecting the entity.

Paragraphs 19 and 26 of *APB Opinion No. 30* comment on the presentation and disclosure of gains.

> 19. Judgment is required to segregate in the income statement the effects of events or transactions that are extraordinary items (as required by paragraph 11). The Board concludes that an event or transaction should be presumed to be an ordinary and usual activity of the reporting entity, the effects of which should be included in income from operations, unless the evidence clearly supports its classification as an extraordinary item as defined in this Opinion.
>
> 26. A material event or transaction that is unusual in nature or occurs infrequently but not both, and therefore does not meet both criteria for classification as an extraordinary item, should be reported as a separate component of income from continuing operations. The nature and financial effects of each event or transaction should be disclosed on the face of the income statement or, alternatively, in notes to the financial statements. Gains or losses of a similar nature that are not individually material should be aggregated. Such items should not be reported on the face of the income statement net of income taxes or in any manner inconsistent with the provisions of paragraphs 8 and 11 of this Opinion or in any other manner that may imply they are extraordinary items. Similarly, the earnings per share effects of those items should not be disclosed on the face of the income statement.

Table 3-3 summarizes the descriptive income statement captions used by the survey companies to describe revenue.

TABLE 3-3: REVENUE CAPTION TITLE

	1985	1984	1983	1982
Net Sales				
Net sales	363	370	368	372
Net sales and operating revenues	10	10	9	8
Net sales combined with other terms	9	7	11	12
Sales				
Sales	90	95	94	92
Sales and operating revenue	24	24	22	21
Sales combined with other terms	13	13	18	22
Other Captions				
Revenue	82	74	72	66
Gross sales, income, billings, shipments, etc.	9	7	6	7
Total Companies	**600**	**600**	**600**	**600**

TABLE 3-4: GAINS

	Number of Companies			
	1985	1984	1983	1982
Interest	278	272	268	262
Disposition of assets	149	120	133	122
Equity in earnings of investees	106	119	116	112
Dividends	73	64	54	52
Foreign currency	67	61	66	66
Royalties	29	31	28	36
Early retirement of debt	16	28	21	59
Litigation settlements	13	12	8	N/C
Rentals	12	15	18	15
Sale of tax benefits	3	6	18	36

N/C—Not Compiled.

Gains most frequently disclosed by the survey companies are listed in Table 3-4. Excluded from Table 3-4 are segment disposals, items shown after the caption for income taxes (Table 3-16), and extraordinary gains (Table 3-17). Examples of revenues and gains follow.

REVENUES

BAIRD CORPORATION (SEP)

	1985	1984	1983
Net sales (note 1)	$49,224,541	$46,330,955	$44,260,676

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

E. Revenue Recognition: In general, the Company and its subsidiaries recognize revenues on equipment sales when units are shipped. Shipment of a completed unit is sometimes delayed at the customer's request. However, in such instances, revenues are recognized when the customer accepts the related billing. With respect to large multi-year fixed price contracts principally with the United States Government, the Company uses the percentage of completion method of accounting.

In those instances where the Company is responsible for installing equipment, the estimated costs for such services are accrued when revenue is recognized.

With respect to cost reimbursement type contracts with the United States Government, the Company recognizes revenue on the basis of allowable monthly incurred costs plus fee.

DIGITAL EQUIPMENT CORPORATION (JUN)

	1985	1984	1983
	(in thousands)		
Revenues (Note A)			
Equipment sales	$4,534,164	$3,831,073	$2,867,428
Service and other revenues	2,152,151	1,753,353	1,404,426
Total operating revenues	6,686,316	5,584,426	4,271,854

Note A (In Part): Significant Accounting Policies

Revenue Recognition—Revenues from equipment sales are recognized at the time the equipment is shipped. Service and other revenues are recognized ratably over the contractual period or as the services are performed.

HURCO COMPANIES, INC. (OCT)

	1985	1984	1983
		($000)	
Net sales	$45,970	$44,010	$30,258
Cost of goods sold	35,506	32,926	22,196
Gross margin	10,464	11,084	8,062

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies:

Revenue Recognition. In general, the Company recognizes revenues on product sales when units are shipped. At the customer's request, shipment of a completed unit is sometimes delayed. However, in such instances, revenues are recognized when the customer accepts the related billing.

Revenue under research contracts is accounted for using the percentage-of-completion method of accounting in which a portion of the contract amount is recorded as sales in the ratio of cost incurred to the estimated total cost at completion.

NATIONAL SERVICE INDUSTRIES, INC. (AUG)

	1985	1984	1983
		(In thousands)	
Sales and Service Revenues	$1,191,205	$1,073,105	$936,350
Costs and Expenses:			
Cost of sales and services	767,068	689,419	599,420
Selling and administrative expenses	312,665	286,862	255,829
Interest expense	3,376	2,669	1,165
Other income, net	(3,565)	(5,151)	(5,038)
	1,079,544	973,799	851,376
Income before Provision for Income Taxes	111,661	99,306	84,974

PANSOPHIC SYSTEMS, INCORPORATED (APR)

	1985	1984	1983
		(In Thousands)	
Operating revenues:			
Product and license fees	$44,444	$33,153	$29,352
Customer support fees	21,682	18,946	12,825
Earned finance charges	1,199	1,019	885
	67,325	53,118	43,062

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

Revenue recognition:

The Company is in one line of business which consists of the development, marketing and support of computer software products. The rights to use such products are sold primarily under perpetual license agreements, with options to purchase updated versions of the system through customer support agreements. Rights to use such products are also sold under long-term (two to five years) lease agreements, installment sales agreements and short-term rental agreements.

Revenues from perpetual license agreements, leases, rentals and installment sales are recognized upon shipment of the product, receipt of a signed contract and acceptance by the customer. Revenues from customer support agreements (including long-term support agreements) are recognized when billed. A portion of the revenues received from long-term support agreements is deferred to cover estimated future costs associated with such agreements. Lease revenues are recorded at the fair value of an equivalent perpetual license at the date of the contract; additional amounts due under lease agreements, principally finance charges, are recorded as earned revenues over the term of the contract.

The Company utilizes independent marketing representatives in certain international markets. Revenues generated by these representatives are recorded net of the related marketing commissions.

GAINS

Interest Income

FMC CORPORATION (DEC)

	1985	1984	1983
		(In thousands)	
Revenue			
Sales	$3,260,847	$3,337,839	$3,246,758
Equity in net earnings of affiliates	15,445	16,573	17,027
Interest income	32,108	69,352	48,082
Other income	20,049	6,025	8,906
Total revenue	3,328,449	3,429,789	3,320,773

HERCULES INCORPORATED (DEC)

	1985	1984	1983
		(Dollars in thousands)	
Net sales	$2,587,213	$2,570,965	$2,628,954
Cost of sales	2,062,333	1,991,306	2,065,891
Selling, general and administrative expenses	317,530	298,222	305,904
Research and development	76,137	71,690	73,925
	2,456,000	2,361,218	2,445,720
Income from operations	131,213	209,747	183,234
Other income (expense)			
Interest income	20,154	26,098	16,580
Gain on disposal of assets	16,360	—	75,995
Interest and debt expense	(43,111)	(38,040)	(38,066)
Miscellaneous expense, net	(3,033)	(6,942)	(15,519)
	(9,630)	(18,884)	38,990
Income before taxes on income	121,583	190,863	222,224

HAZELTINE CORPORATION (DEC)

	1985	1984	1983
	(Dollars in Thousands)		
Revenues	$177,725	$173,779	$142,527
Cost and Expenses			
Cost of Sales	143,517	138,309	111,802
Provision for Contract Loss	—	—	12,000
General and Administrative Expenses	20,033	19,920	17,318
	163,550	158,229	141,120
Operating Income	14,175	15,550	1,407
Patent and Other Income, Net	350	(220)	295
Interest Income	1,581	2,374	1,849
Interest Expense	(68)	(60)	(168)
Income Before Income Taxes	16,038	17,644	3,383

HOMASOTE COMPANY (DEC)

	1985	1984	1983
Net sales	$31,453,163	$27,706,798	$24,761,469
Cost of sales	24,338,363	21,107,835	18,933,179
Gross profit	7,114,800	6,598,963	5,828,290
Selling, general and administrative expenses	4,509,892	4,550,761	4,116,881
Operating income	2,604,908	2,048,202	1,711,409
Other income (expense):			
Gain on sale of equipment	34,171	4,447	23,933
Interest income	133,840	180,541	134,097
Interest expense	(133,546)	(181,995)	(193,853)
	34,465	2,993	(35,823)
Earnings before income taxes	2,639,373	2,051,195	1,675,586

Sale of Assets

GEORGIA-PACIFIC CORPORATION (DEC)

	1985	1984	1983
	(Millions)		
Income from continuing operations before unusual items, income taxes and extraordinary item	$290	$377	$242
Unusual items	19	19	(135)
Income from continuing operations before income taxes and extraordinary item	309	396	107
Provision for income taxes	102	143	32
Income from continuing operations before extraordinary item	207	253	75

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Unusual Items

The Corporation has experienced certain events over the last three years which are considered to be unusual items. A summary of these items is as follows:

	Year ended December 31		
(Millions)	1985	1984	1983
Sale of timberlands	$19	$ —	$ —
Sale of Portland office building	—	19	—
Facility disposals and asset write-downs	—	—	(135)
	$19	$19	$(135)

The Corporation has an agreement with an unrelated third party to sell or exchange approximately 134,000 acres of Oregon timberlands from time to time over a three-year period ending April 1, 1988. A pre-tax gain of $19 million was recorded in 1985 from the sale of a portion of the timberlands under this agreement.

The Georgia-Pacific building in Portland, Oregon, owned by GA-MET, a joint venture in which the Corporation has a 50% ownership interest, was sold in 1984. The Corporation recorded a pre-tax gain of $19 million from this transaction.

The Corporation's management made a series of decisions to eliminate, withdraw from or sell certain operations and redeploy company resources in areas having better prospects for future profitability. During 1983, the Corporation expensed approximately $135 million for asset disposals and write-downs of certain facilities to net realizable value.

ELCOR CORPORATION (JUN)

	1985	1984	1983
Revenues			
Product sales	$129,008,980	$162,731,840	$155,482,531
Engineering and construction	66,225,173	95,688,528	65,343,866
	195,234,153	258,420,368	220,826,397
Costs and Expenses			
Product sales	110,332,315	134,298,674	122,527,577
Engineering and construction	62,718,626	87,607,808	56,907,994
Selling, general and administrative	27,361,070	29,738,017	29,126,977
Income (Loss) From Operations	(5,177,858)	6,775,869	12,263,849
Other Income (Expense)			
Interest expense, net of interest income of $219,918, $346,076, and $222,394	(4,195,825)	(4,451,948)	(5,062,160)
Provision for closing certain subsidiary operations	(6,615,000)	—	—
Gain on dispositions of assets	2,310,704	—	—
Income (Loss) Before Federal Income Taxes and Extraordinary Item	(13,677,979)	2,323,921	7,201,689

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Gain on Dispositions of Assets

The gain on dispositions of assets consists of two separate transactions.

Gain on sale of roofing products distribution business	$1,185,000
Gain on settlement of fire insurance claim	1,126,000
	$2,311,000

Proceeds from the sale of the roofing products distribution business include notes receivable of $1,350,000. The notes, which bear interest at 12% and mature in fiscal 1988 through 1990, are included in Other Assets at June 30, 1985.

INSILCO CORPORATION (DEC)

	1985	1984	1983
	In Thousands of Dollars		
Sales	$811,780	$786,894	$674,224
Cost of products sold	552,024	515,450	430,297
Selling, general and administrative expenses	219,398	199,747	177,869
Operating income	40,358	71,697	66,058
Interest income	2,902	3,486	4,197
Interest expense	(22,246)	(21,672)	(19,719)
Other income (expense):			
Gain on sale of Times Fiber Communications (TFC)	36,902	—	—
Gain on sale of Broad Street Communications	—	2,348	—
Gain on issuance of common stock by TFC	—	—	11,254
Other, net	(705)	(770)	509
Minority interest in net (earnings) loss of TFC	(400)	356	(1,713)
Earnings before income taxes	56,811	55,445	60,586

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Divestitures

In 1983 Times Fiber Communications, Inc. (TFC) sold common stock in a public offering in which the company did not purchase additional shares. This offering reduced the company's ownership in TFC from 75 percent to 66.1 percent. The shares issued were sold at a per share amount which exceeded the book value prior to the offering. As a result there was an increase of $11,254,000 in the company's portion of TFC's equity. This increase was included as a gain in 1983 earnings.

On December 31, 1985 the company sold its 66.1 percent interest in TFC to LPL Investment Group, Inc. (LPL) for $15.25 per share or $96,373,000. The company also purchased $20,000,000 of a new 7% convertible preferred stock which is convertible into approximately 17 percent of the common stock of LPL, and $897,000 of common stock, representing about 11 percent of LPL's common equity. As of December 31, 1985, substantially all of the assets of LPL consist of 100 percent of the outstanding common stock of TFC. The net cash proceeds from the sale of TFC were used to reduce short-term and long-term debt of Insilco.

In 1982 the company discontinued its tableware business. At that time a provision of $10,000,000, net of income taxes of $11,300,000 was established to cover expected costs of the disposition. All of the operations of the tableware segment have been sold as of December 31, 1985 and the provision established in 1982 was sufficient to cover all disposal costs.

KAISER CEMENT CORPORATION (DEC)

	1985	1984	1983
	(Amounts in Thousands, Except Per Share Data)		
Net sales and operating revenue	$247,870	$249,345	$215,668
Equity in earnings of unconsolidated companies	2,712	2,088	3,077
Gain on sale of assets	15,224		816
Interest and other revenue	3,182	1,775	561
Total revenues	268,988	253,208	220,122

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B. Gains on Sales of Assets

The Corporation's gains from sales of assets are summarized as follows:

(Amounts in Thousands)	1985	1984	1983
Pre-tax gains on sales of assets	$15,224		$816
Income taxes	5,531		251
Gains before extraordinary tax credit	9,693		565
Extraordinary tax credit	4,086		
Net gains	$13,779	—	$565
Per common share	$ 1.88	—	$ .08

UNITED MERCHANTS AND MANUFACTURERS, INC. (JUN)

	1985	1984	1983
	(000 omitted)		
Net sales	$795,360	$563,193	$478,309
Cost of sales	$602,899	$445,900	$391,703
Selling, general and administrative expenses	133,361	73,615	65,130
	$736,260	$519,515	$456,833
Operating income	$ 59,100	$ 42,678	$ 21,476
Interest expense	$(48,694)	$(20,952)	$(15,519)
Interest income	5,976	3,023	5,311
Net interest expense	$(42,718)	$(17,929)	$(10,208)
Loss from termination and relocation of certain domestic operations	(23,586)		(1,461)
Gain on sale of Argentine subsidiary (Note 5)	4,187		
Other income (expense)—net	1,266	1,046	(3,846)
Earnings (loss) before income taxes, minority interest and extraordinary item	$ (1,751)	$ 26,795	$ 5,961

Note 5 (In Part): Foreign Operations

In July 1984, the Company sold its interest in the Argentine affiliate, Sudamtex S.A. Textil Sudamericana. A gain of $4,187,000 from the sale was included in operations for the year ended June 30, 1985.

Equity in Income of Investees

ENGELHARD CORPORATION (DEC)

	1985	1984	1983
	(dollars in thousands)		
Net sales	$2,263,697	$2,510,974	$2,099,337
Cost of sales	2,033,491	2,261,844	1,856,750
Gross profit	230,206	249,130	242,587
Selling, administrative and other expenses	162,608	148,806	140,975
Income from operations	67,598	100,324	101,612
Equity in earnings of unconsolidated subsidiaries	3,816	5,092	3,255
Interest expense, net of capitalized amounts	27,353	15,857	19,390
Less contango on futures and forward contracts	(14,823)	(14,012)	(10,612)
Net interest expense	12,530	1,845	8,778
Earnings before nonrecurring charge and income taxes	58,884	103,571	96,089

McDERMOTT INTERNATIONAL, INC. (DEC)

	1985	1984	1983
	(In thousands)		
Revenues	$3,233,871	$3,088,583	$3,707,767
Costs and Expenses:			
Cost of operations	2,892,930	2,488,718	3,096,375
Depreciation and amortization	148,946	180,985	141,380
Selling, general and administrative expenses	300,774	297,997	290,935
	3,342,650	2,967,700	3,528,690
Operating Income (Loss)	(108,779)	120,883	179,077
Other Income (Expense):			
Interest income	145,661	114,346	97,601
Interest expense	(95,769)	(80,741)	(54,525)
Equity in earnings of joint venture companies	4,488	3,218	(1,911)
Other-net	(894)	(17,050)	(47,928)
	53,486	19,773	(6,763)
Income (Loss) Before Provision For Income Taxes, Minority Interest and Extraordinary Items	(55,293)	140,656	172,314

CLEVELAND-CLIFFS INC. (DEC)

	1985	1984	1983
	(In Millions)		
Revenues			
Products and royalties	$141.5	$179.0	$133.1
Services	184.9	210.0	177.6
Equity in income of associated companies	8.8	8.2	6.8
Gain on sale of marketable securities	—	—	14.3
Other income	8.6	8.4	5.4
Total Revenues	343.8	405.6	337.2

Foreign Currency

THE DOW CHEMICAL COMPANY (DEC)

	1985	1984	1983
	(in millions)		
Net sales	$11,537	$11,418	$10,951
Operating costs and expenses			
Cost of sales	9,615	9,528	9,461
Selling and administrative	1,285	1,054	989
Total operating costs and expenses	10,900	10,582	10,450
Operating income	637	836	501
Other income (expense)			
Equity in earnings:			
Nonconsolidated subsidiaries	48	23	12
20%–50% owned companies	151	50	84
Interest income	79	89	106
Interest and amortization of debt discount and expense	(385)	(432)	(424)
Gains on foreign currency transactions	52	14	66
Gains on sale of investments		183	101
Special charges	(592)	(157)	(58)
Sundry income—net	40	57	43
Income before provision for taxes on income	30	663	431

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign Currency Translation. Effective January 1, 1983, foreign currency transactions and financial statements are translated in accordance with Statement of Financial Accounting Standards No. 52 (SFAS No. 52). The United States dollar is used as the functional currency throughout the world except for operations in Germany, Japan and Dow Financial Services Corporation, for which local currencies are used. Where the United States dollar is used as the functional currency, foreign currency gains and losses are reflected in income currently. Translation gains and losses of those operations that use local currencies as the functional currency, the effects of exchange rate changes on transactions designated as hedges of net foreign investments, and foreign currency intercompany transactions are included as a separate component of stockholders' equity.

DOVER CORPORATION (DEC)

	1985	1984	1983
Net sales	$1,439,547,684	$1,288,480,966	$1,009,673,592
Cost of sales	1,028,529,915	896,589,213	705,402,660
Gross profit	411,017,769	391,891,753	304,270,932
Selling and administrative expenses	250,176,263	215,876,864	167,059,906
Operating income	160,841,506	176,014,889	137,211,026
Other deductions (income):			
Interest expense	12,677,080	10,328,737	2,892,789
Interest income	(9,055,007)	(10,362,228)	(8,334,128)
Loss (gain) on sale of property, plant and equipment	(2,931,154)	804,828	214,833
Foreign exchange gain	(947,410)	(2,145,540)	(350,995)
All other, net	1,010,458	1,300,902	1,627,044
Total	753,967	(73,301)	(3,950,457)
Earnings before taxes on income	160,087,539	176,088,190	141,161,483

UNIFI, INC. (JUN)

	1985	1984	1983
Net Sales	$216,039,060	$216,520,150	$176,019,004
Costs and Expenses:			
Cost of Sales	$193,655,472	$191,073,181	$154,069,061
Selling, General & Administrative	10,218,611	10,510,250	9,274,190
Interest and Debt Expense	1,834,664	1,294,659	2,593,948
Other Income	(650,454)	(586,543)	(3,410,486)
	$205,058,293	$202,291,547	$162,526,713
Income From Operations	$ 10,980,767	$ 14,228,603	$ 13,492,291
Foreign Currency Gain (Loss)	189,518	(759,832)	—
Income Before Taxes and Extraordinary Item	$ 11,170,285	$ 13,468,771	$ 13,492,291

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Foreign Currency Translation. Assets and liabilities of foreign subsidiaries are translated at year-end rates of exchange and revenues and expenses are translated at the average rates of exchange for the year. Gains and losses resulting from translation are accumulated in a separate component of shareholders' equity. Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the subsidiary's functional currency) are included in net income.

Royalties

AMERON, INC. (NOV)

	1985	1984	1983
		($000)	
Sales	$305,315	$259,343	$243,674
Cost of Sales	223,040	188,907	190,387
Gross Profit	82,275	70,436	53,287
Expenses			
Selling, general and administrative	72,175	69,210	58,820
Interest	8,044	6,163	3,931
Other Income (Expense)			
Royalties and fees from affiliated companies and licensees	5,581	3,759	7,474
Gain from sale of assets	57	7,214	2,352
Interest	1,909	972	1,332
Provision for loss on investments		(1,248)	
Miscellaneous, net	(178)	702	1,850
Income before Income Taxes	9,425	6,462	3,544

Contract Termination

OWENS-CORNING FIBERGLAS CORPORATION (DEC)

	1985	1984	1983
	(In thousands of dollars)		
Revenues:			
Net sales	$3,304,959	$3,021,183	$2,753,213
Other	30,234	28,515	35,010
	3,335,193	3,049,698	2,788,223
Costs and Expenses:			
Cost of sales	2,579,140	2,304,841	2,144,513
Marketing and administrative expenses	366,613	349,444	320,923
Science and technology expenses	91,213	90,076	84,468
Cost of borrowed funds	37,563	27,266	32,838
Cash discounts	33,914	29,685	27,070
State and local income and franchise taxes	16,977	14,321	8,202
Foreign currency exchange (gain) loss	1,667	(1,143)	(1,776)
Other	40,655	54,234	55,837
	3,167,742	2,868,724	2,672,075
Income before Unusual Item, Provision for National Income Taxes, Equity in Net Income of Affiliates, and Extraordinary Gain	167,451	180,974	116,148
Unusual item:			
Gain on contract termination (Note 4)	44,217	—	—
Provision for national income taxes	(90,465)	(71,486)	(40,389)
Income before Equity in Net Income of Affiliates and Extraordinary Gain	121,203	109,488	75,759

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Contract Termination

During 1985 a subsidiary's contract for sale of specialty glass fiber reinforcements used in high strength applications was cancelled. This cancellation resulted in a termination settlement to the Company of $44,217,000 increasing the Company's net income by approximately $24,000,000 or 81 cents per share (Note 20).

Claim Settlement

NORTHROP CORPORATION (DEC)

	1985	1984	1983
		In millions	
Net sales	$5,056.6	$3,687.8	$3,260.6
Cost of sales:			
Operating costs	4,205.4	3,005.5	2,725.0
Administrative and general expenses	543.4	438.9	395.1
Operating margin (loss)	307.8	243.4	140.5
Other income (deductions):			
Claim settlement	50.0		
Interest income	2.2	7.6	6.9
Other, net	5.5	(1.5)	19.6
Interest expense	(17.4)	(7.5)	(14.3)
Income (loss) before income taxes	348.1	242.0	152.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Claim Settlement

The company received $50 million from McDonnell Douglas Corporation in April 1985, as part of a settlement of litigation between the two companies which began in 1979. All claims were dismissed, contractual disputes resolved, and a new contractual relationship entered into whereby McDonnell Douglas will be prime contractor and Northrop principal subcontractor for all customers for all present and future versions of the F/A-18 aircraft. Northrop will participate correspondingly in licensed production and other domestic and foreign program efforts and commitments.

Litigation Settlement

THE PERKIN-ELMER CORPORATION (JUL)

	1985	1984	1983
	(Dollar amounts in thousands)		
Net sales	$1,304,612	$1,182,256	$1,015,402
Cost of sales	732,863	687,633	586,961
Gross margin	571,749	494,623	428,441
Research, development and engineering	114,336	92,468	80,356
Marketing	224,258	214,803	188,436
General and administrative	98,931	89,918	81,706
Total operating expenses	437,525	397,189	350,498
Operating income	134,224	97,434	77,943
Interest expense	15,097	10,429	13,181
Interest income	(11,663)	(10,763)	(16,562)
Other (income) expense—net	(1,272)	(1,060)	(6,336)
Patent infringement settlement	(18,000)	—	—
Provision for restructured operations	14,095	6,200	—
Income before provision for income taxes	135,967	92,628	87,660

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Patent Infringement Settlement and Provision for Restructured Operations

The patent infringement settlement of $18 million results from the resolution of a suit against Computervision Corporation related to Micralign systems.

Reversal of Accrual

BMC INDUSTRIES, INC. (DEC)

	1985	1984	1983
	(in thousands)		
Costs and Expenses			
Cost of products sold, before amortization of deferred credit	$76,798	$68,602	$61,417
Amortization of deferred credit	(1,366)	(2,064)	(2,760)
Cost of products sold	75,432	66,538	58,657
Selling	5,835	5,654	4,677
Administrative	6,120	5,584	4,969
Interest	11,716	7,521	1,942
Provision for (reversal of) plant move	(1,524)	1,700	—
Other (income) expense	926	(262)	142
Total Costs and Expenses	98,505	86,735	70,387

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share amounts)

11. Provision for Plant Move

In the third quarter of 1985, the Company reversed a decision, made in the third quarter of 1984, to close the current Buckbee-Mears manufacturing facility in St. Paul and move to a new plant. This decision was made in conjunction with the restructuring of the Company's operations, and in an effort to reduce expenses and conserve cash. Accordingly, the 1984 provision of $1,700 for estimated closing and moving costs, less costs incurred, was reversed, resulting in income of $1,524 in 1985.

QUAKER STATE OIL REFINING CORPORATION (DEC)

	1985	1984	1983
	(in thousands)		
Costs and expenses			
Cost of sales and operating costs	$733,410	$746,528	$725,096
Selling, general and administrative	132,037	117,281	107,247
Depreciation and depletion	36,416	35,969	35,240
Interest	11,435	11,346	7,809
Provision for mine closing (Note 9)	(1,887)	24,695	—
	911,411	935,819	875,392

Note 9. Provision for Mine Closing:

In the fourth quarter of 1984, the Company incurred a charge against earnings of $24,695,000, representing the provision for mine closing of its Valley Camp No. 1 mine, which has been on standby since the fourth quarter of 1982. The total charge comprised a write-off of mine properties and equipment of $18,100,000 and other expenses, principally reclamation expenses and equipment removal, of $6,595,000. This charge reduced net income by $12,695,000, or $.55 per share.

In the fourth quarter of 1985, the provision was reduced by $1,887,000, due principally to more favorable experience on reclamation arrangements than was originally anticipated. This reduction increased net income by $970,000 or $.04 per share.

Public Offering of Subsidiary Stock

KINDER-CARE LEARNING CENTERS, INC. (AUG)

	1985	1984	1983
Operating revenues	$192,173,883	156,344,106	128,050,897
Operating expenses:			
Direct operating expenses	161,054,287	132,395,642	109,256,883
Genaral and administrative expenses	7,048,258	4,386,712	3,564,631
Total operating expenses	168,102,545	136,782,354	112,821,514
Operating income	24,071,338	19,561,752	15,229,383
Other income (expense):			
Gain on public stock sale by subsidiary	3,230,127	—	—
Interest expense, net of amounts capitalized	(23,448,646)	(17,936,103)	(10,475,166)
Net investment income	17,966,332	17,081,692	8,669,585
Earnings from continuing operations before income taxes, minority interest, unconsolidated subsidiary, and extraordinary item	21,819,151	18,707,341	13,423,802

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Business Acquisitions and Dispositions

Effective April 1, 1985, the Company acquired Sylvan Learning Corporation ("Sylvan") for $5,194,250 consisting of 300,000 shares of Kinder-Care common stock and $394,250 in cash. Sylvan operates and franchises Sylvan Learning Centers which, based on diagnostic testing, offer specialized supplemental instruction to school age children in reading and mathematics. Subsequent to the acquisition, which has been accounted for as a purchase, Kinder-Care made an equity contribution to the Company of $1,000,000 in cash and agreed to provide certain services to Sylvan.

In July 1985, Sylvan completed a public offering of 977,500 shares of its common stock, thereby decreasing Kinder-Care's percentage ownership to 67%. The Company recognized a gain of $3,230,127 due to the offering price per share exceeding the book value per share. The portion of Sylvan's equity relating to the shares not owned by Kinder-Care and the earnings relating thereto are presented as "minority interest" in the accompanying financial statements.

EXPENSES AND LOSSES

Paragraph 65 of FASB *Statement of Financial Accounting Concepts No. 3* defines expenses as "outflows or other using up of assets or incurrences of liabilities" resulting from the entity's "ongoing major or central operations." Paragraph 68 of *Concepts No. 3* defines losses as decreases in an entity's net assets resulting from all other transactions and events affecting the entity.

Paragraphs 19 and 26 of *APB Opinion No. 30* comment on the presentation and disclosure of losses.

19. Judgment is required to segregate in the income statement the effects of events or transactions that are extraordinary items (as required by paragraph 11). The Board concludes that an event or transaction should be presumed to be an ordinary and usual activity of the reporting entity, the effects of which should be included in income from operations, unless the evidence clearly supports its classification as an extraordinary item as defined in this Opinion.

26. A material event or transaction that is unusual in nature or occurs infrequently but not both, and therefore does not meet both criteria for classification as an extraordinary item, should be reported as a separate component of income from continuing operations. The nature and financial effects of each event or transaction should be disclosed on the face of the income statement or, alternatively, in notes to the financial statements. Gains or losses of a similar nature that are not individually material should be aggregated. Such items should not be reported on the face of the income statement net of income taxes or in any manner inconsistent with the provisions of paragraphs 8 and 11 of this Opinion or in any other manner that may imply that they are extraordinary items. Similarly, the earnings per share effects of those items should not be disclosed on the face of the income statement.

Table 3-5 reveals that most of the survey companies show a single caption and amount for cost of goods sold. Table 3-6 summarizes the nature of the expenses, other than cost of goods sold.

Excluded from Table 3-6 are rent (Table 2-28), employee benefits (Tables 3-8 and 3-9), depreciation (Table 3-10), and income taxes (Table 3-11).

TABLE 3-5: EXPENSES—COST OF GOODS SOLD CAPTIONS

	1985	1984	1983	1982
Single Amount				
Cost of sales	221	221	225	232
Cost of products sold	124	125	123	129
Cost of goods sold	116	126	129	128
Elements of cost	13	11	14	15
Other captions	87	81	77	67
	561	**564**	**568**	**571**
More Than One Amount	39	36	32	29
Total Companies	**600**	**600**	**600**	**600**

TABLE 3-6: EXPENSES—OTHER THAN COST OF GOODS SOLD

	Number of Companies			
	1985	**1984**	**1983**	**1982**
Selling, general and administrative	332	319	319	319
Selling and administrative or general	165	168	176	173
General and/or administrative	89	90	94	91
Selling	18	28	23	25
Interest	574	572	576	577
Research, development, engineering, etc.	299	297	296	297
Maintenance and repairs	99	93	98	103
Taxes other than income taxes	81	81	84	100
Advertising	62	53	55	67
Bad debts	28	34	38	35
Exploration, dry holes, abandonments	24	25	26	24

Table 3-7 lists losses most frequently disclosed by the survey companies. Excluded from Table 3-7 are losses shown after the caption for income taxes (Table 3-16), segment disposals, and extraordinary losses (Table 3-17). Examples of expenses and losses follow.

EXPENSES

Cost of Goods Sold

AMERICAN GREETINGS CORPORATION (FEB)

	1985	1984	1983
	Thousands of dollars		
Costs and expenses:			
Material, labor and other production costs	$377,755	$339,988	$310,022
Selling, distribution and marketing	274,095	246,456	217,022
Administrative and general	123,750	112,363	96,012
Depreciation and amortization	18,799	15,507	13,890
Interest	15,556	16,135	24,086
	809,955	730,449	661,032

CRADDOCK-TERRY SHOE CORPORATION (SEP)

	1985	1984	1983
	(In thousands)		
Costs and Expenses			
Cost of products sold	$58,568	$56,844	$52,746
Selling, administrative and general expenses	21,394	18,545	17,637
Interest expense	1,226	1,787	1,868
	81,188	77,176	72,251

AMERICAN MOTORS CORPORATION (DEC)

	1985	1984	1983
	(Dollars in Thousands)		
Costs and Expenses			
Cost of products sold, other than items below	$3,504,791	$3,594,229	$3,022,214
Selling, advertising and administrative expenses	388,515	360,057	328,065
Amortization of tools and dies	96,822	76,704	63,224
Depreciation and amortization of plant and equipment	40,057	37,330	23,769
Cost of pensions	56,750	65,444	50,465
Interest	90,941	94,022	85,529
	$4,177,876	$4,227,786	$3,573,266

AMERICAN TELEPHONE AND TELEGRAPH COMPANY (DEC)

	1985	1984
	Dollars in millions	
Sales and Revenues		
Sales of services, net of access charges of $21,521.2 and $20,633.0, respectively	$17,267.6	$15,780.8
Sales of products	11,853.1	10,189.4
Rental revenues	5,788.8	7,217.3
Total operating revenues	34,909.5	33,187.5
Costs and Expenses		
Cost of services	8,086.8	8,199.4
Cost of products	7,614.5	6,405.0
Cost of rentals	2,889.4	2,885.3
Selling, general and administrative expenses	11,123.0	11,215.9
Research and development expense	2,209.7	2,187.7
Total operating costs and expenses	31,923.4	30,893.3
Operating income	2,986.1	2,294.2

TABLE 3-7: LOSSES

	Number of Companies 1985	1984	1983	1982
Foreign currency	114	120	134	166
Restructuring of operations	103	74	76	88
Disposition of assets	29	25	28	23
Write-down of assets	49	42	38	37
Minority interest	40	38	33	35
Equity in losses of investees	21	15	25	30
Litigation settlements	17	11	9	N/C

N/C—Not Compiled.

PREMIER INDUSTRIAL CORPORATION (MAY)

(in thousands of dollars, except per share data)	1985	1984	1983
Costs and expenses:			
Cost of sales	$239,806	$208,307	$170,511
Selling, administrative and general	116,881	99,299	91,638
State and local income taxes	4,077	3,556	3,497
Depreciation	4,507	3,949	3,697
Amortization of other assets	4,640	564	498
Interest	348	427	350
	370,259	316,102	270,191

SPERRY CORPORATION (MAR)

(in millions of dollars)	1985	1984	1983
Revenue			
Net sales of products	$4,159.3	$3,368.7	$3,243.9
Rentals and services	1,527.9	1,545.3	1,419.7
Total	5,687.2	4,914.0	4,663.6
Other Income	7.4	36.0	65.4
	5,694.6	4,950.0	4,729.0
Costs and Expenses			
Cost of sales of products	2,906.6	2,248.4	2,136.4
Cost of rentals and services	760.5	805.7	750.4
Selling, general and administrative expenses	1,098.5	1,015.4	1,063.2
Research and development	460.7	410.4	375.7
Interest	174.4	166.6	228.9
	5,400.7	4,646.5	4,554.6
Income from Continuing Operations before Taxes on Income	293.9	303.5	174.4

Interest Expense

AMOCO CORPORATION (DEC)

	1985	1984	1983
	millions of dollars		
Costs and expenses			
Purchased crude oil, petroleum products, and merchandise	$12,569	$12,246	$13,712
Operating expenses	3,739	3,880	3,839
Petroleum exploration expenses, including exploratory dry holes	1,425	1,286	1,156
Selling and administrative expenses	1,390	1,302	1,320
Taxes other than income taxes	3,448	3,825	3,917
Depreciation, depletion, amortization, and retirements and abandonments	2,059	2,090	1,767
Interest expense	432	446	371
Total costs and expenses	25,062	25,075	26,082

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Interest Expense

The corporation capitalizes interest cost related to the financing of major projects under development. All other interest is expensed as incurred. The components of interest expense are summarized in the following table:

millions of dollars	1985	1984	1983
Short-term obligations	$ 29	$ 26	$ 15
Long-term obligations	311	377	405
Total external financing	340	403	420
Other interest expense	99	85	38
	439	488	458
Less—Capitalized interest	7	42	87
Net interest expense	$432	$446	$371

AMPCO-PITTSBURGH CORPORATION (DEC)

	1985	1984	1983
Net sales	$461,342,784	$415,652,500	$235,196,669
Operating costs and expenses:			
Cost of products sold	374,860,134	337,927,778	189,728,750
Selling and administrative expenses	63,283,642	53,712,926	41,933,742
Depreciation	12,702,534	10,590,366	8,499,550
	450,846,310	402,231,070	240,162,042
Income (loss) from operations	10,496,474	13,421,430	(4,965,373)
Other income and (expense):			
Gain on sale of stock investment	1,857,768	—	—
Gain on sale of Finance Subsidiary	—	4,474,886	—
Gain on sale of notes receivable for Contested Shares	—	—	3,531,546
Reduction in unfunded pension liabilities	—	—	3,478,903
Provision for plant closing costs	—	—	(3,492,100)
Interest expense	(11,634,978)	(15,356,338)	(16,118,048)
Other income	3,384,966	1,943,843	3,051,680
	(6,392,244)	(8,937,609)	(9,548,019)
Income (loss) from continuing operations before income taxes	4,104,230	4,483,821	(14,513,392)

PALL CORPORATION (JUL)

	1985	1984	1983
		($000)	
Costs and Expenses:			
Cost of sales	$113,459	$101,171	$ 91,268
Research and development	11,384	9,814	8,265
Selling, general and administrative expenses	98,886	84,499	74,896
Interest expense	9,108	6,416	4,880
Total Costs and Expenses	232,837	201,900	179,309

ANHEUSER-BUSCH COMPANIES, INC.

	1985	1984	1983
		(In millions)	
Sales	$7,683.3	$7,158.2	$6,658.5
Less federal and state beer taxes	683.0	657.0	624.3
Net sales	7,000.3	6,501.2	6,034.2
Cost of products sold	4,676.1	4,414.2	4,113.2
Gross profit	2,324.2	2,087.0	1,921.0
Marketing, administrative and research expenses	1,491.9	1,332.2	1,220.2
Operating income	832.3	754.7	700.8
Other income and expenses:			
Interest expense	(93.4)	(102.7)	(111.4)
Interest capitalized	37.2	46.8	32.9
Interest income	21.3	22.8	12.5
Other expense, net	(16.9)	(31.8)	(18.8)
Income before income taxes	780.5	689.8	616.0

Research and Development

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

	1985	1984	1983
		(Dollars in millions)	
Cost of sales	$14,911	$12,374	$ 9,748
Cost of services	4,689	4,347	3,506
Cost of rentals	1,503	2,198	3,141
Selling, general and administrative expenses	13,000	11,587	10,614
Research, development and engineering expenses	4,723	4,200	3,582
Interest expense	443	408	390
	39,269	35,114	30,981

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Research, Development and Engineering

Research, development and engineering expenses amounted to $4,723 million in 1985, $4,200 million in 1984 and $3,582 million in 1983.

Included in these amounts were expenditures of $3,457 million in 1985, $3,148 million in 1984 and $2,514 million in 1983 for a broad program of research and development covering basic scientific research in a variety of fields and the application of scientific advances to the development of new and improved products and their uses. In addition, expenditures for product related engineering amounted to $1,266 million, $1,052 million and $1,068 million for the same three years.

VARIAN ASSOCIATES, INC. (SEP)

(Dollars in thousands except per share amounts)	1985	1984	1983
Operating Costs and Expenses			
Cost of sales	$669,451	$595,802	$493,748
Research and development	73,290	59,057	47,525
Marketing	107,802	95,730	84,057
General and administrative	64,583	64,387	57,399
Total operating costs and expenses	915,126	814,976	682,729

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Research and Development Costs—Company-sponsored research and development costs related to both present and future products are expensed currently. Costs related to research and development contracts are included in inventory and charged to cost of sales upon recognition of related revenue. Total expenditures on research and development for fiscal 1985, 1984 and 1983, were $89.7 million, $74.1 million, and $61.4 million, respectively, of which $73.3 million, $59.1 million, and $47.5 million, respectively, were provided by Company funds. The Company was reimbursed $16.4 million in fiscal 1985, $15.0 million in fiscal 1984, and $13.9 million in fiscal 1983 for research and development activities conducted on behalf of customers.

WARNER-LAMBERT COMPANY (DEC)

	1985	1984	1983
	(Thousands of dollars)		
Revenues:			
Net sales	$3,200,069	$3,166,657	$3,108,325
Other income, primarily interest	72,110	81,940	84,919
Total revenues	3,272,179	3,248,597	3,193,244
Costs and expenses:			
Cost of goods sold	1,169,882	1,202,012	1,216,891
Marketing	1,113,284	1,094,675	1,067,712
Administrative and general	300,464	291,497	280,390
Research and development	208,231	194,892	174,996
Interest	77,824	81,756	74,087
Total costs and expenses	2,869,685	2,864,832	2,814,076
Income before nonrecurring change	402,494	383,765	379,168

Taxes Other Than Income Taxes

ATLANTIC RICHFIELD COMPANY (DEC)

	1985	1984	1983
	(Millions of dollars)		
Revenues			
Sales and other operating revenues (including excise taxes)	$22,492	$24,585	$24,746
Interest	176	177	152
Other revenues	412	445	259
	23,080	25,207	25,157
Expenses			
Costs and other operating expenses	14,770	16,748	16,936
Selling, general and administrative expenses	1,295	1,327	1,246
Taxes other than excise and income taxes	1,114	1,282	1,369
Excise taxes	769	886	790
Depreciation, depletion and amortization	1,762	1,716	1,438
Interest	622	516	344
Unusual items	2,303	311	—
	22,635	22,786	22,123
Income from continuing operations before income taxes	445	2,421	3,034

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Taxes

Taxes other than excise and income taxes for the years ended December 31, 1985, 1984 and 1983, comprised the following (millions of dollars):

	1985	1984	1983
Property	$ 196	$ 197	$ 184
Production/severance	489	511	527
Windfall profit	208	360	473
Other	221	214	185
Total	$1,114	$1,282	$1,369

IROQUOIS BRANDS, LTD. (DEC)

	1985	1984	1983
Net sales	$124,183,000	$141,594,000	$134,823,000
Other revenues	972,000	2,293,000	2,008,000
Net sales and other revenues	125,155,000	143,887,000	136,831,000
Costs and expenses:			
Cost of products sold	86,184,000	93,777,000	91,199,000
Selling, advertising, distribution, administrative and general expenses	31,405,000	35,449,000	30,872,000
Interest and debt expense	4,301,000	4,355,000	4,702,000
Excise taxes	3,225,000	4,074,000	4,150,000
	125,115,000	137,655,000	130,923,000
Income from continuing operations before income taxes	40,000	6,232,000	5,908,000

DIAMOND SHAMROCK CORPORATION (DEC)

	1985	1984	1983
	(dollars in millions)		
Revenues			
Sales and operating revenues	$4,101.8	$4,483.2	$4,026.1
Equity earnings (losses)	37.2	5.4	(15.4)
Other revenues, net	44.0	43.8	24.6
	4,183.0	4,532.4	4,035.3
Costs and Expenses			
Cost of products sold and operating expenses	2,854.7	3,000.4	3,057.0
Exploration costs, including dry holes	102.9	82.4	73.1
Depreciation, depletion and amortization	402.0	456.9	482.7
Selling and administrative	199.6	190.8	216.5
Research and development	7.3	6.2	23.7
Taxes other than income taxes	97.1	127.2	112.0
Interest	124.9	154.5	100.7
Special charge	891.3	—	—
	4,679.8	4,018.4	4,065.7
Income (Loss) Before Tax Provision	(496.8)	514.0	(30.4)

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions)

Taxes (In Part)

Taxes other than income taxes were comprised of the following:

	1985	1984	1983
Windfall profit	$10.0	$ 20.2	$ 17.6
Gross production	32.6	32.5	35.9
Real and personal property	22.7	33.9	25.1
Payroll	20.4	23.3	23.0
Other	11.4	17.3	10.4
	$97.1	$127.2	$112.0

The Company excludes consumer excise taxes from both its revenues and costs.

UNITED STATES STEEL CORPORATION (DEC)

	1985	1984	1983
	(Dollars in millions)		
Operating costs:			
Cost of sales (excludes items shown below)	$13,943	$13,538	$12,929
Selling, general and administrative expenses	646	606	715
Pension, insurance and other employee benefits	477	479	770
Depreciation, depletion and amortization	1,294	1,241	1,104
State, local and miscellaneous taxes (Note 4)	1,354	1,425	1,332
Exploration expenses	222	249	232
Total operating costs	17,936	17,538	17,082

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. State, Local and Miscellaneous Taxes

(In millions)	1985	1984	1983
Consumer excise taxes on petroleum products and merchandise (offset included in sales)	$ 854	$ 830	$ 654
Windfall profit tax	172	264	319
Property tax	138	158	176
Other	190	173	183
Total	$1,354	$1,425	$1,332

LOSSES

Foreign Currency

ANDERSON, CLAYTON & CO. (JUN)

	1985	1984	1983
	(In thousands of dollars)		
Cost of sales and operating expenses	$1,428,000	$1,238,668	$1,136,661
Depreciation and amortization	35,411	27,141	25,523
Selling and administrative expenses	240,809	146,198	141,226
Interest expense	39,040	39,448	32,986
U.S. and foreign taxes on income (including $1,749 in 1985 and $6,405 in 1984, forgiveness of deferred taxes related to DISC and life insurance operations under the provisions of the Deficit Reduction Act of 1984)	10,242	22,898	20,070
Loss from decline in foreign exchange rates (note 14)	33,286	28,703	35,149
Income applicable to minority interest	6,812	6,662	2,930
	1,793,600	1,509,718	1,394,545

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): A summary of significant accounting policies follows:

Foreign exchange rates. The Company's Mexican and Brazilian subsidiaries operate in highly inflationary economies where the national currencies are unstable. Accordingly, the financial statements of these subsidiaries are remeasured as if the functional currency of each is the U.S. dollar. This remeasurement results in any exchange gains or losses being included in net income during the period in which the exchange rate changes.

Note 14.

Cost of sales of the foreign subsidiaries has been remeasured using the weighted average exchange rate for the year. Had historical rates been used, cost of sales would have been $1,513,229,000 in 1985, $1,329,533,000 in 1984 and $1,198,809,000 in 1983 and the differences would be included in loss from decline in foreign exchange rates in each of the respective years. Included in loss from decline in foreign exchange rates are losses of $21,052,000 in 1983, (none in 1985 or 1984), which arose from the writedown of Mexican inventories to the lower of cost or market after the remeasurement into U.S. dollars. No writedown was required on the books maintained in national currency.

BAUSCH & LOMB INCORPORATED (DEC)

	1985	1984	1983
	Dollar Amounts in Thousands		
Net Sales	$596,151	$533,558	$477,287
Costs and Expenses:			
Cost of products sold	276,234	249,149	233,187
Selling administrative and general	170,027	149,082	133,512
Research and development	21,480	18,223	13,390
	467,741	416,454	380,089
Operating Earnings	128,410	117,104	97,198
Other (Income) Expenses:			
Investment income	(8,375)	(5,558)	(4,360)
Interest expense	13,602	16,687	12,108
Loss from foreign currency	2,336	2,850	574
Other, net	19,932	18,098	16,994
	27,495	32,077	25,316
Earnings from continuing operations before income taxes	100,915	85,027	71,882

NOTES TO FINANCIAL STATEMENTS

Foreign Currency Translation (In Part)

Assets and liabilities of international subsidiaries have been translated at current exchange rates, and related revenues and expenses have been translated at average rates of exchange in effect during the year. Resulting cumulative translation adjustments have been recorded as a separate component of shareholders' equity. Also included in this component of shareholders' equity are exchange gains and losses on hedges of foreign intercompany investments of a long-term nature. Translation adjustments relating to subsidiaries in countries with highly inflationary economies are included in net earnings, along with all transaction gains and losses for the period.

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

	1985	1984	1983
	(Dollars in millions, except per share)		
Net Sales	$9,585.1	$9,628.5	$9,031.6
Other Income	118.2	85.5	61.4
	9,703.3	9,714.0	9,093.0
Cost and Expenses:			
Cost of goods sold	7,635.1	7,581.9	7,073.5
Selling, administrative and general expenses	1,469.6	1,357.7	1,316.1
Interest and amortization of debt discount and expense	105.2	117.3	108.6
Plant closures and sale of facilities	(2.4)	(9.8)	73.8
Foreign currency exchange	32.7	45.8	55.6
Minority interest in net income of foreign subsidiaries	6.6	6.4	6.4
	9,246.8	9,099.3	8,634.0
Income from continuing operations before income taxes and extraordinary item	456.5	614.7	459.0

HUGHES TOOL COMPANY (DEC)

	1985	1984	1983
	(In thousands)		
Net sales	$1,260,923	$1,215,746	$1,157,341
Cost of sales	972,924	917,895	927,561
Gross margin	287,999	297,851	229,780
Selling, general and administrative expenses	207,164	230,144	245,872
Operating income (loss) before unusual charges	80,835	67,707	(16,092)
Other income (expense):			
Interest income	19,040	16,272	20,694
Interest expense	(76,635)	(109,429)	(91,116)
Foreign currency exchange gains (losses)—net	(11,953)	19,360	16,559
Write-off of goodwill			(41,292)
Unusual charges		(174,300)	
Other—net	(6,932)	(8,116)	(26,801)
Other income (expense)—net	(76,480)	(256,213)	(121,956)
Income (loss) before provision (credit) for income taxes and minority interest	4,355	(188,506)	(138,048)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Translation of foreign currencies—Management has determined that the functional currency of each of the Company's subsidiaries is the United States dollar. Consequently, assets and liabilities of foreign operations are translated into U.S. dollars at year-end exchange rates, except that inventories, prepaid expenses, property (and related accumulated depreciation) and other deferred charges or credits except deferred income taxes are translated at exchange rates prevailing at dates of acquisition or deferment. Income and expenses are translated at the average rate prevailing during the year, except that inventories charged to cost of sales, depreciation expense and any other revenues and expenses related to assets or liabilities translated at historical rates are translated at the rates of exchange prevailing at the time the related assets were acquired or liabilities were incurred. All gains and losses arising from changes in exchange rates are included in income in the period incurred.

MACMILLAN, INC. (DEC)

	1985	1984	1983
	(Dollars in thousands)		
Sales of Products and Services	$676,949	$529,653	$430,515
Operating Expenses			
Costs of products and services sold	317,636	249,169	202,133
Selling, general and administrative	270,542	216,820	183,890
Total operating expenses	588,178	465,989	386,023
Operating Income	88,771	63,664	44,492
Other income (expense):			
Securities gains and dividends	1,137	2,106	2,858
Interest (expense), net	(5,234)	(3,259)	(1,207)
Foreign exchange (loss), net	(2,476)	(2,277)	(3,100)
Gains on sales of real estate	402	—	3,206
Gains on repurchase of debentures	24	215	161
Total other income (expense)	(6,147)	(3,215)	1,981
Income Before Income Taxes	82,624	60,449	46,410

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

1 (In Part): Summary of Significant Accounting Policies

Foreign Currency Translation. All balance sheet amounts have been translated using the exchange rates in effect at the balance sheet dates and the translation adjustment has been included in shareholders' equity. All income statement amounts have been translated using the average rates in effect for each year and gains and losses on foreign currency transactions have been included in income.

Restructuring of Operations

ACME-CLEVELAND CORPORATION (SEP)

	1985	1984	1983
Revenues:			
Net sales	$220,933,004	$151,035,033	$133,859,288
Other income	1,541,696	5,482,939	1,652,078
Interest income	1,006,765	2,635,304	2,025,946
	223,481,465	159,153,276	137,537,312
Cost and expenses:			
Cost of products sold	144,153,029	107,456,302	96,973,234
Selling, administrative, and general expense	48,563,479	34,017,059	40,700,909
Depreciation and amortization of intangibles	11,441,079	7,898,389	8,549,803
Interest	5,644,534	2,759,790	3,789,296
Restructuring of operations	3,391,000	-0-	18,811,767
Other	1,286,819	5,123,493	4,564,362
	214,479,940	157,255,033	173,389,371
Earnings (Loss) Before Income Taxes From Continuing Operations	9,001,525	1,898,243	(35,852,059)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D (In Part): Restructuring of Operations

During fiscal 1985, the continuation of depressed volume levels and longer term prospects for moderate growth in one of the Corporation's businesses made further restructuring actions necessary. These actions are directly related to reducing capacity and lowering the Corporation's fixed costs. Restructuring actions identified in 1985 resulted in charges to continuing operations of $3,391,000 before tax and $1,831,000 after tax ($.30 per share) and included costs associated with the closing of a manufacturing plant, severance costs, and relocation expenses.

THE BLACK & DECKER CORPORATION (SEP)

(thousands of dollars except per share data)	1985	1984	1983
Net Sales	$1,732,278	$1,532,883	$1,167,752
Cost of products sold	1,107,228	953,841	742,986
	625,050	579,042	424,766
Selling, general and administrative expenses	531,763	428,614	332,985
Operating Income	93,287	150,428	91,781
Interest expense	58,265	34,834	29,865
Other income	20,253	25,210	24,222
Restructuring costs	215,100	—	47,687
Earnings (Loss) From Continuing Operations Before Income Taxes	(159,825)	140,804	38,451

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(thousands of dollars except per share data)

Note 3: Restructuring Costs

During fiscal 1985, total restructuring costs of $215,100 before tax were recorded. Of the total amount, $176,300 relates to a reduction of manufacturing capacity through plant closings, consolidation of elements of the United States Power Tools Group, and a general simplification of management structure. These costs include the writedown of property, plant and equipment to estimated net realizable value, relocation and transfer costs, and employee severance and related costs. Because of these charges and low operating earnings, tax benefits of only $9,800 were recorded. The balance of $38,800, also categorized as restructuring costs, was charged to earnings without tax benefit to increase the provision for integrating the Housewares operations acquired in 1984 from General Electric Company. The provision had originally been recorded net of tax. This adjustment recognizes that the Corporation is unable, under generally accepted accounting principles, to anticipate future tax benefits at this time. The impact of these total restructuring charges on net earnings for the twelve-month period was $205,300 ($4.03 per share).

The Corporation completed a prior restructuring plan during 1983, resulting in restructuring costs of $47,687 before taxes. After giving effect to applicable income tax benefits of $17,597, the impact on earnings from continuing operations was a reduction of $30,090 ($.70 per share). The major actions taken under that plan included manufacturing reorganization and consolidation (mainly in Ireland and the United Kingdom), an early retirement plan for certain eligible United States employees and a restructuring of the corporate management organization.

NORTON COMPANY (DEC)

	1985	1984	1983
	Dollars in millions		
Net sales	$1,193.0	$1,209.6	$1,127.8
Cost and expenses:			
Cost of sales	752.6	747.2	717.2
Selling, general and administrative	335.7	334.9	326.8
Research and development	36.3	32.5	26.8
Total costs and expenses	1,124.6	1,114.6	1,070.8
Income from operations	68.4	95.0	57.0
Other income (expense):			
Interest expense	(23.6)	(22.0)	(29.9)
Interest income	12.7	15.6	11.5
Gain from partial sales of businesses			30.0
Income from associated companies	2.4	12.6	3.1
Other, net	0.1	4.3	
Total other income (expense)	(8.4)	10.5	14.5
Restructuring costs	(237.5)		
Income (loss) before income taxes	(177.5)	105.5	71.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Restructured Operations and Partial Sales of Businesses

The company recorded a pre-tax charge for the restructuring of its operations through the disposal or reduction in carrying value of certain assets, the liquidation or sale of businesses and the reduction of worldwide salaried employees. These pre-tax charges are reflected in the Consolidated Statement of Income under the caption "Restructuring costs," and are summarized below (in millions of dollars, except per-share data):

Pre-tax charge	$(237.5)
Tax benefit	70.0
Net income effect	$(167.5)
Per-share effect	$ (8.38)

MONSANTO COMPANY (DEC)

	1985	1984	1983
	(Dollars in millions)		
Net Sales	$6,747	$6,691	$6,299
Cost of goods sold	4,841	4,839	4,734
Gross Profit	1,906	1,852	1,565
Marketing and administrative expenses	919	722	681
Technological expenses	548	446	359
Amortization of intangible assets	88	7	4
	1,555	1,175	1,044
Operating Income	351	677	521
Interest expense	(178)	(100)	(96)
Interest income	63	92	73
Other income—net	23	38	72
	(92)	30	49
Income Before Unusual Item, Income Taxes and Extraordinary Items	259	707	570
Restructuring cost—net	(557)		
Income (Loss) Before Income Taxes and Extraordinary Items	(298)	707	570

NOTES TO FINANCIAL STATEMENTS

Restructuring

In October 1985, the Company's Board of Directors approved a restructuring and reorganization program. The approved actions included the withdrawal from selected low-return businesses and production facilities, the sale of certain assets which no longer have strategic importance and reductions in the number of employees. In connection with this program, in the fourth quarter of 1985 the Company provided a $557 million charge to "Restructuring cost—net" in the Statement of Consolidated Income, comprising the following:

Asset write-downs	$530
Cost of emloyee reductions, including a Special Incentive Retirement program	252
Other costs	273
Gains on sales of assets	(498)
Restructuring cost—net	$557

The impact on net income was $341 million (net of estimated tax benefits of $216 million), or $4.43 per share.

As part of the restructuring and reorganization program, several sales of businesses and production facilities have occurred or are planned. In the fourth quarter of 1985, the Company sold its oil and gas operations at a net gain of $201 million ($392 million before tax), or $2.61 per share. Also in the fourth quarter of 1985, Monsanto sold its Seal Sands, United Kingdom fiber intermediates plant at a net gain of $82 million ($105 million before tax), or $1.06 per share. The Company intends to sell the Texas City,Texas chemical plant and will close several operations, including the facilities at Columbia, Tennessee and Anniston, Alabama.

Subsequent to its acquisition by Monsanto, Searle sold its investment in Pearle Health Services, Inc. and its nonprescription pharmaceuticals business. Because Monsanto recorded the assets of these businesses at their fair values as of the date of acquisition, no gain or loss resulted from these sales.

Net sales of the divested and discontinued product lines in 1985 were $931 million, principally in the Chemicals segment.

Management expects the restructuring program to be substantially complete by the end of 1986.

A Special Incentive Retirement program was effective in November and December 1985. Of the 3,880 United States employees eligible under the program, 2,358 elected to accept early retirement.

THE PARKER PEN COMPANY (FEB)

(thousands of dollars except per share amounts)

	1985	1984	1983
Net sales of products and services	$843,713	$708,817	$635,278
Cost of products and services sold	614,338	493,304	449,054
	229,375	215,513	186,224
Marketing, general and administrative expense	194,117	179,276	174,485
Earnings from operations	35,258	36,237	11,739
Other expense:			
Other expense, net	(272)	(157)	(523)
Interest expense	(15,193)	(10,114)	(6,729)
	(15,465)	(10,271)	(7,252)
Earnings before unusual items, income taxes and minority interest	19,793	25,966	4,487
Unusual items:			
Restructuring costs	(3,800)	—	(7,564)
Arrow Park modernization	—	—	(5,000)
	(3,800)	—	(12,564)
Earnings (loss) before income taxes and minority interest	15,993	25,966	(8,077)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unusual Items—Writing Instrument Group Restructuring

During fiscal 1983 the Company provided for the estimated cost of restructuring certain Writing Instrument Group manufacturing, distribution and marketing operations. These costs total $7,564,000. The after-tax effect was $5,383,000.

In the fourth quarter of fiscal 1983, the Company finalized plans to modernize its Janesville Arrow Park manufacturing plant during fiscal 1984 and 1985. Capital expenditures relating to this project totaled approximately $1,618,000 during 1985 and $10,400,000 during 1984, including capitalized interest costs during construction of $444,000 in 1984. Additionally, personnel retirement and termination costs relating to this project of $5,000,000 ($2,550,000 net of taxes) were provided as an expense during the fourth quarter of 1983.

During the fourth quarter of 1985, certain fixed assets determined to no longer be useable in operations, were written off and provision was made for the costs of certain staffing changes. Such amounts totaled $3,800,000 ($2,052,000 net of taxes) which is shown in the consolidated statements of net earnings as an unusual item.

Parker Pen management and the Board of Directors are studying the Writing Instrument Group operations and, upon completion, will consider several strategic alternative plans. As specific future plans have not been identified, the ultimate financial effect, if any, of such future plans cannot presently be determined.

Sale of Assets

THE LOUISIANA LAND AND EXPLORATION (DEC)

	1985	1984 (Millions)	1983
Revenues:			
Oil, gas and refined products	$1,149.4	1,234.0	1,113.2
Other (interest, 1985—$9.7; 1984—$8.4; 1983—$9.5)	30.3	47.3	39.3
	1,179.7	1,281.3	1,152.5
Costs and expenses:			
Lease, facility and refinery operating expenses	581.2	624.4	564.2
Dry holes and exploratory charges	103.9	90.6	104.5
Depletion, depreciation and amortization	190.6	176.6	122.9
Taxes, other than on earnings	29.0	37.2	35.0
Excise (Windfall Profit) taxes	40.1	58.4	61.6
Other operating expenses	60.4	58.8	49.9
General and administrative expenses	9.0	11.4	12.4
Interest and debt expenses	—	4.0	—
Loss on disposition of carried interest (note 2)	171.5	—	—
	1,185.7	1,061.4	950.5
Earnings (loss) from continuing operations before income taxes	(6.0)	219.9	202.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Disposition of Carried Interest

In 1977, the Company entered into an arrangement with Bow Valley Exploration (U.K.) Ltd. under which it would obtain a 6.3% working interest in the Brae Field, located in the United Kingdom sector of the North Sea. Such arrangement included the Company funding, on behalf of Bow Valley, certain exploratory and development costs of a like 6.3% working interest. In addition to the Company receiving production from its own 6.3% working interest, it was also entitled to recover all expenditures made on behalf of Bow Valley solely from 70% of Bow Valley's production until all such expenditures, plus interest, had been recouped (payout).

Under this "carried interest" arrangement, the Company classified the funds advanced, on behalf of Bow Valley, in its property, plant and equipment accounts. Similarly, the Company recorded its appropriate interest (70% until payout) in Bow Valley's share of proved reserves in the Brae Field and recorded as revenue its appropriate interest in Bow Valley's share of production from the Brae Field. In addition, the Company recorded 100% of its own 6.3% working interest in the appropriate accounts.

In January 1986, the Company and Bow Valley agreed to terminate their arrangement with regard to the future funding on behalf of Bow Valley. The agreement did not affect the Company's 6.3% working interest in the Brae Field. Under the agreement, which was effective December 31, 1985, the Company received $18 million and was released from any future funding obligations for Bow Valley. In return, the Company will not recover past advances made on behalf of Bow Valley. As a result of the transaction, the Company has recognized a loss of $88.0 million in 1985 (net of income tax benefits of $83.5 million).

MOTT'S SUPER MARKETS, INC. (DEC)

Consolidated Statement of Income

	1985	1984	1983
Sales	$290,072,839	$297,816,315	$295,356,637
Cost of Goods Sold	228,600,076	237,011,751	236,430,765
Gross Profit	61,472,763	60,804,564	58,925,872
Operating Expenses			
Store, Administrative and General Expenses	64,791,279	59,109,018	55,922,975
Depreciation	2,424,801	2,276,702	1,993,745
	67,216,080	61,385,720	57,916,720
Operating Income (Loss)	(5,743,317)	(581,156)	1,009,152
Other Income (Expense)			
Interest Income	1,783,555	1,544,880	1,443,798
Gain on Lease Sale	—	90,000	—
Interest Expense	(1,079,261)	(545,848)	(116,813)
Partnership Loss	(166,275)	—	—
Rental Income (net)	105,987	100,058	97,429
Loss of Sale of Assets	(8,311)	—	—
	635,695	1,189,090	1,424,414
Income (Loss) Before Income Taxes	(5,107,622)	607,934	2,433,566

Write-Down of Assets

ANADITE, INC. (OCT)

	1985	1984	1983
		($000)	
Net Sales	$57,723	$57,187	$43,634
Cost of Sales	54,286	53,353	40,541
Gross Profit	3,437	3,834	3,093
Operating Expenses:			
Selling	1,961	1,925	2,341
General and administrative	4,524	4,438	4,141
Operating (Loss)	(3,048)	(2,529)	(3,389)
Other Income and (Expense):			
Interest (expense)	(517)	(508)	(593)
Interest and dividend income	121	477	854
Other income, net	357	1,243	685
Write-down of forging assets (Note 8)	(2,688)	—	—
(Loss) Before Income Taxes	(5,775)	(1,317)	(2,443)

Note 8 (In Part): Restructuring of Operations

During November of 1985, the Company announced its decision to withdraw from the commercial open die (flat die) forging market. The decision to discontinue the flat die forging operation was due to extremely competitive conditions in the commercial open die market. These conditions led to increasing losses in this small part of the Company's forging business with no near term prospects for profitability. Accordingly, the Company provided $2,688,000 to write-down the related fixed assets to their estimated net realizable value and to cover costs associated with shutting down the operation. This pretax charge is included as Other Expense in the Consolidated Statements of Income for the twelve months ended October 31, 1985.

ANCHOR HOCKING CORPORATION (DEC)

	1985	1984	1983
		(In thousands)	
Net sales	$720,347	$712,973	$678,008
Cost and expenses:			
Cost of products sold	575,515	595,763	540,880
Selling and administrative expenses	112,803	97,930	92,428
Operating income	32,029	19,280	44,700
Other income (expense)	(108)	2,465	3,924
Interest expense	(12,904)	(11,057)	(8,344)
Income from continuing operations before income taxes and unusual and extraordinary items	19,017	10,688	40,280
Unusual items	(13,362)	(50,807)	
Income (loss) from continuing operations before income taxes and extraordinary gain	5,655	(40,119)	40,280

NOTES TO FINANCIAL STATEMENTS

Note 2 (In Part): Unusual Items and Investment

During 1982, the Company acquired 800,700 shares of Towle Manufacturing Company (Towle) common stock for $18,166,000. At December 31, 1984, the cost of this investment exceeded market value and a $7,630,000 valuation allowance, representing the net unrealized loss, was established. The valuation allowance was recorded as a component of common stockholders' equity.

On October 11, 1985, Towle announced that substantial losses were expected for 1985 and that certain businesses or assets might be sold to reduce debt. In view of the announcement and the depressed market value of the stock, the Company initiated a thorough evaluation of all available options for maximizing the realizable value of this investment. As a result of this evaluation, the Company elected to dispose of this investment and the cost was reduced to approximate market value at year end. Accordingly, a $13,362,000 ($1.28 per share) charge to income was recorded in the fourth quarter of 1985 which under generally accepted accounting principles establishes a new cost of $6.00 per share for this investment at December 31, 1985.

FLUOR CORPORATION (OCT)

	1985	1984	1983
		(In thousands)	
Revenues			
Engineering and construction services	$3,179,308	$3,205,987	$4,104,454
Natural resources	867,797	923,375	866,455
Drilling and other	121,339	172,415	193,758
Total revenues	4,168,444	4,301,777	5,164,667
Cost of Revenues			
Engineering and construction services	3,267,177	3,103,202	3,890,531
Natural resources	949,506	912,803	836,968
Drilling and other	184,261	197,501	171,594
Total cost of revenues	4,400,944	4,213,506	4,899,093
Other Income and Expense			
Corporate administrative and general expense	34,652	46,361	47,200
Gain on sale of Irvine facility	(78,834)	—	—
Write-down of investment in certain coal mines	211,578	—	—
Write-off of excess of cost over net assets of acquired companies allocated to lead operations	137,989	—	—
Interest expense (net of capitalized interest of $2,645, $12,822, and $16,800, respectively)	115,714	96,665	96,653
Interest income	(26,816)	(35,873)	(33,608)
Total costs and expenses	4,795,227	4,320,659	5,009,338
Earnings (Loss) From Continuing Operations Before Income Taxes	(626,783)	(18,882)	155,329

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Provision for Losses on Revaluation of Lead and Coal Operations

During 1985, the company reviewed the long-term business prospects of the lead business. Based on the deterioration in lead sales and operating profits since the acquisition of St. Joe in 1981 and the prospects for continued depressed conditions in the domestic lead business, the excess of cost over net assets acquired allocated to lead operations of $138,000,000 was written off in the fourth quarter.

In October 1985, the company wrote down its investment in certain Massey Coal Company mines to net realizable value and is pursuing disposition of certain of these properties. This write-down resulted in a charge to operations during the fourth quarter of $212,000,000 consisting of reductions in property carrying values, a provision for disposal and a write-off of the allocated excess of cost over net assets acquired.

DAYCO CORPORATION (OCT)

	1985	1984	1983
		($000)	
Costs and expenses			
Cost of sales	$690,149	$694,730	$553,702
Selling, general and administrative expenses	172,945	165,444	145,395
Write-off of plant assets—Note L	3,156	—	—
Interest expense	12,449	13,489	16,216
Interest income	(1,696)	(3,778)	(2,961)
	877,003	869,885	712,352

Note L (In Part): Write-Off of Plant Assets and Extraordinary Item

During 1985 the management of the corporation determined that certain production facilities were obsolete, primarily regarding Allen Industries. Accordingly, the corporation recorded charges of $3,156 against continuing operations in the accompanying statement of consolidated earnings, primarily in the fourth quarter, which was sufficient to write the impaired assets down to net realizable value.

FOOTE MINERAL COMPANY (DEC)

	1985	1984	1983
		(In Thousands)	
Net sales	$126,751	$163,712	$136,908
Cost of sales	118,708	145,038	126,820
Depreciation and amortization	7,251	7,953	8,783
Selling, general and administrative expenses	10,634	9,699	8,920
Income (loss) from operations	(9,842)	1,022	(7,615)
Interest and other income	860	725	1,684
Interest expense	2,382	1,874	2,567
Estimated cost of Graham plant closing—net	11,600	—	—
Keokuk property writedown	9,355	—	—
Loss before federal taxes and equity in income of unconsolidated partnership	(32,319)	(127)	(8,498)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Keokuk Property, Plant and Equipment Writedown

In the fourth quarter of 1985, the Company wrote off the remaining book value of property, plant and equipment at its

Keokuk, Iowa, ferroalloys plant. The writeoff resulted in a charge to income of $9,355,000.

Increasing costs of production at Keokuk and extremely depressed market conditions caused principally by large volumes of imported ferroalloys in the U.S. market make it evident that profitable operations at Keokuk cannot reasonably be expected under the present cost structure. The Company will determine the long-term viability of Keokuk after completing negotiations with the plant's electrical power supplier and negotiating a new labor agreement, both anticipated to be accomplished by June 1986. If these negotiations are successful, the Company would expect to continue production at Keokuk.

WHITTAKER CORPORATION (OCT)

	1985	1984	1983
	(Dollar amounts in thousands)		
Costs and expenses			
Cost of sales	$ 892,016	$1,119,059	$1,263,547
Engineering, selling and general and administrative	201,270	183,536	209,299
Interest on long-term debt	12,797	15,967	18,000
Other interest, net	(9,226)	(5,051)	1,904
Nonrecurring items (Note 9)	29,081	11,944	—
Loss on investment	19,473	7,000	3,500
Minority interest in income of subsidiaries	(172)	19,217	41,104
	1,145,239	1,351,672	1,537,354

Note 9 (In Part): Nonoperating Charges and Credits

Nonrecurring items in the income statement consist of the following:

Years ended October 31 (Dollars in thousands)	1985	1984
Write-off of goodwill	$12,089*	$11,944
Write-off of cumulative translation adjustment	17,447*	—
Warranty litigation provision	16,000	—
Reversal of net accrued interest	(16,455)	—
	$29,081	$11,944
After-tax effect of above items	$29,291	$ 9,983

*No tax benefit available

The write-off of goodwill reflects the write-off in 1985 and 1984 of goodwill which in management's opinion no longer had value and in 1984 of goodwill related to certain operating units which were disposed of. The cumulative translation adjustment reflects the write-off through the income statement of cumulative currency translation adjustments related to Whittaker's French subsidiary as a result of management's opinion that the decline through the third quarter of 1985 in the dollar value of the French franc impaired the recoverable dollar value of Whittaker's investment in such subsidiary. These cumulative currency translation adjustments had been previously recorded as a reduction of stockholders' equity. The provision for warranty litigation represents management's estimate, based upon events occurring in the third quarter of 1985, of the outcome of certain product warranty litigation in connection with businesses previously disposed of. The reversal of net accrued interest is associated with the favorable resolution of certain tax issues.

PRAB ROBOTS, INC. (OCT)

	1985	1984	1983
Net sales	$19,374,369	$18,434,683	$19,104,152
Cost and expenses:			
Cost of products sold	12,783,320	12,903,068	13,052,718
Selling, general and administrative expenses	6,385,868	6,040,494	5,956,120
	19,169,188	18,943,562	19,008,838
Operating income (loss)	205,181	(508,879)	95,314
Other income (deductions):			
Equity in earnings of affiliate	—	35,575	43,671
Interest expense	(853,274)	(799,990)	(303,860)
Interest income	147,238	398,155	29,956
Non-recurring charge (Note 2)	(602,000)	—	—
	(1,308,036)	(366,260)	(230,233)
Income (loss) before income taxes	(1,102,855)	(875,139)	(134,919)

NOTES TO FINANCIAL STATEMENTS

2 (In Part): Inventories:

During the current year the Company's robot division discontinued two product lines as technological improvements were made to certain other product components. Accordingly, an allowance to reduce existing inventories related to such products to estimated net realizable value has been made resulting in a non-recurring charge of $602,000 to the statement of earnings for the year ended October 31, 1985.

Minority Interest

CBI INDUSTRIES, INC. (DEC)

	1985	1984	1983
	Thousands of dollars		
Revenues			
Contracting Services	$1,077,177	$716,929	$828,913
Industrial Gases	439,177	183,042	—
Investments	55,137	60,280	76,463
Total revenues	$1,571,491	$960,251	$905,376
Costs of services and products sold	(1,302,280)	(759,410)	(743,071)
Selling and administrative expense	(149,598)	(111,288)	(94,033)
Income from operations	$ 119,613	$ 89,553	$ 68,272
Other expenses			
Interest expense	$ 38,275	$ 25,058	$ 5,089
Minority interest in subsidiaries	7,527	8,238	4,098
Total other expense	$ 45,802	$ 33,296	$ 9,187
Income before special charge and income taxes	$ 73,811	$ 56,257	$ 59,085

GENERAL HOST CORPORATION

	1985	1984	1983
		($000)	
Costs and expenses:			
Cost of sales	$448,832	$424,293	$342,872
Selling, general and administrative	90,283	98,684	80,827
Depreciation	17,435	15,629	12,433
Interest and debt expense	22,510	24,551	18,064
Minority interest in earnings of The All American Gourmet Company	379		
	579,439	563,157	454,196

REICHHOLD CHEMICALS, INC. (DEC)

	1985	1984	1983
		(Dollars in thousands)	
Net sales	$822,534	$801,355	$747,263
Operating costs and expenses:			
Cost of goods sold	669,620	644,810	605,874
Selling, administrative and technological expenses	144,716	112,994	106,857
	814,336	757,804	712,731
Operating income	8,198	43,551	34,532
Other income (deductions):			
Restructuring program	(39,577)	1,001	2,187
Equity in net income (loss) of affiliated companies	(414)	2,128	2,221
Minority interest	(1,169)	190	(163)
Interest expense	(12,660)	(6,530)	(5,022)
Interest income	2,428	2,093	2,466
Sundry—net	(4,338)	(233)	2,469
	(55,730)	(1,351)	4,158
Income (loss) before income taxes	(47,532)	42,200	38,690

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Minority Interest in Consolidated Subsidiaries.

Preferred stock of Reichhold Limited is included in the consolidated balance sheet at December 31, 1985 as minority interest in consolidated subsidiaries. The stock is stated at redemption value, $15.2 million, and was redeemed by the Company in January, 1986. The dividends paid on the preferred stock totaled $1.2 million during 1985 and are included in "Minority interest" in the consolidated statements of operations.

The remaining minority interest represents minority shareholders' proportionate share in the equity of RCAG.

TRIANGLE INDUSTRIES, INC. (DEC)

	1985	1984	1983
		(Dollars in thousands)	
Net sales	$1,645,721	$169,509	$137,249
Cost of products sold	1,407,728	144,280	118,617
Gross profit	237,993	25,229	18,632
Selling, general and administrative expenses	106,489	18,700	16,324
Operating Income	131,504	6,529	2,308
Other income (expenses)			
Investment income	25,764	9,533	1,247
Gain on sale of investment	12,518	—	—
Interest expense	(96,939)	(20,421)	(7,502)
Minority interest—Note H	(8,807)	—	—
Other income (expense)—net	7,642	(40)	782
Income (loss) from continuing operations before taxes	71,682	(4,399)	(3,165)

Note H—Redeemable Preferred Stock

During 1985, the Company issued, for an aggregate of $30 million, 300,000 shares of redeemable preferred stock, $1.00 par value with an annual dividend of $14.00 per share, and detachable warrants to purchase 19.9% of National Can common shares at $10.06 per share. The preferred stock is mandatorily redeemable on April 15, 2000 and prior to such date is redeemable at the option of the Company on or after April 15, 1993 at $100 per share. The potential 19.9% minority interest in the earnings of National Can has been recognized in the accompanying consolidated financial statements. Subsequent to year-end, the Company repurchased $20 million of the $14.00 redeemable preferred stock and all of the warrants to purchase 19.9% minority interest in National Can (See Note R—"Subsequent Event").

Equity in Losses of Investees

EMERSON RADIO CORP. (MAR)

	1985	1984	1983
		($000)	
Net sales	$357,463	$183,029	$95,051
Cost of sales	307,149	152,524	83,423
Selling, general & administrative expenses	22,116	17,962	12,798
Interest expense	6,258	2,741	3,366
Equity in net loss of Imatron Inc.	1,008	476	1,231
Minority interest in net loss of subsidiary	(609)	(755)	(416)
Gain arising from sale of stock by Imatron Inc.		(5,368)	
Gain arising from issuance of stock by CRC		(493)	(6,639)
	335,922	167,087	93,763
Earnings before taxes	21,541	15,942	1,288

H.H. ROBERTSON COMPANY (DEC)

	1985	1984	1983
		(Thousands)	
Revenues:			
Net product sales	$460,664	$472,343	$445,577
Construction and other services	153,585	120,497	103,983
Total	614,249	592,840	549,560
Cost and expenses:			
Product	395,961	371,790	344,465
Construction and other services	157,101	115,086	90,348
Cost of sales	553,062	486,876	434,813
Selling, general and administrative	85,528	83,682	81,833
Product research and development	4,929	5,252	4,485
Total (including depreciation: 1985, $11,087; 1984, $10,042; 1983, $9,551)	643,519	575,810	521,131
Income (loss) from operations	(29,270)	17,030	28,429
Other income:			
Interest income	1,053	2,072	3,379
Miscellaneous	1,785	2,219	4,079
Total	2,838	4,291	7,458
Other deductions:			
Interest expense	8,067	4,488	3,398
Provision for nonrecurring charges	20,122	—	—
Equity in losses of affiliates	86	120	281
Miscellaneous	1,839	979	2,212
Total	30,114	5,587	5,891
Income (loss) before provision (credit) for taxes on income	(56,546)	15,734	29,996

Provision For Doubtful Accounts

HUGHES SUPPLY, INC. (JAN)

	1986	1985	1984
Sales—Net	$324,644,609	$310,469,654	$256,678,438
Cost of Sales	261,611,044	249,645,148	205,861,736
Gross Profit	63,033,565	60,824,506	50,816,702
Operating Expenses:			
Selling, general and administrative	49,110,590	45,598,724	38,143,434
Provision for doubtful accounts	1,085,001	1,138,849	313,654
Total Operating Expenses	50,195,591	46,737,573	38,457,088
Operating Income	12,837,974	14,086,933	12,359,614

MACK TRUCKS, INC. (DEC)

	1985	1984	1983
		in thousands	
Net Sales	$2,063,312	$2,105,458	$1,216,830
Cost and Expenses:			
Cost of sales	1,934,649	1,885,065	1,134,121
Depreciation and amortization of property (principally applicable to cost of sales)	29,663	27,981	26,199
Selling, general and administrative expenses	99,058	107,355	89,500
Provision (credit) for doubtful accounts and notes receivable	2,044	(330)	7,527
Total	2,065,414	2,020,071	1,257,347
Income (Loss) From Operations	(2,102)	85,387	(40,517)

Litigation Settlement

GENERAL REFRACTORIES COMPANY (DEC)

	1985	1984	1983
		(dollars in thousands)	
Net Sales	$316,012	$311,396	$290,730
Operating Costs and Expenses			
Materials, supplies, production labor and expenses	222,731	221,693	206,732
Selling, general and administrative expenses	57,207	54,295	56,138
Depreciation and amortization	8,938	9,207	9,750
Taxes other than income taxes	17,605	17,230	17,571
	306,481	302,425	290,191
Income from operations	9,531	8,971	539
Other income	7,409	7,727	4,695
Nonrecurring costs	(2,610)	—	—
Provision for separation pay	(1,525)	—	—
Litigation settlement	—	975	—
Gain on disposal of subsidiary	—	—	850
Gain on restructuring operations	—	300	—
Interest expense	(6,940)	(7,630)	(8,105)
Income (loss) before income taxes and extraordinary credit	5,865	10,343	(2,021)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 (In Part): Litigation And Contingencies

Beginning in May 1985, the Company and Raymond G. Perelman and Belmont Industries (the Perelman Group) engaged in certain legal actions and proxy contests relating to control of the Company following the acquisition of a substantial portion of the Company's common shares by the Perelman Group. The dispute included, among other things, election of directors, postponement of the Company's annual shareholders meeting, violation of Federal securities laws and the offer by the Company to exchange one share of its convertible preference stock for each 2.25 shares of common stock outstanding.

On September 13, 1985 the Company and the Perelman Group executed an agreement terminating all outstanding litigation between them. As part of the agreement, the Company agreed, among other things, to terminate its exchange offer and to pay all of the expenses incurred by the Perelman Group in connection with the litigation and proxy contests. The nonrecurring costs of $2,610,000 ($.61 per share) in 1985 principally represent the expenses incurred by the Company and the Perelman Group in connection with these disputes.

Early Retirement Program

E.I. DU PONT DE NEMOURS AND COMPANY (DEC)

	1985	1984	1983
	(Dollars in millions)		
Sales	$29,483	$30,559	$28,798
Other Income	409	303	391
Total	29,892	30,862	29,189
Cost of Goods Sold and Other Operating Charges	17,898	18,627	17,729
Selling, General and Administrative Expenses	2,077	2,024	1,985
Depreciation, Depletion and Amortization	1,796	1,736	1,719
Exploration Expenses, Including Dry Hole Costs and Impairment of Unproved Properties	561	524	478
Research and Development Expense	1,144	1,097	966
Interest and Debt Expense	513	565	583
Taxes Other Than on Income	2,282	2,345	2,311
Total	26,271	26,918	25,771
Earnings Before Unusual Items and Income Taxes	3,621	3,944	3,418
Loss on Restructuring of Investments	226	—	—
Early Retirement Program Expense	200	—	—
Earnings Before Income Taxes	3,195	3,944	3,418

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions, except per share)

5 (In Part): Pensions

Early Retirement Program Expense

During the first quarter of 1985, the company offered to substantially all domestic employees a special incentive for early retirement in the form of increased pension benefits to be paid from the company's pension trust funds. Under this Early Retirement Program, approximately 11,200 employees elected to retire. The cost of this program was initially determined to be $240. In the fourth quarter of 1985, the company adopted Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" (SFAS 88). The cost of the Early Retirement Program (including the effect of lump sum cash settlements with certain employees) as redetermined under the provisions of SFAS 88 was $200.

INTERNATIONAL PAPER COMPANY (DEC)

	1985	1984	1983
	In millions of dollars		
Revenue			
Net sales	$4,502	$4,716	$4,357
Other income, net	42	60	129
Total Revenue	4,544	4,776	4,486
Operating Costs and Expenses			
Cost of products sold	3,477	3,582	3,442
Distribution expenses	253	262	263
Selling and administrative expenses	298	303	265
Depreciation	267	249	225
Taxes other than payroll and income taxes	71	65	57
Total Operating Costs and Expenses	4,366	4,461	4,252
Earnings Before Interest, Other Items, Income Taxes and Cumulative Effect of Accounting Change	178	315	234
Interest income	45	65	84
Interest expense	91	81	65
Gain on secondary offering of IPT Class A Units	56		
Provision for early retirement program (Note 16)	29		
Provision for adjustments to facilities and investments		155	
Earnings Before Income Taxes and Cumulative Effect of Accounting Change	159	144	253

Note 16 (In Part): Retirement Plans

In 1985, as part of an effort to reduce its work force, the Company recorded a one-time pre-tax charge of $29 million for employees who participated in an early retirement program.

Merger Consolidation

BAXTER TRAVENOL LABORATORIES, INC. (DEC)

	1985	1984	1983
	(in millions)		
Net sales	$2,355	$1,800	$1,843
Cost of goods sold	1,433	1,042	986
Gross profit	922	758	857
Marketing and administrative expenses	529	418	432
Research and development expenses	128	111	108
Operating expenses	657	529	540
Operating income	265	229	317
Interest expense	74	74	53
Interest income	(24)	(34)	(29)
Merger consolidation expenses (1985) and special charge (1984)	31	145	—
Goodwill amortization	7	2	1
Other expense, net	8	18	22
Income before income tax expense	169	24	270

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Merger Consolidation Expenses (1985) and Special Charge (1984)

In the fourth quarter of 1985, $31 million ($29 million net of related tax benefits) was provided to cover anticipated costs of asset and staff consolidations associated with the November 25, 1985, acquisition of American. Results for 1984 included a special charge of $145 million ($116 million net of related tax benefits) related to consolidation of worldwide manufacturing operations and the revaluation of certain assets.

Product Reinspection

MILTON ROY COMPANY (DEC)

	1985	1984	1983
		($000)	
Net sales	$97,887	$70,396	$62,375
Cost of goods sold	57,285	38,801	34,255
Gross margin	40,602	31,595	28,120
Operating expenses:			
Marketing and administration	30,367	21,294	20,016
Research, development and engineering	5,444	4,027	3,941
Gain on disposition of product lines	—	(304)	(367)
Provision for product reinspection	1,000	—	—
Total operating expenses	36,811	25,017	23,590
Operating income	3,791	6,578	4,530

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3—Non-recurring charge:

The Company has determined that certain procedures followed in welding done on certain ball valves manufactured at its Portland Valve Inc. subsidiary during 1984 and 1985 were not in compliance with military specifications. In September, 1985 a pre-tax charge of $1,000,000 was made against income to cover both the internal and external costs of inspection and reassembly. Charges of approximately $476,000 had accumulated through December 31, 1985.

Takeover Defense

CBS INC. (DEC)

	1985	1984	1983
		(Dollars in millions)	
Revenues:			
Net sales:			
Broadcasting	$2,777.8	$2,714.5	$2,380.2
Products	1,899.0	1,834.2	1,708.2
Interest and other income	78.8	91.4	74.7
Total revenues	4,755.6	4,640.1	4,163.1
Expenses:			
Cost of sales:			
Broadcasting	2,082.7	1,988.1	1,816.6
Products	1,020.5	984.2	949.7
Selling, general and administrative expenses	1,192.2	1,073.8	983.0
Interest and other expenses	117.1	50.1	54.5
Total expenses	4,412.5	4,096.2	3,803.8
Income from continuing operations before unusual items and income taxes	343.1	543.9	359.3
Unusual items (note 9)	11.2		
Income from continuing operations before income taxes	354.3	543.9	359.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Unusual Items (Dollars in millions)

During 1985, the Company underwent a major recapitalization (note 16). It also successfully defended itself against a hostile tender offer. As a result, certain expenses were incurred and the Company instituted specific asset disposition and expense reduction programs designed to streamline its operations and reduce debt. The effect of these activities on 1985 income from continuing operations before taxes was a gain of $11.2, which has been included in Unusual Items in the Company's income statement The components of the $11.2 are as follows:

Net gain on asset dispositions	$39.3
Repurchase of $50 million of 14½% notes payable (note 13)	(8.9)
Special early retirement pension program (note 22)	(6.7)
Takeover defense expenses	(12.5)
	$11.2

Excluded from the net gain on asset dispositions are those dispositions classified as discontinued operations (note 6). The major dispositions included are the sale of an interest in a real estate joint venture, the disposition of various domestic and international publishing properties and the sale of a small cable television system.

Terminated Acquisition

TESORO PETROLEUM CORPORATION (SEP)

	1985	1984	1983
	(Dollars in thousands)		
Costs and Expenses:			
Costs of sales and operating expenses	$2,195,848	$2,997,529	$2,649,997
General and administrative	32,874	30,827	27,978
Depreciation, depletion and amortization	124,945	47,020	51,283
Terminated acquisition costs (Note C)	10,593	—	—
Write-down of investment in Trinidad-Tesoro Petroleum Company Limited	8,577	—	—
Interest expense	20,726	15,644	15,643
Interest capitalized	(10,171)	(10,324)	(3,409)
Other	1,835	1,928	982
Total Costs and Expenses	2,385,227	3,082,624	2,742,474

Note C (In Part): Property, Plant and Equipment

During fiscal 1985, the Company terminated an agreement with the shareholders of Funk Exploration, Inc. (FEI) to acquire 100% of the capital stock of FEI, a privately-owned oil and gas producing company. The Company had agreed to acquire FEI for approximately $160.0 million, subject to adjustments, and had placed $10.0 million in an escrow account as earnest money during December 1984. As a result of the termination, the $10.0 million was paid to FEI during March 1985. Expense of approximately $.6 million have also been incurred with this transaction.

TABLE 3-8: PENSION AND RETIREMENT PLANS

	1985	1984	1983	1982
Current Year Expense				
Normal cost and amortization of prior service cost.	459	450	459	478
Normal cost and interest on unfunded prior service cost	3	2	2	—
Normal cost—no reference to prior service cost	70	70	64	53
Normal cost—no unfunded prior service cost	20	27	29	24
Companies Disclosing Amount of Pension Plan Expense	**552**	**549**	**554**	**555**

EMPLOYEE RETIREMENT BENEFITS

APB Opinion No. 8, as amended by the disclosure requirements stated in *Statement of Financial Accounting Standards No. 36*, is currently the authoritative pronouncement on accounting for and reporting pension plan costs. Paragraph 12 of *SFAS No. 36* presents an example of disclosure appropriate for a defined benefit pension plan. With only few exceptions, the pension plans of the survey companies are defined benefit plans.

Effective for financial statements for fiscal years beginning after December 15, 1986, *Statements of Financial Accounting Standards No. 87 and No. 88* will be the authoritative pronouncements on pension cost accounting and reporting. In 1985, 18 survey companies elected to comply with the requirements of *SFAS No. 87* and an additional 38 companies changed to the projected unit credit actuarial method but did not refer to *SFAS No. 87*.

In addition to providing pension plans for their employees, 337 survey companies disclosed that they provide postretirement health care and life insurance benefits. Paragraph 6 of *Statement of Financial Accounting Standards No. 81* sets forth the information that should be disclosed about health care and life insurance benefits.

Examples of employee retirement benefit disclosures follow.

PENSION PLANS

SFAS No. 87 Adopted

ASARCO INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Retirement plans: In 1985, the Company adopted the principles of "Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions," which requires use of the "projected unit credit" actuarial method for financial reporting purposes. Prior to 1985, the Company used the "aggregate cost method," for financial reporting purposes and continues to use that method for funding purposes.

12. Retirement Plans (in millions)

The Company and its subsidiaries maintain several noncontributory, defined-benefit pension plans covering substantially all employees. Normal retirement age is 65, but provision is made for earlier retirement. Benefits for salaried plans are based on salary and years of service, while hourly plans are based on negotiated benefits and years of service.

In December 1985, the Company adopted, retroactive to January 1, 1985, the principles of "Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions." Accordingly, the Company changed its actuarial method for financial reporting purposes from the "aggregate cost method" to the "projected unit credit method" which attributes an equal portion of total projected benefits to each year of employee service. In addition, SFAS 87 required a change in gain or loss recognition on the valuation of plan assets versus the projected plan benefit obligations. The effect of the changes resulting from the adoption of SFAS 87 reduced 1985 pension expense by $16.0 and increased the accumulated benefit obligations of Company-administered pension plans by $71.6.

The 1985 actuarial computations, using the "projected unit credit method", assumed: a discount rate on benefit obligations of 9%; an expected long-term rate of return on plan assets of 10%; and annual salary increases of 6% over the average remaining service lives of salaried employees under the plans. Variances between actual experience and assumptions for costs and returns on assets are amortized over the average remaining service lives of employees in the plans.

The Company continues to use the "aggregate cost method" in determining its annual funding requirements for its largest pension plans. The "aggregate cost method" treats current changes in pension benefits, which are affected by credited past employment services, as future costs to be funded from future earnings. Thus, under this actuarial method there is no unfunded prior service liability. The actuarial computations used with this method assume: an interest rate return on plan assets of 7½%; actual investment income is averaged over three years; 6% annual salary increases over the average remaining service lives of salaried employees under the plans; cost variances resulting from changes in other assumptions are spread over the average remaining service lives of the plans' participants. Benefits under the hourly plans are not based on wages and therefore no benefit escalation assumption beyond negotiated increases is allowed by I.R.S. regulations.

Net pension costs (credits) included in operating results for Company-administered pension plans amounted to $(7.9) in 1985, $15.5 in 1984 and $16.4 in 1983.

The net pension credit in 1985 was comprised of:

Service cost	$ 4.7
Interest cost on projected benefit obligations	25.8
Return on plan assets	(31.6)
Amortization of excess plan net assets at adoption of SFAS 87	(4.5)
Other items	(2.3)
Total net pension credit	$ (7.9)

The table of actuarially computed benefit obligations and trusteed net assets for Company-administered pension plans is presented below at December 31, 1985 and January 1, 1985, the effective date for the adoption of SFAS 87. Plan assets are stated at fair value and composed primarily of corporate equity and debt securities and group annuity contracts with major insurance companies. Unrecognized net excess plan assets and previously accrued but unfunded pension costs at the adoption of SFAS 87 are being amortized against net pension costs over the remaining service lives of employees or approximately 12 years.

	Dec. 31, 1985	Jan. 1, 1985
Actuarial present value of benefit obligations:		
Vested	$261.7	$257.8
Nonvested	8.2	8.1
Total accumulated benefit obligations	$269.9	$265.9
Projected benefit obligations for services rendered to date	$291.2	$286.9
Plan net assets at fair value	(372.3)	(316.0)
Excess of plan assets over projected benefit obligations	81.1	29.1
Unrecognized net gains	(39.7)	—
Unrecognized net excess plan assets and previously accrued but unfunded pension costs to be amortized	(54.1)	(58.6)
Net accrued pension costs	$(12.7)	$(29.5)

The hourly employees of the Company's coal mining operations are covered by a multiemployer defined-benefit pension plan which is administered by the United Mine Workers. Operating results were charged with $0.9 in 1985 (1984—$1.4; 1983—$1.7) representing the Company's contributions to the plan.

In addition, the Company and certain of its consolidated subsidiaries provide post-retirement health care and life insurance benefits for retired employees. Employees may become eligible for these benefits if they retire while working for the Company. These benefits are generally expensed upon receipt of life insurance premium invoices or upon receipt of valid health care claims. In 1985, $3.9 (1984—$4.1) was expensed.

EMHART CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

(Dollars in Millions Except Share Amounts)

1 (In Part): Summary of Significant Accounting Policies

Postretirement Benefits

The 1985 financial statements reflect the adoption for United States pension plans of Statement of Financial Accounting Standards No. 87 (FAS No. 87)—Employers' Accounting for Pensions.

Substantially all employees are covered by pension plans. Plans in the United States are noncontributory providing for pension benefits based on final pay/average final pay or stated amounts and years of service. Prior service costs are amortized over the estimated remaining service periods of employees in the United States and over periods from 20 to 30 years by international subsidiaries. Funding for United States pension plans is based on a review of the specific requirements and an evaluation of the assets and liabilities of each plan, while certain international subsidiaries generally fund current costs. Provisions for unfunded pensions are established by those international subsidiaries which do not have funded plans.

Certain health care and life insurance benefits, which are expensed when paid, are provided for some retired employees, principally in the United States.

5. Postretirement Benefits

The 1985 financial statements reflects the adoption of Statement of Financial Accounting Standards No. 87 (FAS No. 87)—Employers' Accounting for Pensions—for United States pension plans. United States net pension cost in 1985 is summarized as follows:

Service cost		$ 9.4
Interest cost		31.9
Return on plan assets:		
Actual	$(95.6)	
Deferred	58.2	
Net recognized		(37.4)
Other		(1.0)
Net pension cost		2.9

The funded status and prepaid pension cost at December 31, 1985 for United States defined benefit plans are as follows:

Fair value of plan assets	$424.7
Projected benefit obligation	354.9
Excess of plan assets over projected benefit obligation	69.8
Unrecognized net gain	(39.1)
Unrecognized prior service cost	2.2
Unrecognized net assets	(9.9)
Prepaid pension cost	23.0
Accumulated benefits	306.1
Vested benefits	289.8
Assumed discount rate	9%
Assumed rate of compensation increase	6-10%
Expected rate of return on plan assets	11%

Approximately 60–65% of plan assets are invested in equity securities and 35–40% in cash equivalents or debt securities.

United States pension expense, prior to the adoption of FAS No. 87 was $13.4 million in 1984 and $14.3 million in 1983. A comparison of accumulated plan benefits (assuming an 8% discount rate) and plan net assets for the Company's United States defined benefit plans is as follows at January 1 of the respective years:

	1984	1983
Actuarial present value of accumulated plan benefits:		
Vested	$281.3	$258.8
Nonvested	18.1	18.7
Total	299.4	277.5
Trust assets available for benefits	343.7	308.4
Accrued unfunded pension liabilities	5.5	9.6
Total	349.2	318.0

International pension expense totaled $6.1 million in 1985, $7.4 million in 1984 and $7.3 million in 1983. The market value of the Company's international pension fund assets and net accrued liabilities exceeds the vested benefits of the plans, based on the latest actuarial computations for 1985-83.

Unfunded pension liabilities in the statement of financial position principally include accruals for pensions provided by international subsidiaries which do not have funded plans.

The cost of providing health care and life insurance benefits to retired employees was $4.8 million in 1985 and in 1984.

PHELPS DODGE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in tables stated in thousands except as noted)

1 (In Part): Summary of Significant Accounting Policies

Pension Plans. The Corporation has trusteed, non-contributory pension plans covering substantially all of its employees. The benefits are based on, in the case of certain plans, final average salary and years of service and, in the case of other plans, a fixed amount for each year of service. Net periodic pension cost for 1985 was based on the provisions of FAS Nos. 87 and 88; in 1984 and 1983 pension cost was based on the provisions of APB Opinion No. 8. The Corporation's funding policy provides that payments to the pension trusts shall be equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974 plus additional amounts which may be approved by the Corporation from time to time.

3. Accounting Change

Effective January 1, 1985, the Corporation adopted certain provisions of FAS Nos. 87 and 88, "Employers' Accounting for Pensions" and "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", which increased 1985 net income by $4.6 million ($0.17 per common share). The provisions were adopted prospectively, and accordingly income for 1984 and 1983 has not been restated. As permitted by FAS No. 87, the Corporation has elected not to adopt currently the provision which would recognize a pension asset and liability in the Consolidated Balance Sheet.

19. Pension Plans and Postretirement Benefits

The Corporation has several non-contributory employee pension benefit plans covering substantially all U.S. employees. Employees covered under the salaried pension benefit plans are eligible to participate upon the attainment of age 21 and the completion of one year of service, and benefits are based upon final average salary and years of service. Employees covered under the remaining plans are eligible to participate at the time of employment and the benefits are based on a fixed amount for each year of service. All employees are vested in the plans after 10 years of service.

In a number of these plans, the plan assets exceed the benefit obligations ("overfunded plans") and in the remainder of the plans the benefit obligations exceed the plan assets ("underfunded plans").

As discussed in Note 3, the Corporation, effective January 1, 1985, adopted prospectively certain provisions of FAS Nos. 87 and 88.

Employee pension benefit plans status at December 31, 1985 (in millions):

	Overfunded plans	Underfunded plans
Actuarial present value of projected benefit obligation, based on employment service to date and current salary levels:		
Vested employees	$158	166
Non-vested employees	9	4
Accumulated benefit obligation	167	170
Additional amounts related to projected salary increases	25	1
Total projected benefit obligation	192	171
Assets available for benefits:		
Funded assets	238	110
Accrued pension expense, per books	4	37
Total assets	242	147
Assets in excess of (less than) projected benefit obligation	$ 50	(24)
Consisting of:		
Unamortized net asset (liability) existing at date of adoption of FAS No. 87	$ 38	(18)
Unrecognized net gain (loss) from favorable actuarial experience offset by the effect of a change in the discount rate during the year	12	(6)

The Corporation's pension benefit plans were valued between December 1, 1984 and September 1, 1985 and the obligations were projected to, and the assets were valued as of, the end of 1985. Over 85% of plan assets are invested in cash and short-term investments or listed stocks and bonds. The rest of the plan assets are primarily invested in group annuity contracts purchased from life insurance companies.

Assumptions used in 1985 to develop the net periodic pension cost were:

Discount rate	9.5%
Expected long-term rate of return on assets	10.0%
Rate of increase in compensation levels	6.5%

For the valuation of pension obligations as of the end of 1985 the discount rate was reduced to 8.5%.

The components of net periodic pension cost for 1985 are as follows (in millions):

Benefits earned during the year		$ 4.1
Interest accrued on projected benefit obligation		29.5
Return on assets—actual	$(69.3)	
—less unrecognized gain	39.6	(29.7)
Amortization of net asset at January 1, 1985		(1.1)
Net periodic pension cost for the year		$ 2.8

As discussed in Note 3, the Corporation has determined not to recognize a pension asset or liability in its financial statements at December 31, 1985 for its underfunded plans. If such amounts were recorded on the Consolidated Balance Sheet, "Other liabilities and deferred credits" would increase by $23 million, an intangible asset of $18 million would be recorded and "Preference Shares and Common Shareholders' Equity" would decrease by $5 million.

The costs of the benefit plans for 1984 and 1983, which were not restated, amounted to $9.9 million and $17.9 million, respectively. In 1984, the Corporation adopted revisions in the investment return assumption and market value assumption which had the effect of reducing pension costs by $3.2 million and $2.1 million, respectively. Net actuarial losses of $12.1 million and gains of $3.5 million were recognized in 1984 and 1983, respectively, as a result of the Corporation's asset restructuring programs (Notes 4 and 7).

In 1984, the actuarial present value of accumulated plan benefits, using an assumed rate of return of 9%, was $311 million ($299 million vested) and net assets available for benefits was $350 million. The plans were valued at dates between September 1, 1984 and December 1, 1984.

In 1983, the Corporation transferred approximately 347,500 common shares to the trusts under two of its employee pension benefit plans in connection with the Corporation's obligation to contribute approximately $9.9 million to such trusts for the 1982 plan year.

The Corporation intends to fund the minimum amount required under the Employee Retirement Income Security Act of 1974. The excess of amounts accrued in 1985 and 1984 over minimum funding requirements, together with such excess amounts accrued in prior years, have been included in "Other liabilities and deferred credits" which totaled $35 million at December 31, 1985 and $40 million at December 31, 1984. Additionally, $6 million was included in "Accounts payable and accrued expenses" at December 31, 1985 and 1984.

Substantially all of the Corporation's employees who retire from active service on or after normal retirement age of 65 and, pursuant to the terms of certain collective bargaining agreements, certain employees who retire before age 65 become eligible for life insurance benefits. The cost of such benefits were $0.5 million and $0.4 million in 1985 and 1984, respectively, and were paid out of a previously established fund maintained by an insurance company. Health care insurance benefits are also provided for substantially all employees retiring from active service. The coverage is provided on a non-contributory basis for certain groups of employees and on a contributory basis for other groups. These benefits are paid for the most part directly by the Corporation and, to a lesser extent, by an insurance company whose premiums are based on benefits paid during the year. The cost to the Corporation of such health care benefits for retirees amounted to approximately $2.0 million and $1.8 million for 1985 and 1984, respectively.

PHILLIPS PETROLEUM COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 14—Retirement Income Plans

The company elected to adopt FASB Statement No. 87, "Employers' Accounting for Pensions," with respect to its U.S. retirement plans, effective January 1, 1985. Application of FASB Statement No. 87 increased 1985 earnings $31 million ($.11 per common share).

The parent company and its subsidiaries have defined benefit plans covering substantially all employees. The parent company plan is noncontributory and benefits are based on an employee's years of service and average earnings for the three highest consecutive calendar years of compensation during the ten years immediately preceding retirement. Plans of subsidiaries are generally contributory with benefit formulas based on employee earnings. The company's funding policy for U.S. plans is to make, as a minimum contribution, the equivalent of the minimum required by the Employee Retirement Income Security Act of 1974. Plans for the majority of foreign employees are fully insured and premiums are expensed when paid. Pension cost (income) was as follows:

	Millions of Dollars		
	1985	1984	1983
U.S. Plans			
Service cost—benefits earned during the period	$ 28	38	27
Interest cost on projected benefit obligation	101	—	—
Actual return on assets	(300)	—	—
Net amortization and deferral	118	(37)	(2)
Net pension cost (income) for U.S. plans	(53)	1	25
Foreign Plans	8	7	8
Net pension cost (income)	$ (45)	8	33
Assumptions Used for U.S. Plans—Weighted Average at December 31			
Discount rate	9¼%	8	8
Rate of increase in compensation levels	7	6	6
Long-term rate of return on assets	9¼	8	8

For 1984 and 1983, pension cost included current service cost, amortization of unfunded prior service costs and amortization of actuarial gains and losses. Amortization periods ranged from 15 to 40 years. A change in the actuarial cost method from "Entry Age" to "Projected Unit Credit," and substantial actuarial gains for the parent company plan resulting mainly from investments, reduced 1984 pension costs by $13 million and $20 million, respectively.

All of the company's U.S. plans have assets in excess of the accumulated benefit obligation. Plan assets include commingled funds, marketable equity securities, deposit administration insurance contracts, corporate and government debt securities, and real estate. The following table presents a reconciliation of the funded status of the plans at January 1 and December 31, 1985. Prepaid pension cost is included in deferred charges on the company's balance sheet.

	Millions of Dollars	
	Dec. 31	Jan. 1
Plan assets at fair value	$1,454	1,506
Actuarial present value of benefit obligations		
Vested benefits	688	719
Nonvested benefits	39	33
Accumulated benefit obligation	727	752
Effect of projected future salary increases	219	233
Projected benefit obligation	946	985
Plan assets in excess of projected benefit obligation	508	521
Unrecognized net gain	(96)	—
Unrecognized net asset at January 1, 1985	(353)	(495)
Prepaid pension cost	$ 59	26

STANADYNE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. (In Part): Employee Benefit Plans

The Company and its subsidiaries have several noncontributory defined benefit pension plans covering substantially all U.S. employees. Plans covering salaried employees provide pension benefits that are based on the employee's compensation during a consecutive five year period. Plans covering hourly employees provide benefits of stated amounts for each year of service. The Company's funding policy is based on an actuarially determined cost method allowable under Internal Revenue Service regulations. The Company's contribution to the pension plans for 1985, 1984 and 1983 amounted to approximately $8,100,000, $6,000,000 and $6,500,000, respectively.

The pension expense for 1984 and 1983 was determined in accordance with Accounting Principles Board Opinion No. 8. The amounts were $6,000,000 and $6,500,000, respectively. The net periodic pension cost for 1985 was determined under Statement of Financial Accounting Standards No. 87 which was issued by the Financial Accounting Standards Board in December 1985. The net effect of the change in accounting method was to reduce net periodic pension costs for 1985 by $5,150,000 and increase net income and earnings per share by $2,600,000 and $.27, respectively. Significant assumptions used in determining net periodic pension cost and related pension obligations were:

	As of September 30, 1985	As of January 1, 1985
Discount rate	10.25%	11.00%
Increase in compensation levels	6.10%	6.10%
Long-term rate of return on assets	7.50%	7.50%

The Company also amended certain of its plans in 1985 to provide increased benefits to active and retired employees. The effect of the benefits improvements was to increase net periodic pension cost for 1985 by approximately $700,000.

Net periodic pension costs for 1985 included the following components (in thousands):

Service cost-benefits earned during the period	$ 1,863
Interest cost on projected benefit obligation	9,242
Net amortization and deferral	29,026
	40,131
Less actual return on assets	39,006
Net periodic pension cost	$ 1,125

The following table sets forth the funding status of the plans and amounts recognized in the Company's statement of financial position at September 30, 1985, for its U.S. pension plans (in thousands):

	September 30, 1985
Actuarial present value of benefit obligations:	
Accumulated benefit obligation, including vested benefits of $82,488	$(89,487)
Projected benefit obligation for service rendered to date	$(95,586)
Plan assets at fair value, primarily listed stocks and bonds	132,737
Plan assets greater than projected benefit obligation	37,151
Unrecognized net gain from past experience different from that assumed	(8,000)
Prior service cost not yet recognized in net periodic pension cost	604
Unrecognized net asset at January 1, 1985 being recognized over 15 years	(25,798)
Prepaid pension cost included in other assets and prepaid expenses	$ 3,957

The actuarial present value of accumulated plan benefits for the Company's defined benefit plans at January 1, 1984 determined under Statement of Financial Accounting Standards No. 36 was $101,444,000, including vested benefits of $94,403,000. The actuarial present value of accumulated plan benefits was calculated on an ongoing basis using a 7.5% weighted average assumed rate of return. Net assets of $114,214,000 were available for those benefits.

STONE CONTAINER CORPORATION (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part):

Pension Plans:

For 1985, the Company adopted Financial Accounting Standards Board Statement No. 87, "Employers' Accounting for Pensions" (FAS 87). Accordingly, 1985 net pension expense consists of service cost, interest cost, return on pension assets and amortization of unrecognized initial net assets. For 1984 and prior years, pension plan costs were accrued and funded at the greater of: (a) the minimum contribution required to be made to the pension fund under the funding requirements of ERISA; or (b) the normal cost and interest on the unfunded prior service cost as required by Accounting Principles Board Opinion No. 8, "Accounting for the Cost of Pension Plans."

Pension Plans:

The Company and its subsidiaries have noncontributory pension plans for the benefit of all salaried and certain hourly employees. The funding policy for the plans is to annually contribute the statutory required minimum. The salaried pension plan provides benefits based on a formula of each participant's final average pay. The hourly pension plan provides benefits under a flat benefit formula. The salaried and hourly plans provide reduced benefits for early retirement. The salaried plan takes into account offsets for Social Security benefits.

The Company adopted FAS 87 retroactive to January 1, 1985, the effect of which was to increase after-tax income by $406,000, or $.03 per common share, principally due to the recognition of benefits from the overfunded position of the pension plans. Net pension income for the salaried plan in 1985 was $335,000. Since amortization of significant actuarial gains resulting from the overfunding of this plan offset normal cost in 1984 and 1983, there was no charge to expense for those years for the Company's salaried plan. Pension expense for the hourly plan for 1985, 1984 and 1983 was $357,000, $1,444,000 and $250,000, respectively.

Net pension cost for 1985 included the following components:

(dollars in thousands) Year end December 31, 1985	Combined pension plans
Service cost—benefits earned during the period	$1,845
Interest cost on projected benefit obligations	2,038
Actual return on plan assets	(5,747)
Net amortization and deferral	1,886
Net pension cost	$ 22

The funded status is reconciled to accrued expense as follows:

(dollars in thousands) December 31, 1985	Combined pension plans
Actuarial present value of benefit obligations:	
Accumulated benefit obligation, including vested benefits of $16,940	$(19,310)
Effect of increase in compensation levels	(5,634)
Projected benefit obligation for service rendered through December 31, 1985	(24,944)
Plan assets at fair value, primarily listed stocks and U.S. bonds	32,323
Plan assets in excess of projected benefit obligation	7,379
Unrecognized net gain from past experience different from that assumed and effects of changes in assumptions	(1,177)
Unrecognized net asset at December 31, 1985 being recognized over six and seven years for the salaried and hourly plans, respectively	(6,224)
Accrued expense	$ (22)

The weighted-average discount rate and the rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligations were 10 percent and 6 percent, respectively. The expected long-term rate of return on assets was 10 percent.

The Company participates in various multi-employer union administered defined benefit pension plans that cover principally production workers. Pension expense under these plans was $2,427,000, $2,105,000 and $1,307,000 in 1985, 1984 and 1983, respectively.

In addition to providing pension benefits, the Company and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees may become eligible for such benefits if they retire and promptly commence receiving benefits under the pension plans. The cost of retiree health care is recognized as an expense as claims are incurred. The cost of providing such benefits for approximately 400 retirees is not readily separable from the cost of providing benefits for the approximately 9,375 active employees. For 1985 and 1984, health care and life insurance benefit costs for both active and retired employees approximated $16,300,000 and $15,600,000, respectively.

WALBRO CORPORATION (DEC)

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Pension Plans.

The Company sponsors pension plans covering substantially all domestic and certain foreign employees. Plans covering domestic salaried employees provide benefits that are based on an employee's years of service and compensation during the five year period prior to retirement. Plans covering domestic hourly employees provide benefits of stated amounts for each year of service. Plans covering certain foreign employees provide lump sum payments at termination which are based upon length of service, compensation rate and whether termination was voluntary or involuntary. The Company annually contributes to the plans covering domestic employees amounts which are actuarially determined to provide the plans with sufficient assets to meet future benefit payment requirements. The plans covering foreign employees are not funded.

Effective January 1, 1985 the Company changed its method of accounting for the cost of its pension plans covering domestic employees. For these plans, the Company adopted the new income and expense recognition and disclosure standards contained in Financial Accounting Standards Board Statement Nos. 87 and 88. Under these new accounting standards, the Company recognized (a) a $407,000 reduction in pension expense and (b) a gain of $1,008,000 on the pension obligation settlement transaction discussed below which would not have been recognized under previous accounting standards.

Total pension expense amounted to $262,000 in 1985, $530,000 in 1984 and $428,000 in 1983. Pension expense for 1985 for plans covering domestic employees was determined using the new accounting standards discussed above and is comprised of the following:

	(In Thousands)
Benefits earned	$125
Interest on projected benefit obligations	182
Actual return on assets	(485)
Net amortization and deferral	231
	$ 53

Pension expense for these plans for 1984 and 1983 includes amortization of prior service costs over 30 years. The Company recognizes currently the amount which would be payable if all employees covered by its foreign plans terminated voluntarily.

The following table summarizes the funded status of the Company's domestic defined benefit pension plans and the related amounts recognized in the Company's consolidated balance sheets as of December 31, 1985, 1984 and 1983. The 1985 and 1984 information has been prepared in conformity with the new accounting standards discussed above. Certain items below were not required at the time the 1983 information was prepared and are not available.

	1985	1984	1983
	(In Thousands)		
Actuarial present value of benefit obligations—			
Vested	$ (797)	$(1,859)	$(2,451)
Nonvested	(90)	(44)	(200)
Accumulated benefit obligations	$ (887)	$(1,903)	$(2,651)
Effects of salary progression	(674)	(499)	
Projected benefit obligations	$(1,561)	$(2,402)	
Plan assets—			
Equity securities	$ 561	$1,307	$1,386
U.S. Government obligations	—	1,244	910
Other fixed income securities	747	1,405	984
	$1,308	$3,956	$3,280
Projected benefit obligations (over) under plan assets	$ (253)	$1,554	
Pension liability recognized in the consolidated balance sheet	$(1,089)	$ (265)	$ (282)
Amounts not recognized—			
Net asset upon transition to new accounting standards	726	1,819	
Net gain	110	—	
	$ (253)	$1,554	

The information above reflects the settlement by the Company of certain pension obligations during 1985. The Company terminated one of its defined benefit pension plans effective December 31, 1984. Upon terminating this pension plan, the Company established a new pension plan covering the same employee group. The successor plan is also a defined benefit plan. The Company is accounting for the successor plan as if it were a continuation of the predecessor plan. During the third quarter of 1985 the predecessor plan settled all of its accumulated benefit obligations through the purchase of annuity contracts with an insurance company. The excess of the plan's assets over the cost of the annuity contracts amounted to $2,154,000, and this amount reverted to the Company. A gain of $1,008,000 was recognized during that quarter as a result of this settlement. The remainder of the amount reverted has been classified along with the Company's other long-term pension obligations on the December 31, 1985 consolidated balance sheet.

The assumptions used as of December 31, 1985, 1984 and 1983 in determining the pension expense, settlement gain and funded status information shown above were as follows:

	1985	1984	1983
Discount rate	9.6%	10.1%	6.0%
Rate of salary progression	5.0%	5.0%	N/A
Long-term rate of return on assets	8.0%	8.0%	6.0%

SFAS No. 87 Referred To

HERSHEY FOODS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Retirement Plans and Other Retiree Benefits

The Corporation and its subsidiaries have several noncontributory retirement plans covering substantially all employees. Pension expense is determined and funded on the basis of accepted actuarial methods and includes current service and prior service costs. Prior service costs and actuarial gains and losses are amortized over 15 to 30 years. Contributions are determined using principally the projected unit credit actuarial method for salaried employees and the frozen entry age actuarial method for hourly employees. Both methods provide for retirement benefits that are funded over the service lives of employees. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits and pension expense was principally 8%.

Accumulated benefits and net assets for the Corporation's defined benefit plans as of the date of the most recent actuarial valuation are as follows:

January 1,	1985	1984
(in thousands of dollars)		
Actuarial present value of accumulated benefits:		
Vested	$150,722	$131,494
Nonvested	6,922	6,477
	$157,644	$137,971
Market value of net assets available for benefits	$166,593	$149,677

The pension expense for these plans was $13,810,000 in 1985, $13,542,000 in 1984 and $12,002,000 in 1983. The pension expense increase in 1985 and 1984 reflects benefit improvements in certain hourly and salaried plans and an increase in the number of participating employees.

In December 1985, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 87, "Employers' Accounting for Pensions." For U.S. retirement plans, companies are required to adopt the new expense and disclosure standards no later than 1987 and, in certain circumstances, to reflect a minimum pension liability no later than 1989. Early adoption is permitted. These new standards will be adopted prospectively, and thus the financial statements included herein will not be restated. The Corporation has not decided whether it will implement early adoption of the new standard. However, the adoption of this statement is not expected to have an adverse impact on the Corporation's financial position.

The Corporation and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the Corporation's U.S. employees may become eligible for these benefits at normal retirement age. Retiree health care and life insurance premiums of $2,027,000 and $1,760,000 were expensed as paid during 1985 and 1984, respectively.

Actuarial Changes

BURLINGTON INDUSTRIES, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note F—Retirement Benefits

The company and its subsidiaries have several pension plans covering substantially all employees in the United States and certain employees in foreign countries. Pension costs are generally funded annually and were $15,962,000 in 1985, $21,252,000 in 1984 and $22,691,000 in 1983.

Changes in the company's U.S. defined benefit plan reduced fourth quarter and fiscal 1985 pension cost by approximately $4,400,000 and increased net earnings by approximately $2,200,000 or 8 cents per share. A change in the actuarial cost method from the aggregate cost to the projected unit credit method, which better allocates pension cost to annual periods, reduced pension cost by approximately $7,900,000. Amendments to improve benefits to eligible employees net of changes in underlying economic-related assumptions, including an increase in the investment return assumption from 6.5% to 9% to reflect the plan's favorable investment experience, increased pension cost by approximately $3,500,000. Prior service costs of $68,700,000 under the projected unit credit method are being amortized over 30 years which commenced in 1985. The company's contribution to the U.S. defined benefit plan for 1984 decreased approximately $1,400,000 compared to 1983 due principally to favorable experience.

The following table compares the actuarial present value of accumulated plan benefits and net assets available for plan benefits for the U.S. defined benefit plan calculated by the company's consulting actuary as of October 1 valuation dates (in thousands):

	1984	1983
Actuarial present value of accumulated benefits:		
Vested	$225,520	$153,619
Non-vested	52,490	35,789
Total	$278,010	$189,408
Fair market value of plan net assets available for benefits	$293,873	$264,049

The assumed rate of return used in determining the actuarial present value was increased from 8% at October 1, 1983 to 9% at October 1, 1984. This change decreased the actuarial present value of accumulated benefits at October 1, 1984 by $14,900,000 while the plan amendments increased such amount by $89,700,000.

The company's foreign pension plans are not required to report to certain governmental agencies under ERISA and do not determine the actuarial present value of accumulated plan benefits or net assets available for plan benefits.

The company and its subsidiaries also have profit sharing plans covering substantially all employees in the United States. Because 1985 earnings were lower than required by plan formulas, no provision for profit sharing was made. The total expense under these plans was $17,134,000 in 1984 and $21,665,000 in 1983.

In addition to providing pension benefits, the company provides certain health care benefits for retired employees between the ages of 55 and 65. Payment of benefits is made by an insurance company whose premiums are based on benefits paid. The cost of these benefits amounted to $1,500,000 in 1985.

MINNESOTA MINING AND MANUFACTURING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Retirement Plans

3M has various company-sponsored retirement plans covering substantially all United States employees and many employees outside the U.S. The charge to income relating to these plans was $61 million in 1985, $119 million in 1984 and $113 million in 1983.

Effective January 1, 1985, the company changed its actuarial method for determining pension cost for the U.S. plan from the entry age normal method to the projected unit credit method. The new actuarial method more appropriately matches the costs of projected retirement benefits to the year in which such benefits are earned. In addition, the amortization period for unfunded prior service costs was changed from 25 to 13 years, which more closely reflects the average remaining service lives of employees. The effect of these changes was to decrease 1985 pension expense by $27 million and increase net income by $16 million, or 13 cents per share.

Certain actuarial assumptions also were changed in the U.S. plan during 1985. Significant changes included an increase in assumptions related to investment returns and a reduction in anticipated salary increases. These new assumptions reflect changes in long-term expectations and resulted in a decrease in 1985 pension expense of $35 million and an increase in net income of $21 million, or 18 cents per share.

Assumptions used to calculate costs are reviewed regularly by the company and its independent actuaries. Current assumptions include an 8.5 percent annual investment rate of return and projections for future salary growth, inflation, retirement ages and other factors.

Pension costs as a percent of compensation for the United States plan were 3 percent in 1985 and 7 percent in both 1984 and 1983. Plan amendments, actuarial assumption changes and experience gains and/or losses are all events that could materially impact future trends in pension costs.

For the U.S. plan, the company deposits funds with an independent trustee when pension costs are charged against income. Trust funds are maintained for the purpose of providing pension benefits to plan participants and their beneficiaries.

A comparison of accumulated plan benefits and plan net assets for the company's U.S. benefit plan is at right.

The calculation of the actuarial present value of accumulated plan benefits is based on an 8.5 percent investment rate of return in 1985 (8.0 percent in 1984 and 1983). This calculation does not consider certain expectations, such as future compensation increases, which are used when calculating the company's pension cost.

Outside the United States, it is not the practice to compute the actuarial present value of accumulated plan benefits for pension plans. At the dates of the latest actuarial valuations, total pension fund assets exceeded the present value of vested benefits.

(Dollars in millions) January 1	1985	1984	1983
Actuarial present value of accumulated plan benefits:			
Vested	$ 780	$ 708	$623
Nonvested	251	188	173
Total	$1,031	$ 896	$796
Net assets available for benefits	$1,400	$1,214	$989

THE MAYTAG COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Retirement Benefits

The Company has noncontributory pension plans covering all of its employees. It is the Company's policy to amortize prior service cost over periods not to exceed 30 years and to fund all pension cost accrued. Pension expense amounted to approximately $1,838,000 in 1985, $6,985,000 in 1984 and $10,020,000 in 1983. The prepaid pension contribution is available to offset future funding requirements of the plans. Accumulated plan benefit information as estimated by consulting actuaries as of January 1, 1985 and 1984, and plan net assets as of December 31, 1985 and 1984 are:

	1985	1984
Actuarial present value of accumulated plan benefits:		
Vested	$189,000,000	$206,000,000
Nonvested	3,000,000	3,000,000
	$192,000,000	$209,000,000
Net assets available for benefits	$263,600,000	$216,800,000

During 1985 the Company changed certain actuarial assumptions. The most significant were changes in the assumed rate of return used in determining the actuarial present value of accumulated plan benefits from 7% to 8% in 1985 and from 6½% to 7% in 1984. These changes reduced the actuarial present value of accumulated plan benefits by $22,900,000 for 1985 and $11,600,000 for 1984 and increased net income by $2,575,000 or $.09 per share of Common stock and by $692,000 or $.03 per share of Common stock for the years ended December 31, 1985 and 1984, respectively.

During 1985 certain pension plans were amended so that, in the event of a change of Company control and plan termination, any excess funding may be used only to provide pension benefits or to fund the Company retirees' medical and health benefits.

In addition to providing pension benefits, the Company provides certain health care benefits for retired employees. Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the Company. The cost of retiree health care benefits is charged to operations as claims are paid and amounted to approximately $2,929,000 during 1985 and $3,072,000 during 1984. Life insurance benefits for retired employees are funded as part of and paid out of pension plans.

THE TIMKEN COMPANY (DEC)

Note E—Employee Retirement Plans

Charges to operations for the cost of these plans amounted to $31,552,000 for 1985; $34,335,000 for 1984, and $40,610,000 for 1983, including amortization of prior service costs of the plans covering U.S. employees over a 30-year period. The decrease in pension expense from 1984 to 1985 resulted primarily from the effects of the pension plan termination/reestablishment as well as changes in actuarial cost method and assumptions. This decrease was partially offset by the amortization of actuarial losses. Pension expense decreases from 1983 to 1984 resulted primarily from favorable investment performance and reductions in the work force.

In 1985, the Company changed its actuarial method for determining the cost of certain of its domestic retirement plans from the Entry Age Normal Method to the Projected Unit Credit Method. This change was made to more realistically reflect the actual cost of providing such benefits and resulted in reducing the net loss by $1,880,000 ($.16 per share) in 1985.

Accumulated plan benefit information covering U.S. employees, as estimated by consulting actuaries, and the net assets for these plans as of December 31, 1985 and 1984 were as follows:

	December 31 1985	1984
	(Thousands of dollars)	
Actuarial present value of accumulated benefits:		
Vested	$350,640	$535,582
Nonvested	51,844	48,121
	$402,484	$583,703
Net assets available for benefits	$484,125	$684,720

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7%. For certain retired lives, dedicated bond portfolios, with rates of return ranging from 11% to 14½%, have been established to provide income sufficient to meet the actuarily calculated payments to these retirees. These rates were used in the determination of the related portion of the actuarial present value of accumulated plan benefits.

Effective November 1, 1984, the Company terminated its salaried pension plan for U.S. employees and adopted a new plan, which is substantially a continuation of the previous plan. As a result of the termination, assets of the plan in excess of the amount required to purchase annuity contracts to provide for the payment of participant benefits reverted to the Company. As a result of this transaction, the Company recorded in 1985 a deferred gain of $100,767,000 before income taxes to be amortized on a straight-line basis over 15 years. The decrease in the actuarial present value of accumulated benefits and net assets available for benefits is a result of this pension plan termination/reestablishment and the changes in actuarial cost method previously described.

The Company's retirement plans for overseas employees are not required to report under ERISA and the Company has not determined the actuarial value of accumulated plan benefits as calculated and discussed above. Based on the latest actuarial estimates available, the assets of these various retirement plans exceeded the related value of vested benefits.

In addition to providing pension benefits, the Company and certain of its subsidiaries provide health care and life insurance benefits for retired employees. Substantially all of the Company's domestic employees may become eligible for those benefits if they reach normal retirement age while still working for the Company. The Company expenses the cost of providing those benefits when incurred. These costs amounted to $8,668,000 in 1985 and $8,299,000 in 1984.

Defined Contribution Plans

GAF CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Benefit Plans

In 1982, the Board of Directors of the Company authorized the termination of the Retirement Plan for Salaried Employees (Plan), a defined benefit plan, effective December 31, 1982, and the creation of a new GAF Capital Accumulation Plan, a defined contribution plan, for eligible salaried employees effective January 1, 1983. As a result of the termination, transfers of funds were made to the Company in 1983 and 1984 in the total amount of $65,178,000. Such reversion of the Plan's residual assets to the Company created Extraordinary Credits of $8,347,000 and $21,831,000 for the years 1984 and 1983, respectively.

Under the new GAF Capital Accumulation Plan, Company contributions consist of a basic contribution of three percent of the compensation of participants for the plan year together with matching contributions, up to an additional four percent as specified in the plan, for those participants who have elected to make voluntary contributions to the plan. Each participant is fully vested at all times in the balance in each of his or her accounts in the plan. The aggregate contributions made by the Company to the plan and charged to operations in 1985, 1984 and 1983 were $3,126,000, $2,896,000 and $3,029,000, respectively.

SEVEN OAKS INTERNATIONAL, INC. (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note F (In Part): Employee Benefit Plans:

The Company has a defined contribution retirement plan which covers all full-time employees of the Company and its domestic subsidiaries with one year of service whose annual compensation meets the minimum amount for eligibility to participate in the plan. The Company's contribution to the plan is at the rate of 5.7% of eligible compensation.

The Company also has a profit sharing plan which covers all full-time employees of the Company and its domestic subsidiaries with one year of service. The Company's annual contribution to the plan is at the discretion of the Company's Board of Directors and cannot exceed 15% of eligible compensation. Employees who participate in the plan may contribute up to 10% of their salaries or wages to the plan.

Company contributions made to each plan are as follows:

Year Ended April 30	Retirement Plan	Profit Sharing Plan
1983	$52,000	$176,000
1984	47,000	208,000
1985	44,000	183,000

TONKA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except share and per share data)

Note Ten—Retirement Plans

Effective January 1, 1984, the Company initiated a defined contribution plan for domestic employees. The plan provides for a base contribution of 3% of wages and a matching contribution of up to 50% of voluntary employee contributions limited to an additional 3% of wages. Company contributions were $.6 and $.3 in 1985 and 1984, respectively.

The Company's domestic defined benefit plan was terminated in September, 1983. An actuarial valuation of vested plan benefits was made at the date of termination, with lump-sum distributions to the employees. The excess funds from the trust were remitted to the Company and were reported as an extraordinary gain in 1983. The termination and final distribution have been approved by the appropriate governmental agencies. Pension expense was $.1 in 1983.

Pension Fund Includes Dedicated Assets

CATERPILLAR TRACTOR CO. (DEC)

NOTES TO FINANCIAL STATEMENTS

(Dollar amounts in millions except those stated on a per share basis)

4. Pension and Other Retirement Benefit Plans

The company has pension plans covering substantially all employees. Total pension expense for 1985, 1984, and 1983 was $60, $84, and $203, respectively, including pension costs related to prior service, which are amortized over periods not exceeding 30 years. It is the company's policy to fund pension expense as it accrues.

During 1985, the company dedicated a significant amount of its pension plan assets to fixed income securities with maturities matching plan benefits for substantially all retired U.S. employees. The dedication, which resulted in an increase in the actuarially assumed rate of return used in determining the present value of benefits for these plan participants, had the effect for 1985 of reducing pension expense approximately $21.

In 1984, the actuarial assumptions were increased for both the expected rate of return on U.S. pension plan assets and the U.S. salaried employees' expected salary progression rate. These actuarial modifications, adopted to reflect more current expectations of future economic conditions, had the net effect for 1984 of reducing pension expense approximately $69.

In addition to pension expense, operations for 1985, 1984, and 1983 were charged $8, $10, and $6, respectively, for the cost of early retirement incentives. Also, the 1983 provision for plant closing and consolidation costs (note 6) included a charge of $33 representing the actuarially determined present value of special retirement benefits beyond pension benefits provided by the plans.

Information on the pension plans' accumulated benefits and net assets at their most recent fiscal year-ends is as follows:

	November 30, 1985	1984	1983
Actuarial present value of accumulated plan benefits:			
Vested	$2,202	$2,193	$2,328
Nonvested	124	141	182
	$2,326	$2,334	$2,510
Market value of net assets available for benefits	$3,033	$2,586	$2,502

The interest rates used in determining the actuarial present value of accumulated pension plan benefits for 1985 were 10.7% for retired U.S. employees covered by the asset dedication and 9% for all other employees. For 1984 and 1983, such interest rates were 9% and 7½%, respectively, for all employees. At November 30, 1985, dedicated assets represented approximately 36% of total pension plan assets.

A point-in-time comparison of the estimated present value of benefits to the market value of assets held is only one indicator of the pension plans' ability to pay benefits when due. The benefit information is based on estimated conditions over many future years, while the asset information relates to assets existing and market values prevailing at a specific moment. The plans' long-range ability to pay benefits also depends on the future financial health of the company.

The company also provides certain health care and life insurance benefits for substantially all retired employees. The cost of providing such benefits is charged against operations as claims are incurred. For 1985, 1984, and 1983, these costs totaled $53, $41, and $36, respectively.

U.S. social security taxes of $99, $103, and $77 for 1985, 1984, and 1983, respectively, most of which may be regarded as pension and health care expense, are not included above.

Multiemployer Plans

KOPPERS COMPANY, INC. (DEC)

SUMMARY OF ACCOUNTING POLICIES

Pension Plans—The Company has pension plans covering substantially all employees. The Company provides for amortization of unfunded prior service costs over periods up to 40 years and pays provisions for pension expense into trust funds in accordance with ERISA requirements.

NOTES TO FINANCIAL STATEMENTS

3. Retirement Plans

Company Plans—Total pension expense for continuing operations in 1985 was $15,880,000, as compared with $12,724,000 and $13,379,000 in 1984 and 1983, respectively. The pension expense increase in 1985 is essentially due to additional provisions for closed or disposed-of plants.

A comparison of accumulated plan benefits and plan net assets for the Company's defined benefit plans as of December 31, 1985 and 1984 is detailed below.

($ Thousands)	1985	1984
Actuarial present value of accumulated plan benefits:		
Vested	$334,375	$264,604
Nonvested	32,767	28,521
	$367,142	$293,125
Net assets available for benefits	$442,023	$376,309

The rate used in determining the actuarial present value of accumulated plan benefits was 8% for 1985 and 10% for 1984. The actuarial present value of accumulated plan benefits is less than that considered in calculating the funding requirements of the plan, partly because of differences in actuarial assumptions relating to future salaries, wages and interest.

The Company historically funds the pension accrual in the subsequent year. In 1985, the Company determined that a lesser amount, which met the requirements of ERISA, would be funded in lieu of the 1984 accrual amount. The amount not funded, $16,500,000, was reclassified to other long-term liabilities and will be offset against future pension liabilities over a 15-year period.

In addition to providing pension benefits, the Company and its subsidiaries provide certain health and life insurance benefits for retired employees. These benefits are provided through insurance contracts, the premiums for which are based on the benefits paid during the year. The Company recognizes the cost of providing these benefits by expensing the annual insurance premiums, which were $2,961,000, $2,782,000 and $2,083,000 for 1985, 1984 and 1983, respectively.

Multiemployer Plans—In addition to the expense for the Company-sponsored plans, the Company had pension expense for full-time employees of $7,033,000, $6,282,000 and $5,907,000 in 1985, 1984 and 1983, respectively, for contributions to multiemployer plans as determined by various collective bargaining agreements. The relative position of the Company regarding the accumulated plan benefits and plan net assets of multiemployer plans is not determinable by the Company and is not included in the above information.

VULCAN MATERIALS COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Pension Costs

The total pension expense for funded, noncontributory retirement plans, other than union-administered plans, includes current service costs and unfunded past service costs as determined under the individual entry age level premium cost actuarial method. Prior to 1985 the aggregate cost method was used.

11. Retirement and Incentive Compensation Plans

Charges to operations in respect of funded, noncontributory retirement plans covering most of the company's domestic employees who are not covered by union-administered plans aggregated $7,185,000 in 1985, $6,018,000 in 1984 and $6,488,000 in 1983. In addition, pension contributions for union-administered plans approximated $922,000 in 1985, $1,006,000 in 1984 and $927,000 in 1983.

A comparison of estimated accumulated plan benefits and plan net assets for all of the company's domestic defined benefit plans at January 1 is as follows (in thousands of dollars):

	1985	1984	1983
Actuarial present value of accumulated plan benefits*			
Assuming no future wage and salary increases:			
Vested	$ 49,107	$44,659	$40,476
Nonvested	5,077	5,198	4,763
Total	$ 54,184	$49,857	$45,239
Assuming future wage and salary increases	$ 79,781	$71,477	$64,608
Net assets available for benefits	$100,625	$93,606	$78,847

*Using assumed annual rates of return of 7.5% for 1985 and 7% for 1984 and 1983.

The company has funded the pension trusts in amounts that reflect benefit increases expected to result from projected wage and salary increases occurring between the date of valuation and the individual retirement dates. The net assets available for benefits exceed the actuarial present value of accumulated plan benefits principally because the pension trusts have experienced investment returns greater than the 5% to 7.5% returns assumed by the company for funding purposes.

The company's policy is to fund the pension trusts currently in amounts equal to the annual costs of the plans as determined by an independent actuarial consulting firm. The actuarial cost method used to determine such costs was changed effective January 1, 1985 from the aggregate cost method to the individual entry age level premium cost method. Under the new cost method, seven of the company's seventeen plans had unfunded past service costs which totaled $15,388,000 on January 1, 1985. The unfunded past service costs are being amortized over 13 years, the average remaining years that current plan participants are expected to work for the company. In addition to the change in cost method, several principal assumptions used by the actuary to determine plan costs were changed in 1985 to more accurately reflect the anticipated future experience of the plans. Overall, the changes in the actuarial cost method and assumptions had no material effect on 1985 earnings.

The actuarial present value of accumulated plan benefits and net assets available for benefits for employees in the union-administered plans are not determinable from available information. Provisions of the Multi-Employer Pension Plan Amendments Act of 1980 require participating employers to assume a proportionate share of a multi-employer plan's unfunded vested benefits in the event of withdrawal from or termination of the plan. As of the most recent date for which information is available from each of the various plans in which the company participates, the company's aggregate potential liability upon withdrawal is approximately $1,091,000.

The pension plans of the company's foreign operations are not material in respect to charges to operations or actuarial values.

In addition to providing pension benefits, the company and its subsidiaries provide certain health care benefits and life insurance for some retired employees. Substantially all of the company's salaried employees and, where applicable, hourly employees, including employees in foreign countries, may become eligible for those benefits if they reach at least age 55 and meet certain service requirements while working for the company. Generally, company-provided health care benefits terminate when covered individuals become eligible for Medicare benefits. The company recognizes the cost of providing retirees' health care benefits and life insurance by expensing the contributions when made. The annual rate of contributions as of December 31, 1985 was $419,000.

The company has several incentive compensation plans under which awards are made to certain key employees, including officers. Expense provisions referable to these plans amounted to $7,981,000 in 1985, $6,281,000 in 1984, and $6,335,000 in 1983. The expense provision for these plans reflect the cost of distributions payable currently as well as distributions that may be payable in future periods if certain conditions are satisfied. Expense provisions for certain of the plans are affected by changes in the market value of the company's common stock.

Plan Termination

FAIRCHILD INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 9 (In Part): Employee Benefit Plans

Pension Plans—The Company has established defined benefit pension plans for substantially all employees, profit sharing plans for certain employee groups and a supplemental executive retirement plan that may provide additional retirement and death benefits to certain key employees.

Effective August 31, 1985, the Company terminated three of its defined benefit pension plans. Substantially similar plans become effective on September 1, 1985, to cover all active employees previously covered under the terminated plans. Upon the termination of the plans, accumulated benefits of all participants became fully vested, and the Pension Benefit Guaranty Corporation (PBGC) has issued a Notice of Sufficiency for each plan. The Trustee of the plans has entered into contracts with an insurance company which guarantee the payment of terminated plan benefits. The excess assets of the plans are to be refunded to the Company. As of December 31, 1985, the Company had received $42,447,000. Under existing accounting rules, this amount is being amortized to earnings over a 15-year period as a reduction in net pension expense.

Current pension plan costs are funded on an annual basis in accordance with the Employee Retirement Income Security Act of 1974. The Company amortizes over 10 years the effect on unfunded past service costs of all new benefits granted in 1976 and thereafter. Past service costs for benefits granted prior to 1976 are amortized over a 30-year period. Total pension expense from continuing operations for the years 1985, 1984, and 1983 was $7,168,000, $7,291,000, and $19,595,000, respectively, including costs of $4,373,000 in 1983 for profit sharing. Due to pre-tax losses, there was no profit sharing contribution for 1985 or 1984. There were no changes in the actuarial assumptions used in determining the 1985 pension expense. In 1984, the assumed rate of return from investments for one of the Company's plans was increased in order to update rates to levels more reflective of current economic conditions and plan experience. The effect of this change reduced 1984 pension expense by approximately $2,300,000. A similar change was made in 1983 and reduced pension expense by $3,000,000. The effects of the interest rate changes were partially offset by increases due to plan amendments and the inclusion in 1983 of $2,089,000 of expenses associated with a plant closing.

A comparison of accumulated benefits and net assets for the Company's defined benefit plans is presented below (in thousands):

	December 31	
	1985	1984
Actuarial present value of accumulated plan benefits:		
Vested	$56,459	$150,686
Non-vested	5,900	6,017
	$62,359	$156,703
Net assets available for benefits	$68,213	$231,841

The December 31, 1984, numbers included $105,239,000 in accumulated plan benefits and $170,821,000 in assets for the terminated plans. The December 31, 1985, disclosures are only for the ongoing Company defined benefit pension plans.

The actuarial present value of accumulated plan benefits for 1985 and 1984 reflects PBGC weighted average discounting rates of approximately 8 3/5 and 8½ percent, respectively. These PBGC rates represent the expected return on annuity contracts that could have been purchased to fund the pension benefits. Actuarial rates of return used for 1984 funding purposes range from 6 to 8 percent.

LIBBEY-OWENS-FORD COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Statement of Accounting Policies

Pension Plans: The company and its subsidiaries have pension plans covering substantially all of their employees. The company's policy generally is to fund pension costs accrued and to amortize prior service costs over periods not exceeding 30 years.

7—Retirement Plans

The company has a number of trusteed defined benefit and defined contribution pension plans, both contributory and non-contributory, covering substantially all full-time domestic employees. The major defined benefit plans provide for full vesting after 10 years of service, and benefits are based principally on earnings and/or length of service. Actuarial cost methods and assumptions vary according to plan design and employee group. Various pension plans are also in effect for subsidiaries operating in foreign countries, including trusteed or insured, government-sponsored and unfunded plans.

A summary of pension expense follows:

in thousands	1985	1984	1983
Domestic			
—Defined benefit plans	$33,900	$32,000	$26,400
—Defined contribution plans	10,900	7,900	4,400
Foreign	4,100	3,700	1,700
Totals	$48,900	$43,600	$32,500

Pension expense as a percent of total payroll amounted to 8.4 percent, 8.3 percent and 9.3 percent in 1985, 1984 and 1983, respectively.

Changes in retirement benefits increased 1985 pension expense by approximately $600,000, while changes in the actuarial methods and the merger of certain plans decreased pension expense by approximately $1,200,000. In 1985, early retirement incentives were offered to eligible employees at certain company locations. The expense resulting from these incentives increased 1985 pension expense by $3,400,000. Changes in actuarial assumptions, principally reducing the salary assumption in certain plans and increasing the plan participant withdrawal factors in certain salaried and hourly plans, increased pension expense by approximately $1,500,000 in 1984.

Effective October 7, 1985, the company terminated certain salaried pension plans and adopted new plans which are essentially a continuation of the previous plans. The assets of the terminated plans, in excess of the amounts required to purchase annuity contracts for payment of participant benefits accrued to that date, will be refunded to the company upon obtaining approval from the Pension Benefit Guaranty Corporation. These transactions will be recorded upon receipt of such approval, which is expected during 1986.

Accumulated plan benefit information, as calculated by consulting actuaries, and plan net assets for the company's domestic defined benefit plans as of the date of the latest actuarial valuations (principally January 1, 1985 and January 1, 1984) are:

in thousands	1985	1984
Actuarial present value of accumulated plan benefits:		
Vested	$395,400	$358,600
Non-vested	26,200	37,100
Totals	$421,600	$395,700
Assumed rate of return	9.5%	9.5%
Net assets available for benefits	$368,800	$349,400

The company's foreign pension plans are not required to report to certain governmental agencies pursuant to ERISA and do not otherwise determine the actuarial value of accumulated benefits as calculated and disclosed. For those plans, the total pension funds and balance sheet accruals exceeded the actuarially computed value of vested benefits as of December 31, 1985.

The company and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all domestic and certain foreign employees of the company may become eligible for those benefits upon reaching normal retirement age while working for the company. Generally, the cost of retiree health care and life insurance benefits is recognized as expense when claims are incurred. For 1985 and 1984, those costs were $19,100,000 and $16,500,000, respectively.

Plan Amended

HAMMERMILL PAPER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Retirement Benefit Plans

Substantially all employees are covered by defined benefit pension plans sponsored by the company. For those which provide benefits based on a participant's final earnings, the annual cost is calculated using the projected unit credit actuarial cost method, with prior service costs amortized over periods ranging from 15 to 40 years. For those which provide a fixed benefit per year of service, the annual cost is calculated using the unit credit actuarial cost method, with prior service costs amortized over ten years. Pension costs calculated under both methods are funded as accrued.

Various categories of retired employees are covered by health care and life insurance provided by the company. Annual insurance premiums are charged to expense as incurred. The cost of benefits provided on a self-insured basis is funded and charged to expense as claims are incurred.

Retirement Benefit Plans

Annual pension costs under various defined benefit pension plans are determined by actuaries using various methods and assumptions. The total cost of all plans was $9,237,000 in 1985, $11,436,000 in 1984, and $10,724,000 in 1983. In 1985, pension cost decreased approximately $4,201,000, primarily because the actuarially assumed rate of interest earned on pension plan assets was increased from 7% to 8½% for all company sponsored plans. This decrease in cost was partially offset by cost increases resulting principally from plan improvements, actuarial losses, and, for certain company sponsored pension plans, changes in actuarial cost methods and a reduction in the period over which prior service costs are amortized. In years prior to 1985, increases in cost resulted principally from improvements in benefits.

Actuarial valuations were made at various dates during 1985, principally January 1 and July 1. Accumulated plan benefits as of the most recent actuarial valuation are as follows:

(Thousands of dollars)	1985	1984
Actuarial present value of		
Accumulated vested plan benefits	$119,200	$109,700
Accumulated non-vested plan benefits	10,600	7,000
	$129,800	$116,700
Discounted rate of return	9%	9%

Accruals for plan contributions and the market value of net assets in trusts and available for plan benefits aggregated $152,900,000 and $140,600,000 at January 1, 1985 and 1984, respectively.

In 1985, pension plans for salaried employees were amended to require the allocation of excess plan assets to plan participants if the plans are terminated, merged, or consolidated following a change in control (as defined) of the company which is not approved by the board of directors. Amendment of these provisions after such a change in control would require plan participant approval.

The cost charged to expense for health care and life insurance benefits provided to retired employees was $1,007,000 and $1,220,000 in 1985 and 1984, respectively.

OTHER POSTRETIREMENT BENEFITS

ARVIN INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14—Post-Retirement Health Care and Life Insurance Benefits:

In addition to providing pension benefits, the Company and its subsidiaries provide certain health care and life insurance benefits for retired employees. Most salaried exempt and some salaried non-exempt employees may become eligible for these post-retirement benefits if they reach retirement age while working for the Company.

For one year following an eligible employee's retirement, both life insurance and health care benefits are identical to those of active employees. Beginning with the second year following an eligible employee's retirement, life insurance coverage is reduced to the lesser of $9,000 or 20% of the amount in force for the previous year. Health care benefits are capped at $50 thousand for the remainder of the eligible retiree's life.

For 1984 and prior years, life insurance benefits were provided through premiums paid to an insurance company; 1985 life insurance benefits were provided from the Company's pension plans. Health care benefits are self-insured and expensed as incurred. Outlays for these benefits to retirees are not totally separable from those for active employees. Domestic expenditures for these two benefits during fiscal 1985 and 1984 totaled $4.3 million and $3.8 million for 2,052 and 1,960 active, and 351 and 363 retired employees, respectively. Expenditures by foreign subsidiaries for these two benefits are not material.

BEATRICE COMPANIES, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Pension and Postretirement Plans. Pension costs for the majority of Beatrice's U.S. pension plans are funded on a current basis. Substantially all prior service costs are amortized to expense over periods not exceeding 30 years.

Approximately 78 percent of Beatrice's U.S. postretirement health care expense is determined by an actuarial cost method which accrues expense over the employee's service life. The remaining postretirement health care expense is recognized as claims are incurred under the company's self-insured programs and by expensing premiums paid to outside carriers over the policy period. Substantially all of Beatrice's postretirement health care is funded when claims are paid by the company. Health care premiums owed to outside carriers are paid under the terms of the policies. Postretirement life insurance is expensed over the policy period and premiums owed to outside carriers are paid under the terms of the policies.

13 (In Part): Pension and Postretirement Plans

Beatrice provides company-sponsored postretirement health care and postretirement life insurance benefits to certain groups of U.S. retirees. Approximately 37 percent of U.S. personnel may become eligible for company-sponsored postretirement health care and 28 percent of U.S. personnel may become eligible for company-sponsored postretirement life insurance if they were to retire from the company.

The cost of providing company-sponsored postretirement health care and life insurance benefits for U.S. retirees was $14 million in fiscal 1985. Approximately 58 percent of this expense relates to postretirement health care attributable to retirees from businesses that have been discontinued by Esmark. The cost of postretirement health care and life insurance benefits for plans outside the U.S. is unavailable.

BECTON, DICKINSON AND COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note E (In Part): Pension Plans

In addition to providing pension benefits, the Company and its domestic subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the Company's domestic employees may become eligible for those benefits if they reach retirement age while working for the Company. Those and similar benefits for active employees are administered through an insurance company whose premiums are based on the benefits paid during the year. The Company recognizes the cost of providing those benefits by expensing the annual insurance premiums. The cost of retiree health care and life insurance benefits (covering approximately 2,400 employees in 1985) was approximately $3,100,000, 2,200,000 and $1,700,000 in 1985, 1984 and 1983, respectively.

The cost of benefits for foreign retirees are minimal as life and medical coverage is generally provided through local social insurance plans.

CHRYSLER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 12 (In Part): Employee Benefit Plans

Other Postretirement Benefits—Chrysler currently provides health insurance and life insurance benefits to its employees. Upon retirement, employees may become eligible for continuation of these benefits.

Health insurance cost for active employees and retirees and life insurance cost for active employees are charged to income as premiums are paid. The cost of life insurance provided to retirees after age 65 is accrued in a manner similar to pension costs, but is not funded.

The cost of providing these benefits to retired and active employees is as follows:

	1985	1984	1983
	(In millions of dollars)		
Retired Employees	$157.9	$149.7	$145.8
Active Employees	320.5	296.3	268.7
Total	$478.4	$446.0	$414.5

EX-CELL-O CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Retirement Plans

In addition to pension benefits, the company also provides certain health care and life insurance benefits for both active and retired North American employees. During 1985, there were 14,473 active and 4,738 retired employees eligible to receive these benefits. The costs of these benefits, which amounted to $35,720,000 in 1985, are charged to expense as applicable claims or insurance premiums are paid. Substantially all active North American employees become eligible for such benefits upon reaching normal retirement age while working for the company. Retired employees outside North America are covered primarily by government-sponsored plans, and the cost of company-provided plans is not material.

FEDERATED DEPARTMENT STORES, INC. (JAN)

NOTES TO FINANCIAL STATEMENTS

10. Post-retirement Health Care and Life Insurance Benefits

Certain retired employees are currently provided with specified health care and life insurance benefits. Eligibility requirements for such benefits vary by division, but generally state that benefits are available to employees who retire after a certain age with specified years of service. Such health care and life insurance benefits are provided to both retired and active employees through a medical benefit trust, a group life trust, and insurance companies with insurance premiums based on benefits paid. The cost of providing these benefits to 7,000 eligible retirees is not separable from the cost of providing benefits for the 80,000 participating active employees. The total cost of such benefits, after employee contributions, was $47.5 million in 1985 and $51.5 million in 1984.

HONEYWELL INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

(Dollars in Millions Except Per Share Amounts)

19. Postretirement Benefits

In addition to providing retirement benefits, Honeywell and its subsidiaries provide certain health care and life insurance benefits to normal retirement date for employees who retire early. These and similar benefits for active employees are provided through insurance policies with premiums based on the benefits paid during the year. Honeywell recognizes the cost of providing these benefits by expensing the annual insurance premiums, which were $162.1 in 1985 and $141.7 in 1984 for all U.S. employees. The cost of providing these benefits for U.S. early retirees (approximately 3.5 percent of the total receiving these benefits) is not separable from the cost of providing benefits for all active U.S. employees. There are no material postretirement benefits provided to employees after normal retirement date. Employees in most foreign countries are covered by government plans which do not require Honeywell to make contributions after the employee retires.

THE PERKIN-ELMER CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Retirement Benefits

Domestic employees who retire from the company and satisfy the years of service and age requirements are covered for medical and life insurance benefits. The company will provide medical coverage as a secondary source after Medicare, which must be carried by the retiree. Benefits are administered through an insurance carrier but paid by the company. Expenses for retiree coverage, recognized as incurred, was $857,000 in 1985. Foreign employees are primarily covered under government sponsored programs and no significant expense is incurred by the company.

RAYTHEON COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note M (In Part): Pension and Other Employee Benefits

In addition to providing pension benefits, the company and its subsidiaries provide certain health care benefits for retired employees. Substantially all of the company's U.S. employees may become eligible for postretirement health care benefits if they reach normal retirement age while working for the company. These benefits are provided through various insurance companies whose charges are based either on the benefits paid during the year or annual premiums. The company recognizes the cost of providing these benefits by expensing the annual insurance charges which were $3,300,000 and $2,579,000 in 1985 and 1984, respectively. The company and certain of its subsidiaries provide postretirement life insurance benefits which are accrued and funded annually for those active employees 55 to 65 years of age. Accrued costs of retiree life insurance benefits are expensed annually and were $1,503,000 and $2,439,000 for 1985 and 1984, respectively.

TESORO PETROLEUM CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D (In Part): Employee Benefit Plans

In addition to providing pension benefits, the Company provides health, dental, and life insurance benefits to its retirees and eligible dependents who were participating prior to retirement in the Company's group insurance program. During fiscal 1985, the Company provided these benefits at no cost to the retirees. These benefits are self-funded and the

Company recognizes the benefit payouts as expense in the year paid. In 1985, the cost of the Company's medical and dental plans for both active and retired employees totaled $2,025,000. The cost of providing these benefits for the 143 eligible retirees is not separable from the cost of providing these benefits to the 1,448 participating active employees. The cost of the life insurance benefits for both active and retired employees totaled $337,000 for 1985. The cost of providing life insurance benefits for the 126 covered retirees is not separable from the cost of providing this benefit for the 1,448 active employees.

WESTINGHOUSE ELECTRIC CORPORATION (DEC)

NOTES TO THE FINANCIAL STATEMENTS

Note 2 (In Part): Pensions and Other Postretirement Benefits

In addition to pension benefits, certain health care and life insurance benefits are provided to employes who retire from the parent company or its domestic subsidiaries. Retiree health care and similar benefits for active employes are provided through insurance companies whose premiums are based on the benefits paid during the year. The related cost is recognized as expense as premiums and claims are paid. Prior to 1985, a portion of retiree life insurance benefits was provided by the pension plan, while the remainder was provided through an insurance company on a fully funded basis. In 1985, all life insurance benefits were paid from funds previously set aside with the insurer. In addition, the Corporation provided for the estimated cost of claims incurred during the year. The cost of retiree health care and life insurance benefits was approximately $38 million in 1985 and $30 million in 1984.

COMPENSATORY PLANS

In addition to pension plans (Table 3-8) and "traditional" stock option and stock purchases plans (pages 209-215), many companies disclose the existence of compensatory plans of the nature indicated in Table 3-9. *APB Opinion No. 25* states in part:

8. Plans that do not possess the four characteristics of noncompensatory plans are classified as compensatory plans. Since the major principles of Chapter 13B of *ARB No. 43* are not changed, classification as a compensatory plan does not necessarily require that compensation cost be recognized.

TABLE 3-9: COMPENSATORY PLANS

	Number of Companies			
	1985	1984	1983	1982
Stock award plan	163	159	155	147
Incentive compensation plan	94	100	99	99
Profit-sharing plan	77	76	76	72
Savings fund plan	100	79	71	66
Employee stock ownership plan	108	82	66	58
Deferred compensation agreement	38	42	39	33

10. *Measuring Compensation for Services.* Compensation for services that a corporation receives as consideration for stock issued through employee stock option, purchase, and award plans should be measured by the quoted market price of the stock at the measurement date less the amount, if any, that the employee is required to pay. That is the principle in Chapter 13B of *ARB No. 43* with two modifications: (a) the meaning of fair value of stock for compensatory plans is narrowed and (b) the measurement date for plans with a variable number of shares of stock or a variable option or purchase price is different...

Thus a corporation recognizes compensation cost for stock issued through compensatory plans unless the employee pays an amount that is at least equal to the quoted market price of the stock at the measurement date.

12. *Accruing Compensation Cost.* Compensation cost in stock option, purchase, and award plans should be recognized as an expense of one or more periods in which an employee performs services and also as part or all of the consideration received for stock issued to the employee through a plan. The grant or award may specify the period or periods during which the employee performs services, or the period or periods may be inferred from the terms or from the past pattern of grants or awards (*ARB No. 43* Chapter 13B, paragraph 14; *APB Opinion No. 12. Omnibus Opinion-1967*, paragraph 6).

14. If stock is issued in a plan before some or all of the services are performed, part of the consideration recorded for the stock issued is unearned compensation and should be shown as a separate reduction of stockholders' equity. The unearned compensation should be accounted for as expense of the period or periods in which the employee performs service.

16. *Accounting for Income Tax Benefits.* An employer corporation may obtain an income tax benefit related to stock issued to an employee through a stock option, purchase, or award plan. A corporation is usually entitled to a deduction for income tax purposes of the amount that an employee reports as ordinary income, and the deduction is allowable to the corporation in the year in which the amount is includable in the gross income of the employee. Thus, a deduction for income tax purposes may differ from the related compensation expense that the corporation recognizes, and the deduction may be allowable in a period that differs from the one in which the corporation recognizes compensation expense in measuring net income.

20. This Opinion applies to all stock option, purchase, award, and bonus rights granted by an employer corporation to an individual employee after December 31, 1972 under both existing and new arrangements and to reductions of income taxes resulting from deductions as of a date after December 31, 1972 that are related to stock option, purchase, award, and bonus rights granted before as well as after the effective date of this Opinion.

Examples of compensatory plan disclosures follow.

Incentive Compensation Plans

THE AMERICAN SHIP BUILDING COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Employee Benefits

Incentive Compensation Plan

The Company maintains an Incentive Compensation Plan administered by the Compensation and Stock Option Committee, composed of four outside members of the Board of Directors. Under the terms of the Plan, certain employee directors, officers and key employees of the Company and its subsidiaries are eligible for participation. Incentive compensation is based on the achievement of certain objectives established by the Board of Directors relating primarily to return on investment, sales revenue, investment in inventory, investment in receivables and net income. For the fiscal years 1985, 1984 and 1983, the incentive compensation expense was $370,000, $169,000 and $196,000, respectively. The available plan balance was $589,000 as September 30, 1985.

BRUNSWICK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Management Compensation Costs

The Company has management incentive compensation plans for officers and other key management personnel which provide incentive compensation based on attainment of certain financial and individual objectives. Amounts charged to net earnings under these plans were $4.2 million, $4.3 million and $3.8 million in 1985, 1984 and 1983, respectively.

The Company has employment agreements with certain executive officers that become operative only upon a change in control of the Company. For a definition of "change in control of the Company" refer to Note 10—Common Stock Plans. Compensation which might be payable under these agreements has not been accrued in the consolidated financial statements as a change in control, as defined, has not occurred.

THE FIRESTONE TIRE & RUBBER COMPANY (OCT)

NOTES TO FINANCIAL STATEMENTS

Dollars in millions, except per share amounts

Incentive Compensation Plans

Incentive compensation is provided for officers and other key personnel who in the opinion of the Organization and Compensation Committee of the Board of Directors make significant contributions to the Company. Part of the amounts available for incentive compensation are based on the Company's earnings performance. Incentive compensation of $2, $7, and $12 was expensed in 1985, 1984, and 1983, respectively.

MERCK & CO., INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

13. Executive Incentive Plan

The plan provides for awards to executives and other key employees of cash and deferred awards payable in shares of the Company's common stock and cash. For 1985, awards of $11.6 million were made, including deferred awards of $1.8 million to be distributed in 12,920 shares of common stock. Awards were $11.1 million in 1984 and $10.1 million in 1983. At December 31, 1985, there were 176,042 shares available for future awards.

Stock Award Plans

AMSTED INDUSTRIES INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted Stock Incentive Plan

The Restricted Stock Incentive Plan, which was approved by stockholders in January 1985, provides for awards to eligible employees of the company, consisting of shares of restricted common stock of the company and an equal number of cash units. Such shares are held by the company for future distribution in accordance with the restrictive provisions of the plan. Payment for cash units is made at the time of distribution of common stock, when restrictions lapse.

During the year, 168,000 shares were awarded of which 37,866 shares were distributed. Total expense is determined based on the market value of the stock at the date of distribution and is being accrued over the period the restrictions lapse. Expense in 1985 was $2.9 million.

AVNET, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Stock Incentive and Option Programs

Under the stock incentive program, a total of 539,789 shares are still available for award based on operating achievements. Delivery of incentive shares is spread equally over a 4-year period and is subject to the employee's continuance in Avnet's employ. The program will terminate on October 31, 1990 but may be terminated by the Board of Directors at any time. Charges against operations for 1985, 1984 and 1983 were $1,220,000, $2,160,000 and $1,200,000, respectively.

BEMIS COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6—Incentive Plans:

The Company has a Long-Term Performance Incentive Plan for certain key executive employees. The plan authorizes issuance of an unspecified amount of performance share units over a 10-year period. Each unit is equivalent to one share of Bemis Company common stock. Executives earn their awards only if the Company meets specific performance targets. Payments are made four years after the date of the award in cash equal to the market value of Bemis Company common stock at the end of the award period. A total of 572,000 performance share units were awarded in 1980 and 284,000 in 1982. The 1980 award period ended as of December 31, 1983. Cash payments equal to 25% of the 1980 awards were paid in early 1984. The 1982 award period ended as of December 31, 1985. Cash payments equal to 100% of the 1982 awards will be paid in early 1986.

In 1984 the Company adopted a Stock Award Plan for certain key executive employees. The plan authorizes issuance of up to 600,000 shares of Bemis Company common stock. Distribution of the shares will be made not less than three years nor more than seven years from date of grant. All shares granted under the plan are subject to restrictions as to continuous employment, except in the case of death, permanent disability or retirement. Under the plan 392,000 shares were granted in 1984 and 118,000 shares in 1985 to be distributed no later than 1991. In addition, cash payments will be made during the grant period equal to the dividend on Bemis common stock. The value of these shares at date of grant was $7,076,000.

The cost of the awards made under both plans is charged to income over the period of the grant; $4,618,000 was expensed in 1985, $1,510,000 was expensed in 1984 and $1,421,000 was expensed in 1983.

COMMERCIAL METALS COMPANY (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

H. Stock Purchase and Option Plans:

Stock Purchase Plan

At August 31, 1985, 161,498 shares were available for sale to employees under a stock purchase plan. Purchase agreements covering 40,320 shares were outstanding at prices ranging from $12.19 to $13.13 a share, representing 75% of market value at dates of agreement. During 1985, 1984, and 1983, 8,370, 46,245, and 40,485 shares, respectively, were purchased under the plan at prices ranging from $13.03 to $18.38 in 1985, $8.75 to $9.62 in 1984, and $7.50 to $9.13 in 1983.

Stock Option Plans

Outstanding at August 31, 1985, are options under a stock option plan implemented in 1982 for 153,362 shares of the Company's common stock at $8.58 and $16.50 a share. During 1985, no options were granted. The options are exercisable through April 1988.

In 1979, the Board of Directors of the Company approved the key Employees Restricted Stock Bonus Plan (the Plan) under which shares of common stock were to be awarded to certain key employees of the Company. Under the terms of the Plan, the shares are to be issued in the name of the employee and placed in escrow for a five-year vesting period, with the employee receiving all cash dividends and having the right to vote such shares held in escrow. In July 1984, the Company awarded 126,698 shares and recorded deferred compensation of $2,154,000 representing the fair market value of the common stock at the date of the stock award. The deferred compensation is amortized over the five-year vesting period with $400,000 and $70,000 charged to operations in 1985 and 1984, respectively. No shares were awarded in fiscal 1985. Employees with rights to 4,302 unvested shares forfeited their shares during 1985. These shares were returned to the Company and made available for future awards under the Plan. As of August 31, 1985, 158,854 shares remain available for future awards.

FLOWERS INDUSTRIES, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Common Stockholders' Equity

Performance Share Plan

Under the Performance Share Plan, the Board of Directors has granted 209,835 and 353,879 performance shares to key employees relating to grants given in fiscal 1985 and 1983, respectively. Performance shares represent rights to receive common stock and cash provided the Company achieves specified income goals over a four year period. Common stock distributions and payments to participants are to be made four years after the date of the grant.

The Company amended the Plan in fiscal 1979 to limit the cost of the Plan to twice the grant price at the grant dates of the maximum number of performance shares issuable. The grant price is determined by averaging the closing price of the Company's common stock for ninety calendar days prior to the grant date. The grant prices of the performance shares at the grant dates were $12.42, $5.61 and $3.38 for the 1985, 1983 and 1981 grants, respectively. In connection with the 1981 grant, 73,031 shares of the Company's stock and approximately $907,000 in cash were distributed in August, 1984. The estimated costs of the Plan are charged to income over the applicable four year period. Such charges amounted to $2,254,000 for fiscal 1985, $1,754,000 for fiscal 1984 and $1,799,000 for fiscal 1983.

MEDTRONIC, INC. (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of dollars, except per share data)

Stock Award Plan

The restricted stock and performance share award plan provides for issuance of common stock to Medtronic officers and key employees. Awards are dependent upon continued employment and, in the case of performance shares, achievement of certain performance objectives. In 1985, 7,470 restricted shares were issued and 17,850 performance shares were awarded. Total restricted and performance shares outstanding at April 30, 1985 were 28,440 and 17,850, respectively. The actual number of common stock shares awarded may vary from the number of performance shares granted depending on the degree to which the performance objectives are met. The costs of the restricted stock and performance shares awarded are generally expensed over five years from the date of grant ($199 in 1985, $591 in 1984, and $544 in 1983). There are 132,297 shares of common stock available for future grant.

OWENS-ILLINOIS, INC. (DEC)

FINANCIAL REVIEW

Employee Benefit Plans (In Part):

The Performance Award Plan reserved 1,500,000 common shares to provide for the grant of performance award units to officers and key management employees based on measurement goals established by the Compensation Committee of the Board of Directors. Performance award units consist of either or both of (1) a performance allotment expressed in dollars and (2) a nonqualified option to purchase common shares of the Company (see Stock Options). Performance allotments, which are fixed in dollars at the time of grant, may be paid to the extent earned either in common shares or cash or any combination thereof. The Company also has a Senior Management Incentive Plan which covers certain corporate and noncorporate officer management personnel. Charges to earnings for these plans were $10.3 million in 1985, $9.8 million in 1984, and $6.4 million in 1983.

Profit Sharing Plans

IPCO CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Pension and Profit Sharing Plans

The Company has an employee profit sharing plan under which voluntary employee contributions are permissible. Under the plan the Company's contribution is determined annually by the Board of Directors. The amounts charged to operations for the three years ended June 30, 1985 were $473,000, $649,000, and $595,000, respectively.

MARRIOTT CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part):

Profit Sharing Plan

The company contributes to a profit sharing plan for the benefit of employees meeting certain eligibility requirements and electing participation in the plan. Company contributions are a specified percentage of the company's pre-tax income as defined by the plan, and were $26.6 million in 1985, $22.3 million in 1984 and $18 million in 1983.

Savings or Investment Plans

BAKER INTERNATIONAL CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Retirement and Savings Plans

The Company's Thrift Plan allows eligible participating employees to elect to contribute from 2 to 10 percent of their salaries to an investment trust. Employee contributions are matched by the Company at the rate of 50 cents per dollar up to 4% of the employees' salary. The Company contributions become fully vested to the employee at the close of the second plan year after the year in which contributions are made. The Company's contributions to the Thrift Plan amounted to $3,051,000, $2,423,000, and $2,099,000 in 1985, 1984 and 1983, respectively.

CHROMALLOY AMERICAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Employee Compensation Plans

Through the Chromalloy Incentive Savings Plan, eligible salaried employees may elect to defer receipt of a portion of their base salary (two to six percent), and contribute such amount in one or more of the following investment funds: Chromalloy common stock, an interest accumulation fund which provides guaranteed fixed rates of interest on contributions, or an equity stock fund. The Company matches 50% of the participant's investment which becomes fully vested to the employee after five years of service with the Company. The Company match is invested 50% in Chromalloy common stock and 50% at the direction of the participant in one or more of the above mentioned funds. Compensation costs under this plan and a former stock bonus plan totaled $1.9 million in 1985 and $1.5 million in both 1984 and 1983.

MUNSINGWEAR, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

K (In Part): Retirement Plans

Effective January 1, 1985, the Company established a Retirement Savings Plan for its salaried and clerical employees, excluding those of subsidiaries, which allows participants to make contributions by salary reduction pursuant to section 401(k) of the Internal Revenue Code. The Company matches contributions up to a maximum of 3% of compensation according to a schedule for those employees contributing up to 5%. Employees vest immediately in their contribution and vest in the Company contribution over a three year period of service. The Company's contribution to the plan in 1985 was $212,000.

NATIONAL SEMICONDUCTOR CORPORATION (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Employee Benefit and Incentive Plans

Retirement and Savings Program

National's Retirement and Savings Program, formerly called the Profit Sharing Retirement Plan, applies to U.S. employees and consists of three parts as follows:

A profit sharing retirement plan.

This plan requires company contributions of at least five percent of consolidated net earnings before income taxes. Contributions must be invested in National's common stock. The contribution expenses were $2.7 million in 1985, $8.8 million in 1984, and $1.4 million in 1983.

A stock bonus plan.

This plan requires company contributions equal to a defined percentage of qualifying payroll. Contributions must be invested in National's common stock. All company contributions under this plan qualify as tax credits for U.S. Federal income tax purposes. The contribution expense associated with this plan was $1.4 million in 1985 and $1.7 million in 1984.

A salary deferral "401(k)" plan.

This plan became effective June 1, 1984 and allows employees to defer up to 10 percent of their salary with partially matching company contributions. Contributions are invested in either or both of two investment funds at the discretion of the employee. The contribution expense associated with this plan was $1.1 million in 1985.

As of May 31, 1985, cumulative company contributions to the Retirement and Savings Program consisted of 3.1 million shares of common stock, and 2.9 million shares were reserved for future company contributions.

Employee Stock Ownership Plans

NORTEK, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Notes and Mortgages Payable

Guaranty of Bank Indebtedness of Employee Benefit Plans—Current Maturities of $333,000

The Company has guaranteed a term loan agreement with certain banks in an amount up to $9,000,000 under its employee stock ownership plan ("ESOP"). Borrowings under the agreement bear interest at 80% of the prime rate. Principal is repayable in twenty-four quarterly installments commencing on December 31, 1989. The Company also guaranteed all principal and interest payments due under a $2,000,000 line of credit facility with a bank under the Nortek Employee Stock Savings Trust ("NESST"). Borrowings under the line of credit bear interest at the prime rate and are repayable in twelve quarterly installments commencing on September 30, 1986. Borrowings under these facilities by the plans have been included by the Company in Notes and Mortgages Payable and the corresponding deferred compensation charge reduced stockholders' investment. Proceeds from these borrowings have been used for or are available to the plans for the purchase of Nortek Common Stock (see Note 8).

8 (In Part): Common Stock, Stock Options and Deferred Compensation

In August 1985, the Company established an ESOP effective January 1, 1985, which covers substantially all regular full-time employees not covered by a collective bargaining agreement. Under the terms of the ESOP Trust Agreement, the trustees are permitted to vote the unallocated shares of Nortek Common Stock. The Company is obligated to make annual contributions sufficient to enable the ESOP to repay the loan, including interest. Deferred compensation is being amortized on a straight-line basis over ten years (see Note 4). Deferred compensation arising from the guarantee of the NESST borrowing described in Note 4, will be charged to operations as the plan allocates shares to employee accounts.

The NESST requires annual contributions by the Company in an amount equal to at least 20%, but not more than 75% of eligible employee contributions. Company contributions were $781,000 in 1985, $703,000 in 1984, and $346,000 in 1983.

SAB HARMON INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Commitments and Deferred Liability

Employee Benefits

Prior to June 17, 1985, SAB Harmon Industries, Inc. had a contributory profit sharing plan for all employees who were at least 18 years of age and who had completed six months employment, consisting of at least 1,000 hours service. On June 17, 1985, this plan was amended and converted into an employee stock ownership plan and trust (ESOT). Employer contributions to the ESOT are based on a percentage of pretax earnings. On June 18, 1985, the ESOT purchased certain Common Stock of the Company (see note 2).

EPC had a contributory profit sharing plan for all employees who have completed six months employment consisting of at least 1,000 hours service. Employer contributions are determined annually in an amount not to exceed 15 percent of the annual compensation of the plan's participants. Effective August 31, 1985, the EPC profit sharing plan was converted into the SAB Harmon Industries, Inc. employee stock ownership plan and trust.

Amounts charged to operating expense under these plans were $713,000, $380,000, and $143,000 for the years ended December 31, 1985, 1984 and 1983, respectively.

SAB Harmon Industries, Inc. also has an executive bonus plan the contributions of which are based on a percentage of pretax earnings after employee profit sharing (ESOT) contributions. Accruals made under this plan were $361,000, $276,000 and $105,000 for the years ended December 31, 1985, 1984 and 1983, respectively.

THE TIMES MIRROR COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Summary of Significant Accounting Policies

Retirement Plans and Postretirement Benefits

The company has various contributory and noncontributory retirement plans covering substantially all employees. Defined benefit pension costs charged to earnings in 1985 consist of current service costs and, in 1984 and 1983, also included the amortization of past service costs over periods ranging from 10 to 35 years. The defined benefit plans are funded on a current basis in accordance with the Employee Retirement Income Security Act of 1974. An Employee Stock Ownership Plan (ESOP), which was established effective January 1, 1985, provides benefits in conjunction with certain defined benefit plans and the fair value of ESOP assets is recognized as an offset to required funding of those plans. Due to the overfunded status of the majority of the company's defined benefit plans, funding of such plans was substantially reduced in 1985 and 1984 (see Note M).

Note M (In Part): Retirement Plans and Postretirement Benefits

On April 18, 1985, the company issued and sold 3,065,917 shares of common stock to its newly created ESOP for $150,000,000. These funds were obtained by the ESOP through loans from a consortium of banks and repayment of the loans has been guaranteed by the company. Company contributions will be the primary source of funds for the ESOP's repayment of the loans. The amount of these loans is included in "Long-Term Debt" with an offsetting reduction in "Shareholders' Equity" in the Consolidated Balance Sheet at December 31, 1985. Benefits provided by the ESOP are integrated with benefits provided under some of the company's defined benefit pension plans. The ESOP currently covers approximately one-half of the company's employees.

Deferred Compensation Plans

M/A-COM, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7—Contingent Compensation Plan:

Under the Contingent Compensation Plan, deferred compensation in the form of Performance Convertible Debenture Units has been awarded to officers and other key employees as follows:

Year	Units	Amount
1983	343,074	$3,125,000
1984	312,592	3,077,000
1985	396,845	4,239,000

The Units have a face value equal to the book value per share of the Company's outstanding common stock at the end of the fiscal year in which the award is made. Aggregate Units outstanding at September 28, 1985 were 1,804,185. At the option of the recipients, these Units may be converted at the end of five years from the date of grant into either: (1) a maximum of 909,026 shares of common stock, or (2) cash in an amount for each Unit equal to the then book value per share of outstanding shares of common stock, or (3) a combination of the preceding elections. If the recipient leaves the Company's employ prior to the expiration of the initial five-year period, he will forfeit a pro-rata portion of the Units. Compensation is charged to income over the five-year vesting period, adjusted for forfeitures. Compensation expense in 1985 amounted to $4,103,000 ($3,607,000 in 1984 and $3,500,000 in 1983).

The aggregate value of Units to be earned over the next five years is approximately $9,476,000.

MAGIC CHEF, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Employee Retirement Plans

The Company also has deferred compensation agreements with certain of its officers under which the Company has agreed to pay certain amounts annually over each individual's life span subsequent to retirement. For accounting purposes, the present value of such payments is being charged ratably to expense over the average estimated remaining years of active employment of the officer group.

ROWE FURNITURE CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5—Deferred Compensation Plans

Under the 1971 Executive Incentive Compensation Plan (as amended), awards may be made, subject to certain limitations, to key employees. The plan is composed of two parts:

Part I Incentive Stock Units—Common stock will not be issued; however, benefits are: (1) related to the increase in the average of market value of the common stock and book value over the value of the units at date awarded, and (2) the market value of additional units (dividend equivalents credited on units and converted at year end). Awards of 26,000 units at $6.3125 per unit were made in 1985 for November 30, 1984. Awards of 22,000 units at $8.2833 per unit were made in 1984 for November 30, 1983. At November 30, 1985, 131,237 units were outstanding at award prices ranging from $1.8750 to $17.0513.

Part II Deferred Compensation Awards—Awards are fully vested at date made and are payable over ten annual installments following the year of termination of employment. Awards of $170,000, $179,000 and $175,000 were made for the years ended November 30, 1985, 1984 and 1983, respectively.

The Company has deferred compensation agreements with key employees. Vesting is based upon age and years of service. Life insurance contracts have been purchased which may be used to fund these agreements. The charges to expense are based on the present value method.

The charges to expense for these plans were $515,000 for 1985, $230,000 for 1984 and $563,000 for 1983.

VEBA

R. R. DONNELLEY & SONS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Benefit Plans (In Part)

VEBA. In 1984, a VEBA was established to fund benefits to employees in a more cost-effective manner; the earnings of such trusts are exempt from federal income taxes. Those contributions from the Company to the Trust which will be used to fund benefits as they become payable during the next twelve months are included in "Prepaid expenses" in the accompanying consolidated financial statements. The portion ($55,000,000) of the contributions which will fund 1987 expenses is included in "Other" (noncurrent) Assets.

Stock Value Appreciation Plan

AMSTED INDUSTRIES INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Value Appreciation Plan

The Stock Value Appreciation Plan provides for the payment of awards in cash or in cash and common stock to key employees, based on increases in the market value of the company's common stock during selected 12-month plan periods. With respect to any plan period, no participant can receive an amount equivalent to more than one-third of his total compensation, exclusive of such awards.

Expense was $1.3 million in 1985, $800,00 in 1984, and $1.2 million in 1983.

DEPRECIATION EXPENSE

Paragraph 5 of *APB Opinion No. 12* stipulates that both the amount of depreciation expense and method or methods of depreciation should be disclosed in the financial statements or in notes thereto. Paragraph 5, Chapter 9C of *ARB No. 43* defines depreciation accounting (the process of allocating the cost of productive facilities over the expected useful lives of the facilities) as "a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation." If the depreciation methods used for tax purposes and for financial statement reporting differ, *APB Opinion No. 11* requires that the income tax expense shown in a company's financial statements reflect the tax effect of such a difference.

Table 3-10 summarizes the methods of depreciation used to allocate the cost of productive facilities. Examples of depreciation expense disclosures follow.

TABLE 3-10: DEPRECIATION METHODS

	Number of Companies			
	1985	1984	1983	1982
Straight-line	563	567	564	562
Declining balance	53	54	57	57
Sum-of-the-years digits	16	15	17	20
Accelerated method—not specified	73	76	74	69
Unit of production	54	60	65	62
Other	12	13	12	N/C

N/C—Not Compiled.

Straight Line Method

AMERON, INC. (NOV)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		($000)	
Funds Provided by Operations			
Net income	$12,551	$ 9,548	$ 8,403
Items not affecting funds			
Depreciation	9,481	8,246	7,891
Equity in earnings of affiliated companies	(6,358)	(1,986)	(5,400)
Deferred tax provision	513	1,544	2,552
Gain from sale of assets	(57)	(7,214)	(2,352)
Provision for loss on investments		1,248	
Other, net	1,206	454	298
Total Funds Provided from Operations	17,336	11,840	11,392

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment

Items capitalized as property, plant and equipment, including betterments to existing facilities, are recorded at cost. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and any gain or loss is included in income. Capitalized interest costs applicable to the period of construction of major plant and expansion projects were $544,000 in 1985, $526,000 in 1984 and $86,000 in 1983.

Depreciation is computed principally using the straight-line method based on estimated useful lives of the assets. Annual rates of depreciation are as follows:

	Percent of Cost
Buildings	2½-10
Machinery and equipment	
Autos, trucks and trailers	16⅔-50
Cranes and tractors	10-15
Manufacturing equipment	6⅔-33⅓
Other	5-66⅔

CLARK EQUIPMENT COMPANY (DEC)

Statement of Changes in Financial Position

	1985	1984	1983
	Amounts in thousands		
Cash was provided by:			
Operations:			
Net income (less)	$(85,472)	$24,971	$12,414
Add non-cash charges (deduct credits) to income:			
Restructuring and revitalization program costs	66,157	—	(7,700)
Depreciation	33,808	37,264	38,093
Write-down of property, plant and equipment—restructuring	19,600	—	—
Deferred and recoverable income taxes	569	49	15,400
Treasury Stock issued under employee benefit programs	3,916	2,598	10,162
Equity in unremitted earnings of unconsolidated subsidiaries and associated companies	(1,682)	(16,468)	22,103
Cash provided by operations	36,896	48,414	90,472

NOTES TO FINANCIAL STATEMENTS

Properties and Depreciation

Property, plant and equipment are carried at cost. Expenditures for maintenance and repairs are charged to income as incurred and expenditures for major renewals and betterments are capitalized. Prior to 1982 depreciation was provided generally by the declining balance method. For properties acquired subsequent to January 1, 1982, the Company changed its method of depreciation to the straight-line method in order to be more consistent with other similar industrial companies. Depreciation rates used are 2.5% to 10% for land improvements, 2% to 12.5% for buildings and 4% to 33.3% for machinery and equipment. Properties retired or sold are removed from the property accounts, with gains or losses on disposal included in income.

INTERSTATE BAKERIES CORPORATION (MAY)

	1985	1984	1983
	($000)		
Net sales	$703,578	$685,604	$666,378
Other revenues	3,279	2,082	1,989
	706,857	687,686	668,367
Cost of products sold	393,042	391,972	381,712
Selling, delivery and administrative expenses	288,703	276,599	263,743
Depreciation expense	11,903	12,079	12,230
Minority interest	23	105	35
	693,671	680,755	657,720
Operating income	13,186	6,931	10,647

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Depreciation of Property and Equipment—Property and equipment are recorded at cost except for property held under capital leases, which is recorded at the lesser of fair market value of the property and equipment at date of lease or the net present value of minimum lease commitments. Depreciation is computed generally on the straight-line composite method by asset group by plant until accumulated depreciation equals 50% of cost, and thereafter on the double-declining method. For income tax purposes, the Company utilizes accelerated depreciation methods for certain assets. The estimated useful lives used in computing depreciation of the principal assets are as follows:

Land improvements	15-20 years
Buildings	30-60 years
Plant equipment	4-18 years
Automotive equipment	4-10 years

For normal retirements, the cost of assets retired or otherwise disposed of, less the proceeds from sale or salvage, is charged to accumulated depreciation. Gain or loss is recognized on unusual retirements and on the disposal of land and buildings.

Declining-Balance Method

BURROUGHS CORPORATION (DEC)

Consolidated Statement of Changes in Financial Position

	1985	1984	1983
		(Millions)	
Cash Provided by (Used For) Operations			
Net income	$248.2	$244.9	$196.9
Add (deduct) items not affecting funds:			
Depreciation and amortization	338.4	379.6	405.4
Decreases (increases) in long-term receivables	69.5	(6.6)	62.4
Net book value of sales and disposals of rental equipment and properties	166.4	133.9	158.2
Decreases in deferred income taxes	(9.6)	(23.2)	(65.6)
Translation adjustments	46.5	(25.1)	(28.2)
Other	(.3)	1.1	(14.6)
Add (deduct) current items:			
Accounts and notes receivable, net.	(37.3)	(111.1)	(46.3)
Inventories	(107.6)	(214.2)	29.2
Prepaid taxes and other	23.6	(32.7)	(2.3)
Accounts payable	(107.9)	93.8	102.2
Other accrued liabilities and dividend payable	48.3	(3.1)	(9.6)
Estimated income taxes	(76.3)	(10.8)	70.1
Cash provided by operations	601.9	426.5	857.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

C. Rental equipment, properties and depreciation

Rental equipment and properties are carried at cost and are depreciated over the estimated lives of such assets using the straight-line method, except for tools and test equipment which are depreciated by the declining-balance method. Leasehold improvements are amortized over the shorter of the asset lives or the terms of the respective leases. The principal depreciation rates used are summarized below by classification of properties:

	Rate per Year (%)
Rental equipment	25
Buildings	2-5
Machinery and equipment	5-25
Tools and test equipment	10-33⅓

DOW JONES & COMPANY, INC. (DEC)

	1985	1984	1983
		(in thousands)	
Expenses:			
News, production and delivery	$271,266	$254,089	$221,936
Selling, administrative and general	277,539	248,273	221,286
Newsprint	114,300	112,117	100,848
Second class postage and alternate delivery	81,434	77,631	74,298
Depreciation (Note 1)	52,079	43,323	37,383
Operating expenses	796,618	735,433	655,751

Note 1 (In Part): Summary of Significant Accounting Policies

Depreciation is computed principally on the declining-balance method over the estimated useful lives of the respective assets or terms of the related leases.

Sum-Of-The-Years-Digits Method

BROWN GROUP, INC. (OCT)

Changes in Consolidated Financial Position

	1985	1984	1983
		(Thousands)	
Cash Provided by Continuing Operations			
Earnings	$48,771	$53,706	$65,669
Items not requiring outlay of cash			
Depreciation and amortization	24,299	21,936	19,202
Other	(1,075)	5,632	3,091
Cash from operations	71,995	81,274	87,962

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization of property, plant and equipment are provided over the estimated useful lives of the assets, or the remaining term of leases where applicable, using the straight-line method except for certain machinery and equipment employed in footwear manufacturing where the sum-of-the-years digits method is used.

UNC RESOURCES, INC. (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		(Dollars in thousands)	
Funds provided from:			
Earnings (loss) from continuing operations before extraordinary item	$ 6,433	$1,632	$(6,497)
Charges (credits) not requiring funds			
Depreciation and amortization	5,288	2,567	2,829
Equity in net earnings of affiliates	—	—	(1,376)
Deferred income taxes (benefit)	117	1,389	(2,089)
Tax benefit of net operating loss carryforwards	6,011	—	—
Funds provided from (used by) continuing operations	17,849	5,588	(7,133)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

(e) Depreciation and Amortization. The Company's facilities and equipment are depreciated over their estimated useful lives by the straight-line method, except for a portion of the Company's Nuclear group facilities, which are being depreciated by the sum-of-the-years digits method.

SPERRY CORPORATION (MAR)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		(in millions of dollars)	
Source of Funds			
Income from continuing operations	$286.7	$200.0	$122.3
Add income charges not affecting funds			
Depreciation, amortization and obsolescence:			
Rental machines	118.2	114.1	119.0
Property, plant and equipment	104.0	89.6	79.4
Write-down of security investment	33.4	—	—
	255.6	203.7	198.4
Deduct income credits not affecting funds			
Deferred income taxes	154.7	8.5	11.1
Share of undistributed earnings of companies accounted for by the equity method	24.3	23.4	41.9
	179.0	31.9	53.0
Funds provided from continuing operations	363.3	371.8	267.7

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Depreciation

Depreciation of property, plant and equipment is generally provided on the sum-of-the-years'-digits method over the estimated economic lives of the assets. Rental machines are depreciated over a life of five years. Leasehold improvements are amortized over the lease period or the estimated useful life, whichever is shorter. Maintenance and repairs are charged to income as incurred and renewals and betterments are capitalized.

Unit of Production Method

AMAX INC. (DEC)

	1985	1984	1983
	In thousands of dollars		
Sales	$1,788,900	$2,107,600	$2,076,400
Costs applicable to sales—			
Costs and operating expenses	1,416,500	1,575,200	1,655,300
Depreciation and depletion	171,300	178,100	162,000
Selling and general	131,700	135,400	137,900
Taxes other than income taxes	97,800	98,600	98,900
Exploration	26,300	35,200	34,400
Research	13,200	13,800	19,900
	1,856,800	2,036,300	2,108,400
	(67,900)	71,300	(32,000)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Property, plant and equipment are carried at cost, including capitalized interest. Maintenance and repairs are charged to earnings. Expenditures for major betterments are capitalized. Gains and losses on retirements are included in earnings. *Depreciation and depletion* is computed primarily on the unit of production method.

NATIONAL DISTILLERS AND CHEMICAL CORPORATION (DEC)

Consolidated Statement of Changes in Working Capital

	1985	1984	1983
	(dollar amounts in millions)		
Working capital was provided by:			
Net income	$ 77.2	$ 51.4	$ 66.7
Charges (credits) to income not requiring (providing) working capital			
Depreciation, depletion and amortization	81.9	79.6	67.8
Deferred taxes on income	18.2	(3.2)	29.4
Unremitted earnings—associated companies	(1.3)	(2.8)	4.2
Other	9.1	13.0	9.1
Total from operations	185.1	138.0	177.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Accounting Policies

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Cost of gas- and oil-producing properties and development costs associated with those properties are capitalized on a field basis in accordance with the successful efforts method of accounting.

Depreciation of other than gas- and oil-producing properties is determined for related groups of assets under the straight line method based upon their estimated useful lives.

Depreciation and depletion of gas- and oil-producing properties are computed by the units of production method based on the proved developed reserves.

Minor renewals or replacements and maintenance and repairs are expensed. Major replacements and improvements are capitalized. Gains or losses on disposal of assets in the normal course of business are credited or charged to accumulated depreciation. Gains or losses from abnormal dispositions are credited or charged to income.

AMERADA HESS CORPORATION (DEC)

	1985	1984	1983
	(thousands of dollars)		
Costs and Expenses			
Cost of products sold and operating expenses	$5,767,672	$6,260,292	$6,483,010
Crude oil windfall profits tax	61,423	110,754	146,275
Exploration expenses, including dry holes	229,753	212,161	135,752
Selling, general and administrative expenses	300,542	371,323	337,256
Interest expense	189,263	193,628	166,871
Depreciation, depletion and amortization	373,734	326,754	269,220
Lease impairment	110,297	118,623	136,544
Special charge	536,692	—	—
Provision for income taxes	413,575	589,762	541,801
Total costs and expenses	7,982,951	8,183,297	8,216,729

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Depreciation, Depletion and Amortization:

Depreciation, depletion and amortization of oil and gas production equipment, properties and wells are determined under the unit-of-production method based on estimated recoverable oil and gas reserves. Depreciation of refinery facilities is determined under the unit-of-production method based on estimated thruput volumes. Depreciation of all other plant and equipment is determined under the straight-line method using various rates based on useful lives.

The estimated costs of dismantlement, restoration and abandonment, less estimated residual salvage values, of offshore oil and gas production platforms and certain other facilities are taken into account in determining depreciation charges.

SCOTT PAPER COMPANY (DEC)

FINANCIAL REVIEW

Depreciation and Cost of Timber Harvested

(Millions)	1985	1984	1983
Depreciation of buildings, machinery and equipment	$162.5	$146.8	$132.7
Cost of timber harvested	2.7	9.5	12.8
Amortization of logging roads	2.1	2.5	4.1
	$167.3	$158.8	$149.6

Depreciation is principally calculated by the straight-line method based on the estimated useful lives of the assets which are generally 3 to 25 years for machinery and equipment and 20 to 50 years for buildings. For certain major capital additions, depreciation is calculated by the units-of-production method during the learning curve phase of the project. Depreciation on capital lease assets is calculated by the straight-line method.

The cost of timber harvested is determined by calculating that portion of the investment in timber which the current year's harvest bears to the total standing timber.

Amortization of logging roads is absorbed in costs as timber is harvested and is based on the estimated recoverable timber in areas serviced by the roads.

Production—Variable Method

BETHLEHEM STEEL CORPORATION (DEC)

	1985	1984	1983
	(dollars in millions)		
Net Sales	$5,117.7	$5,392.1	$4,898.2
Operating Costs			
Cost of sales	4,583.3	4,855.1	4,581.6
Depreciation (Note A)	282.7	282.6	251.7
Selling, administrative and general expense	246.5	332.2	335.3
Total Operating Costs	5,112.5	5,469.9	5,168.6
Operating Income (Loss)	5.2	(77.8)	(270.4)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Accounting Policies

Depreciation—Depreciation is based upon the estimated useful lives of each asset group, which for most steel producing assets is 18 years. Steel and most raw materials producing assets are depreciated on a straight-line basis adjusted by an activity factor. This factor is based on the ratio of production and shipments for the current year to the average production and shipments for the five preceding years at each operating location. Annual depreciation after adjustment for this activity factor is not less than 75% nor more than 125% of straight-line depreciation. Depreciation after adjustment for this activity factor was $29.6 million less than straight-line in 1985, $22.2 million less in 1984 and $37.3 million less in 1983. Through December 31, 1985, $153.7 million less accumulated depreciation has been recorded under this method than would have been recorded under straight-line depreciation.

The cost of blast furnace linings are depreciated on a unit-of-production basis. All other assets are depreciated on a straight-line basis.

Depletion

CHEVRON CORPORATION (DEC)

	1985	1984	1983
	Millions of Dollars		
Revenues			
Sales and other operating revenues	$43,845	$46,173	$28,411
Equity in net income of affiliated companies	308	538	459
Other income	1,172	656	312
Total Revenues	45,325	47,367	29,182
Costs and Other Deductions			
Purchased crude oil and products	23,275	27,110	16,974
Operating expenses	6,979	6,705	3,959
Selling, general and administrative expenses	1,896	1,618	1,034
Depreciation, depletion and amortization	2,915	2,453	1,294
Taxes other than on income	4,193	4,243	2,914
Interest and debt expense	1,259	1,175	75
Total Costs and Other Deductions	40,517	43,304	26,250
Income Before Taxes on Income	4,808	4,063	2,932

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

Properties, Plant and Equipment

All costs for development wells, related plant and equipment, and mineral interests in oil and gas properties are capitalized. Costs of exploratory wells are capitalized tentatively pending determination of whether the wells found proved reserves. Costs of wells which are assigned proved reserves remain capitalized. All other exploratory wells and exploration costs are expensed.

Depreciation and depletion (including provisions for future abandonment and restoration costs) for all capitalized costs of proved oil and gas producing properties, except mineral interests, are expensed using the unit-of-production method by individual fields as the proved developed reserves are produced. Depletion expenses for capitalized costs of proved mineral interests are determined using the unit-of-production method by individual fields as the related proved reserves are produced. Periodic valuation provisions for impairment of capitalized costs of unproved mineral interests are expensed.

Depreciation and depletion expenses for other mineral assets are determined using the unit-of-production method as the proved reserves are produced. The capitalized costs of all other plant and equipment are depreciated or amortized over estimated useful lives. In general, the declining-balance method is used to depreciate plant and equipment in the United States; the straight-line method is generally used to depreciate plant and equipment outside the U.S. and to amortize all capital leases.

Gains or losses are not recognized for normal retirements of properties, plant and equipment subject to composite group amortization or depreciation. Gains or losses applicable to abnormal retirements or sales are included currently in income.

Expenditures for maintenance, repairs and minor renewals necessary to maintain facilities in operating condition are expensed as incurred. Major replacements and renewals are capitalized.

TEMTEX INDUSTRIES, INC. (AUG)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
Source of Funds			
Income (loss) before extraordinary item	$(1,327,497)	$1,522,808	$1,322,221
Items not requiring outlay of working capital:			
Depreciation, depletion and amortization	1,303,129	1,133,886	991,892
Noncurrent portion of deferred income taxes	38,838	18,770	(57,608)
Total From Operations Before Extraordinary Item	14,470	2,675,464	2,256,505

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Property, Plant and Equipment: Property, plant and equipment are carried on the basis of cost. Capitalized leases are carried at the present value of the net fixed minimum lease commitments, as explained in Note H. Depreciation on buildings and equipment is provided using principally accelerated methods. Depletion of clay deposits and amortization of leasehold improvements and capitalized leases are computed by the straight-line method. The estimated useful lives used in computing depreciation, depletion, and amortization are as follows:

	Years
Clay deposits	10-20
Buildings and improvements	5-30
Machinery, equipment, furniture and fixtures	2-15
Leasehold improvements	Life of lease

The cost of properties renewed, replaced, or disposed of is relieved from the property accounts as well as the related allowances for depreciation, depletion, and amortization, and any profit or loss is transferred to operations. Expenditures for maintenance and repairs are charged to operations; betterments are capitalized.

INCOME TAXES

PRESENTATION OF INCOME TAXES

APB Opinion No. 11 states in part:

60. In reporting the results of operations the components of income tax expense for the period should be disclosed, for example:

a. Taxes estimated to be payable

b. Tax effects of timing differences

c. Tax effects of operating losses

These amounts should be allocated to (a) income before extraordinary items and (b) extraordinary items and may be presented as separate items in the income statement or, alternatively, as combined amounts with disclosure of the components parenthetically or in a note to the financial statements.

61. When the tax benefit of an operating loss carry forward is realized in full or in part in a subsequent period, and has not been previously recognized in the loss period, the tax benefit should be reported as an extraordinary item in the results of operations of the period in which realized.

63. Certain other disclosures should be made in addition to those set forth in paragraphs 56–62:

a. Amounts of any operating loss carryforwards not recognized in the loss period, together with expiration dates (indicating separately amounts which, upon recognition, would be credited to deferred tax accounts);

b. Significant amounts of any other unused deductions or credits, together with expiration dates; and

c. Reasons for significant variations in the customary relationships between income tax expense and pretax accounting income, if they are not otherwise apparent from the financial statements or from the nature of the entity's business.

The Board recommends that the nature of significant differences between pretax accounting income and taxable income be disclosed.

Table 3-11 summarizes the descriptive captions used by

TABLE 3-11: FEDERAL INCOME TAX EXPENSE

	1985	1984	1983	1982
Description Terms				
Income taxes	520	506	500	490
Federal income taxes	57	67	82	84
United States (U.S.) income taxes	14	14	10	20
	591	**587**	**592**	**594**
Other or no current year expense	9	13	8	6
Total Companies	**600**	**600**	**600**	**600**

the survey companies to identify income tax expense. Table 3-12 shows the nature of frequently disclosed timing differences giving rise to deferred taxes. Examples of income tax expense presentations and disclosures follow.

AMERICAN PETROFINA, INCORPORATED (DEC)

	1985	1984	1983
	(Thousands of dollars)		
Earnings (loss) before income taxes	$(48,803)	$41,589	$81,439
Income taxes (note 4):			
Current:			
Federal	(38,235)	(6,643)	7,664
State	3,720	1,565	629
Deferred—Federal	(4,125)	1,575	17,886
	(38,640)	(3,503)	26,179
Net earnings (loss)	$(10,163)	45,092	55,260

Note 4. Income Taxes

The Company filed a consolidated Federal income tax return with American Petrofina Holding Company and its affiliates through August 31, 1985 and will file a consolidated return with PDI in subsequent periods. Under the terms of the present tax sharing agreement with PDI, the Company will be allocated Federal income taxes on a separate return basis.

A reconciliation of the computed "expected" tax expense (benefit) follows:

	1985	1984	1983
	(Thousands of dollars)		
Computed "expected" tax expense (benefit)	$(22,449)	19,131	37,462
Investment tax credit—flow-through method	(18,598)	(8,830)	(11,027)
State income taxes, net of Federal benefit	2,009	845	340
Losses of American Petrofina Holding Company and affiliates utilized by the Company	—	(10,268)	—
Reversal of taxes previously provided on Domestic International Sales Corporation income	—	(4,750)	—
Miscellaneous items	398	369	(596)
	$(38,640)	(3,503)	26,179

The Company reduced its 1984 income tax provision by $10,268,000 to reflect the benefit from Federal income tax losses incurred by American Petrofina Holding Company and its affiliates in several years prior to 1982. Pursuant to the tax sharing agreement in effect for those prior years, the tax benefit from the losses is a permanent benefit to the Company. The tax benefit was not recognized in prior years because of uncertainty of realization. However, based on settlements by the Internal Revenue Service with other companies and the planned settlement with American Petrofina Holding Company and its affiliates, the Company concluded that realization of the $10,268,000 benefit was assured.

The 1984 income tax provision was also reduced $4,750,000 as a result of a provision of the Tax Reform Act of 1984 which eliminated income taxes that had been previously provided on undistributed earnings of the Company's Domestic International Sales Corporation.

TABLE 3-12: TIMING DIFFERENCES—REASONS

	Number of Companies			
	1985	**1984**	**1983**	**1982**
Depreciation	489	488	496	497
Unremitted earnings	101	116	127	136
Discontinued operations	93	87	77	73
Installment sales	92	96	86	80
Inventory valuation	81	90	97	103
Pensions	69	81	76	66
Other employee benefits	115	108	98	99
Long-term contracts	80	78	71	70
Interest and taxes during construction	66	72	83	82
Leases	37	49	44	51
Intangible drilling costs	33	39	45	46
Warranties	23	29	25	30
Translation of foreign currency accounts	20	13	23	20

Deferred tax expense results from timing differences in the recognition of revenue and expenses for tax and financial statement purposes. The sources and the tax effect of each follows:

	1985	1984	1983
	(Thousands of dollars)		
Intangible development costs and other items related to oil and gas properties, net	$8,733	17,572	11,891
Capitalized interest	1,610	1,610	4,264
Depreciation, depletion, amortization, lease impairment and abandonments	(4,002)	2,990	13
Allowance for doubtful accounts	(4,830)	(491)	(1,829)
Pension costs	1,748	(1,006)	(334)
Basis in inventories	165	(6,670)	—
Investment tax credit	(3,396)	—	—
Provision for losses	(2,990)	—	—
Adjustment of prior year classifications of current and deferred tax liabilities	(1,480)	(9,324)	—
Miscellaneous items	317	(3,106)	3,881
	$(4,125)	1,575	17,886

ANADITE, INC. (OCT)

	1985	1984	1983
		($000)	
(Loss) Before Income Taxes	$(5,775)	$(1,317)	$(2,443)
(Benefit) For Income Taxes (Note 6)	(2,324)	(797)	(1,479)
Net (Loss)	$(3,451)	$ (520)	$ (964)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Income Taxes:

The Company provides currently for taxes on all items included in the Consolidated Statement of Income regardless of when such taxes are payable.

Investment tax credits are accounted for as a reduction in the provision for income taxes in the year in which the assets are placed in service.

(6) Income Taxes

The components of the income tax provision (benefit) were:

	1985	1984	1983
Current:			
Federal	$(1,220,000)	$ —	$(3,551,000)
Deferred:			
Federal	(1,104,000)	(797,000)	2,177,000
State	—	—	(105,000)
Total (Benefit)	$(2,324,000)	$(797,000)	$(1,479,000)

As of October 31, 1985, the Company has net operating loss carry-forwards for financial statement purposes of approximately $736,000. Such carry-forwards for income tax purposes are approximately $291,000 and will expire in the year 2000 if not offset against future taxable income. The higher book basis carry-forward reflects primarily earlier recognition, for book purposes, of the forging assets write-off. Also available at October 31, 1985, are investment tax credit carry-forwards of approximately $194,000 that expire in the year 2000.

During 1985, the Internal Revenue Service reviewed the Company's tax returns for the fiscal years 1979 to 1984. Based on this review, the Company has been assessed additional taxes of $2,028,000 and interest of approximately $455,000. The additional taxes are due principally to the disallowance of the completed contract method for tax purposes and other timing differences, and, therefore, do not result in a charge to income. Offsetting these currently payable taxes of $2,028,000 is a net operating loss carry-back for 1985. This results in currently payable income taxes, net, of $599,000 as of October 31, 1985.

A reconciliation of the Federal statutory income tax rate to the Company's effective tax benefit rate is as follows:

	Percent of Pretax Loss		
	1985	1984	1983
Statutory Federal income tax rate	46.0%	46.0%	46.0%
Increases (Decreases)			
Investment tax and research and development credit	—	9.4	9.7
Dividends excluded from federal income tax	—	4.4	2.4
Losses producing no current tax benefit	(5.9)	—	—
Other items	0.1	0.7	2.4
Effective income tax benefit rate for the year	40.2%	60.5%	60.5%

The benefit for Federal Income Taxes recognized in 1985 and 1984 represents the elimination of net deferred tax credits that will reverse in the loss carry-forward period. To the extent the carry-forwards are realized, deferred tax credits of approximately $1,104,000 will be reinstated.

The components of the deferred tax provisions were as follows:

	1984	1983
Contribution to Employees' Benefit Trust, Net	$ 10,000	$ 920,000
Completed-contract method for tax purposes	682,000	544,000
Accelerated depreciation claimed for tax purposes	409,000	399,000
Differing basis for former investment in joint venture	—	213,000
Federal income tax credits and net operating loss carry-forwards	(1,830,000)	—
Other	(68,000)	(4,000)
Total Deferred Tax (Benefit) Provision	$ (797,000)	$2,072,000

In 1985, the deferred tax benefit represents primarily the elimination of net deferred tax credits associated with tax benefits recognized.

THE BARDEN CORPORATION (OCT)

	1985	1984	1983
Earnings before income taxes	$9,186,023	$7,121,557	$7,044,013
Provision for income taxes	3,651,782	2,553,537	3,165,176
Net earnings	$5,534,241	$4,568,020	$3,878,837

NOTES TO FINANCIAL STATEMENTS

Note G—The components of earnings before income taxes were as follows:

	1985	1984	1983
Domestic	$5,965,203	$6,617,703	$7,072,581
Foreign	3,220,820	503,854	(28,568)
	$9,186,023	$7,121,557	$7,044,013

Income tax provisions were as follows:

	1985	1984	1983
Current:			
United States	$2,037,110	$1,985,000	$2,535,000
Foreign	405,496	265,724	77,888
State	459,000	420,000	444,500
	2,901,606	2,670,724	3,057,388
Deferred:			
United States	198,200	(100,500)	264,300
Foreign	551,976	(16,687)	(156,512)
	750,176	(117,187)	107,788
	$3,651,782	$2,553,537	$3,165,176

Provisions for U.S. income taxes have been reduced by investment tax credits of approximately $307,000 (1985), $208,000 (1984) and $134,000 (1983).

Deferred tax provisions related to the following timing differences:

	1985	1984	1983
Domestic International Sales Corporation		$(525,000)	$ 61,000
Accelerated Depreciation	$374,000	286,522	227,837
U.K. Capital Gains Tax	372,046		
Other—Net	4,130	121,291	(181,049)
	$750,176	$(117,187)	$ 107,788

A reconciliation of the statutory U.S. income tax rate and the effective income tax rates is as follows:

	1985	1984	1983
Statutory rate	46.0%	46.0%	46.0%
State income taxes, net of U.S. income tax benefit	2,7	3.2	3.4
U.K. capital gains tax benefit	(6.7)		
Investment Tax Credit	(3.3)	(2.9)	(1.9)
Tax exempt interest	(1.0)	(2.5)	(1.2)
Reversal of deferred taxes on undistributed earnings of DISC		(7.4)	
Miscellaneous	2.1	(.5)	(1.4)
	39.8%	35.9%	44.9%

The 1984 income tax provision reflects the reversal of $525,000 of deferred taxes provided in prior years on the undistributed earnings of the Company's DISC which, as a result of the Tax Reform Act of 1984, were free from tax.

McDONNELL DOUGLAS CORPORATION (DEC)

	1985	1984	1983
	Dollar amounts in millions		
Costs and Expenses			
Cost of products and services	$ 9,415.1	$7,885.4	$6,753.5
Research and development	423.1	370.4	301.2
General and administrative	1,191.2	1,069.6	792.7
Interest and debt expense	95.1	61.9	10.0
Income taxes	195.6	148.4	160.5
	11,320.1	9,535.7	8,017.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollar amount in millions, except share data

Summary of Accounting Policies (In Part):

Income Taxes. United States and foreign income taxes are computed at current tax rates on reported earnings, less investment and other tax credits. Adjustments to such tax computations are made currently for all items whose income tax treatment creates a permanent difference between taxable income and reported income, but are not made for items that create only timing differences between fiscal periods.

The investment tax credits arising from commercial aircraft tooling and leased aircraft are deferred and amortized as reductions of income tax provisions, and all other credits are recorded in the current period. The undistributed earnings of foreign subsidiaries are considered to be permanently invested; accordingly, no provisions are made for taxes which would become payable upon the distribution of such earnings as a dividend to MDC. MDC files a consolidated return for federal and certain state income taxes, and dividends from subsidiaries included therein are not subject to income tax.

Income Taxes

Provisions for income taxes were at an effective rate of approximately 36% (31% in 1984 and 37% in 1983), which is less than the United States corporate rate of 46%, and the underlying causes of this difference and their effect on the income tax provisions are shown below:

Years Ended 31 December	1985	1984	1983
Pro forma income tax computed at U.S. corporate rates on pretax earnings	$249.0	$217.9	$200.3
State income taxes net of federal tax benefit	22.3	12.3	10.2
	271.3	230.2	210.5
Less:			
Tax effect of permanent differences:			
Net earnings of MDFC	13.7	18.6	9.3
Export tax-exempt income	18.9	27.8	15.0
Other—net	1.4	(2.1)	4.5
Tax rate differentials	(1.7)	.9	(3.4)
Tax credits	43.4	36.6	24.6
	75.7	81.8	50.0
Income tax provision	$195.6	$148.4	$160.5

At 31 December 1985, the undistributed earnings of foreign subsidiaries which would be taxable under the Internal Revenue Code if distributed, but for which no provision for income taxes has been provided, amounted to $111.0 million.

Taxable income is determined for all long-term contracts using the completed contract method, and the difference between the methods used to determine income from long-term contracts for tax reporting and the financial statements is treated as a timing difference and is the principal factor underlying the deferred tax liability. The tabulation below presents a summary of the factors (estimated for 1985 and restated for 1984 and 1983 to the amounts shown on the tax returns filed) that contributed to the differences between the income taxes payable for the year and provisions for such taxes.

Years Ended 31 December	1985	1984	1983
United States corporation income taxes:			
Current taxes:			
Tax for consolidated group	$ 9.5	$	$ 3.1
Net credit for unconsolidated subsidiaries for effect of including their operations in consolidated return	66.6	63.5	54.8
	76.1	63.5	57.9
Deferred taxes:			
Net effect of timing differences:			
Uncompleted contracts	100.1	132.2	30.3
Other inventory valuations	10.9	16.0	(37.0)
DISC deemed dividends	(4.9)	(47.7)	9.4
State income taxes	(16.3)	(1.9)	(5.9)
Tax credit carryovers	(52.1)	(56.8)	59.0
Contribution carryover	8.3	(14.7)	
Tax benefits sold	13.8	7.9	2.6
ACRS	19.9	15.8	2.7
Other	(11.1)	7.8	17.8
	68.6	58.6	78.9
Investment tax credits deferred, less amortization	(1.0)	(.6)	(.9)
	143.7	121.5	135.9
Deferred foreign income taxes	10.6	4.2	5.7
State income taxes:			
Current	10.2	(6.7)	34.8
Deferred	31.1	29.4	(15.9)
	41.3	22.7	18.9
Income tax provision	$195.6	$148.4	$160.5

At 31 December 1985, expected reductions of approximately $309.7 million in future tax payments from carryforward of the 1984 net operating loss, and approximately $208.8 million from unused investment tax and other credits, were reflected as reductions of the deferred tax liability. All of these carryforwards may be used to reduce taxes otherwise payable through 1996; however, if not used, varying amounts of these credits will expire each year thereafter through 2000.

MDC's foreign operations which directly result in measurable foreign pretax earnings are not significant. The provision for foreign income taxes is based principally upon taxable intercompany sales and earnings that are eliminated in consolidation. These foreign operations consist of the manufacture of components used in domestic production, export marketing activities and technical, training, and support services related to exported products or to foreign licensing agreements.

THE RYMER COMPANY (OCT)

	1985	1984	1983
	(in thousands of dollars)		
Earnings from continuing operations before income taxes and extraordinary item	$9,181	$6,745	$ 97
Charge equivalent to provision for income taxes	4,723	3,550	45
Earnings from continuing operations before extraordinary item	4,458	3,195	52
Discontinued operations:			
Loss from discontinued operations, net of applicable income tax credit equivalent of $45,000 in 1983			(3,194)
Loss on disposals of discontinued operations			(3,520)
Loss from discontinued operations			(6,714)
Earnings (loss) before extraordinary item	4,458	3,195	(6,662)
Extraordinary item resulting from income tax benefit from utilizing net operating loss carryforward	4,248	3,300	
Net earnings (loss)	$8,706	$6,495	$(6,662)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Income Taxes

No Federal income taxes were paid during 1985 or 1984. Federal income taxes paid in 1983 and state income taxes paid in 1985, 1984 and 1983 were not significant. The 1985 and 1984 charges equivalent to provision for income taxes are offset to the extent of Federal income taxes by the extraordinary items resulting from income tax benefits of utilizing net operating loss carryforwards. The remaining portions of the 1985 and 1984 charges equivalent of $475,000 and $250,000, respectively, represent the current provision for state income taxes. The charge equivalent represents a 51.4% and 52.6% effective rate for the years ended October 26, 1985 and October 27, 1984, respectively, which differs from the statutory Federal rate of 46% due principally to the effect of nondeductible amortization of the excess investment over net assets acquired (3.6% and 4.2% for the 1985 and 1984 fiscal years, respectively). The 1983 charge equivalent to provision for income taxes on continuing operations was computed based on the statutory Federal rate of 46%.

The Company's Federal income tax returns are subject to review by the Internal Revenue Service, the results of which cannot be predicted with certainty. At October 26, 1985, the Company has operating loss carryforwards for tax reporting purposes approximating $45,000,000 (expiring $700,000 in 1992; $9,300,000 in 1993; $7,700,000 in 1994; $9,400,000 in 1995; $2,500,000 in 1996; $1,600,000 in 1997; $12,700,000 in 1998; and $1,100,000 in 2000) which are available to offset future Federal taxable income. Operating loss carryforwards on a book basis are approximately $23,000,000 at October 26, 1985. The variance between the operating loss carryforwards on a tax basis and a book basis is due principally to additional tax deductions as a result of an election made by the Company regarding the RCI acquisition under the Internal Revenue Code Section 338.

WANG LABORATORIES, INC. (JUN)

(Dollar amounts in millions except per share data)	1985	1984	1983
Earnings (Loss) Before Income Taxes..	$(54.5)	$261.2	$189.7
Provision (Credit) for Income Taxes ...	(70.0)	51.0	37.7
Net Earnings	$ 15.5	$210.2	$152.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Income Taxes—The provision for income taxes includes amounts currently payable and deferred income taxes arising primarily from different tax and financial statement accounting for certain lease arrangements, spare parts, and from the use of more accelerated depreciation methods for tax purposes. Investment credits are accounted for by the flow-through method. The Company does not provide U.S. Federal income taxes on the undistributed earnings of its foreign subsidiaries since it intends to permanently reinvest these earnings in the growth of the business outside the United States.

Note I—Income Taxes

	1985	1984	1983
Provisions (credits) for income taxes consisted of the following (in millions):			
Current payable:			
Federal	$ 10.0	$ 2.6	$ (6.2)
Foreign	11.0	14.7	7.2
State	5.0	3.7	3.7
	26.0	21.0	4.7
Deferred—principally federal	(96.0)	30.0	33.0
	$ (70.0)	$ 51.0	$ 37.7

	1985	1984	1983
Deferred taxes resulted from the following (in millions):			
Difference between tax and financial statement accounting for:			
Certain customer lease transactions	$ (5.1)	$ 27.6	$ 33.8
Spare parts	20.0	59.0	
Depreciation	7.0	8.3	9.3
Domestic International Sales Corporation	(16.1)	5.2	1.2
Other	2.1	4.3	3.7
Reduction of deferred taxes resulting from recognition of tax loss and tax credit carryforwards	(103.9)	(74.4)	(15.0)
	$ (96.0)	$ 30.0	$ 33.0

	1985	1984	1983
The components of earnings (loss) before income taxes consisted of the following (in millions):			
United States	$(161.7)	$173.2	$123.2
Foreign	107.2	88.0	66.5
	$ (54.5)	$261.2	$189.7

The provision for income tax differed from the amount computed by applying the statutory federal income tax rate due to the following (in millions):			
Federal income taxes at 46%	$ (25.1)	$120.2	$87.2
State income taxes, net of federal income tax benefit	3.0	2.4	2.1
Effect of earnings of Puerto Rico manufacturing subsidiary subject to lower tax rate	(11.0)	(14.4)	(11.0)
Effect of earnings of Ireland and Taiwan manufacturing subsidiaries subject to lower tax rate	(24.0)	(27.2)	(17.7)
Effect of earnings of DISC/FSC subsidiaries subject to lower tax rate	(3.5)	(8.1)	(5.3)
Research and development tax credits	(8.0)	(12.5)	(8.5)
Investment tax credits	(8.3)	(12.0)	(11.2)
Other—net	6.9	2.6	2.1
Total Provision	$ (70.0)	$ 51.0	$ 37.7

A portion of the earnings of the Company's domestic manufacturing subsidiary in Puerto Rico are exempt from tax under two industrial tax exemption grants from the Commonwealth of Puerto Rico. One grant currently exempts 75% of the earnings attributable to the manufacture of the products under that grant until 1989, reducing to 65% until 1994. The second grant currently exempts 90% of the income attributable to the manufacture of certain products, reducing to 75% in 1988 and 65% in 1993. Income from products manufactured in Ireland for export is substantially exempt from Irish tax through 1990. Income from products manufactured in Taiwan is substantially exempt from Taiwanese tax due to tax exemptions granted with respect to specific products. Total offshore manufacturing exemptions reduced income tax expense and increased net earnings by approximately $35.0 million ($.25 per share) in 1985, $41.6 million ($.30 per share) in 1984, and $28.7 million ($.22 per share) in 1983.

Distribution of retained earnings of foreign subsidiaries ($280.0 million) on which income taxes have not been provided would result in federal income taxes, net of foreign tax credits, of $85.0 million at June 30, 1985.

At June 30, 1985, certain foreign subsidiaries had available net operating loss carryforwards of approximately $19.9 million which are available to offset their future taxable income. These loss carryforwards expire as follows (in millions): $2.8 in 1986, $3.0 in 1987, $.6 in 1988, $1.0 in 1989 and $12.5 in subsequent years.

The IRS has recently completed its routine examination of the Company's federal tax returns for the years ended 1979–1983 and has proposed adjustments. The Company will contest certain of those adjustments and believes that adequate accruals have been provided for all years.

WHITTAKER CORPORATION (OCT)

	1985	1984	1983
	(Dollar amounts in thousands)		
Income (loss) before provision for taxes	$(14,761)	$85,354	$65,471
Provision for taxes (Note 6)	10,621	41,484	27,862
Benefit of tax credits allowed (Note 6)	(45,249)	—	—
Net income	$19,867	$43,870	$37,609

Note 6. Income Taxes

The following is a summary of the federal, foreign and state income tax provisions:

Year ended October 31 (Dollars in thousands)	1985	1984	1983
Components of the provision—			
Federal	$(37,765)	$15,076	$11,233
Foreign	2,620	24,562	14,212
State	1,519	2,690	3,246
Investment tax credit (flow-through method)	(1,002)	(844)	(829)
	$(34,628)	$41,484	$27,862
Classification of the provision—			
Current	$(32,231)	$40,595	$31,854
Deferred	(2,397)	889	(3,992)
	$(34,628)	$41,484	$27,862

The "Components of the provision—Foreign" represents foreign income taxes on earnings of foreign operations. Whittaker accrues United States income taxes on all earnings of foreign subsidiaries where both the foreign income tax rates are lower than United States rates and such earnings are intended to be remitted to Whittaker. Whittaker has no present intention to repatriate the accumulated earnings of certain foreign subsidiaries. Should such accumulated earnings be repatriated, the resulting additional taxes (based upon current tax rates and reduced by credits for foreign taxes paid) would approximate $400,000 at October 31, 1985.

Domestic income (including income from foreign operations which is taxable in the United States but excluding such income to the extent that the United States tax thereon is offset by foreign tax credits) of $2,263,000, $31,036,000 and $35,499,000 for 1985, 1984 and 1983, respectively, is included in "Income before provision for taxes."

The provision for deferred income taxes resulting from timing differences is comprised of the following:

(Dollars in thousands)	1985	1984	1983
Depreciation	$1,877	$7,120	$6,789
Warranty and other accrued liabilities	789	(2,124)	(8,575)
Inventory and other assets	(771)	7,239	(8,382)
Unremitted earnings of subsidiaries	(3,376)	(9,605)	5,521
Other items	(916)	(1,741)	655
	$(2,397)	$ 889	$(3,992)

The tax provisions for 1985, 1984 and 1983 are different from amounts computed by applying the U.S. statutory rate to income before provision for taxes. The reasons for these differences are as follows:

(Dollars in thousands)	1985	1984	1983
Expected tax provision	$ (6,790)	$39,263	$30,116
State taxes, net of Federal income tax benefit	821	1,453	1,753
Dividend exclusion	(1,403)	(3,705)	(3,173)
Investment tax credit	(1,002)	(844)	(829)
Capital loss for which tax benefit is not currently available	4,965	2,770	—
Goodwill write-off not deductible for tax purposes	5,561	2,484	—
Translation loss not deductible for tax purposes	8,026	—	—
Benefits associated with tax credits arising out of foreign operations	(45,249)	—	—
Other items	443	63	(5)
Actual tax provision	$(34,628)	$41,484	$27,862

Noncurrent deferred income taxes in years prior to 1983 were included in "Income taxes payable" on the consolidated balance sheet.

In August 1985, the Company was advised by the Internal Revenue Service of the allowance of certain tax credits previously disallowed. Accordingly, the income statement for fiscal 1985 reflects the $45,249,000 benefit of these credits.

INVESTMENT CREDIT

The Internal Revenue Code generally permits a credit of up to 10% against Federal income taxes on the cost of certain depreciable assets purchased and placed in service during the tax year. Similar credits up to an additional 1% to 1.5% are allowed for corporate contributions to an ESOP (Employee Stock Ownership Plan). As required by the Revenue Act of 1971, once an accounting method has been adopted for the investment credit, no change can be made without the consent of the Secretary of the Treasury or his delegate. Treasury releases issued subsequent to the enactment of the Revenue Act of 1971 stipulate that only the flow-through or deferral method be used to account for the investment credit. The proposed tax bill of 1986 would repeal the investment credit as of January 1, 1986.

Table 3-13 shows that the survey companies usually use the flow-through method to account for the investment credit. Examples of disclosures of the accounting for the investment credit follow.

TABLE 3-13: INVESTMENT TAX CREDIT

	1985	1984	1983	1982
Flow-through method	540	543	541	537
Deferral method	49	48	50	54
No reference to investment credit	11	9	9	9
Total Companies	**600**	**600**	**600**	**600**

Flow-Through Method

ARCHER DANIELS MIDLAND COMPANY (JUN)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes

Investment tax credits are recorded under the flow-through method of accounting as a reduction of the current provision for federal income taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Income Taxes

Income tax expense consists of:

	1985	1984	1983
		(In thousands)	
Federal	$ 67,448	$15,896	$20,115
State	7,435	7,314	8,033
Deferred	42,818	37,027	30,185
Investment credit	(12,649)	(13,164)	(10,362)
	$105,052	$47,073	$47,971

CROWN ZELLERBACH (DEC)

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Taxes

Investment and energy tax credits are reflected in income using the flow-through method.

Income Taxes (In Part)

Investment and energy tax credits included in the income tax provision were $12.5 million in 1985, $21.5 million in 1984 and $17.8 million in 1983.

At December 31, 1985, the Company had net operating loss carryforwards for tax purposes of $136 million expiring in the year 2000, and investment and other tax credit carryforwards of $103 million expiring in 1995 through 2000. These carryforwards have been recognized for financial reporting purposes.

GENERAL MILLS, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note One (In Part): Summary of Significant Accounting Policies

G. Income Taxes

Income taxes include deferred income taxes, which result from timing differences between earnings for financial reporting and tax purposes. Investment tax credits are reflected as reductions of income taxes in the year eligible purchases are placed in service.

Note Thirteen (In Part): Income Taxes

The components of continuing operations' earnings before income taxes and the income taxes thereon are as follows:

(In Millions)	Fiscal Year 1985	1984	1983
Earnings before income taxes:			
U.S.	$181.0	$334.5	$242.0
Outside U.S.	14.9	22.1	26.2
Total earnings before income taxes	$195.9	$356.6	$268.2
Income taxes:			
Current:			
Federal taxes	$ 95.7	$161.9	$ 66.8
U.S. investment tax credit	(10.1)	(10.3)	(11.6)
State and local taxes	8.2	12.1	11.7
Foreign taxes	6.1	7.4	12.8
Total current income taxes	99.9	171.1	79.7
Deferred income taxes (principally U.S.)	(19.4)	(17.2)	26.4
Total income taxes	$ 80.5	$153.9	$106.1

NATIONAL SERVICE INDUSTRIES, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Income Taxes

The following summarizes the components of income tax expense:

	1985	1984	1983
		(In thousands)	
Provision for current taxes	$31,461	$19,697	$18,654
Provision (credit) for deferred taxes:			
Current—			
Tax effect of linen book amortization greater than tax amortization	(2,925)	(4,389)	(9,402)
Noncurrent—			
Safe harbor lease	11,648	16,286	24,108
Other, primarily tax effect of book depreciation of fixed assets (greater) less than tax depreciation	3,816	6,206	(3,760)
	$44,000	$37,800	$29,600

Income taxes are reconciled with the Federal statutory rate as follows:

	1985	1984	1983
		(In thousands)	
Federal income tax computed at statutory rate	$51,364	$45,681	$39,088
Increase (decrease) in taxes:			
State income tax, net of Federal income tax benefit	1,895	1,298	1,036
Investment tax credits	(7,808)	(7,270)	(7,242)
Other, net	(1,451)	(1,909)	(3,282)
	$44,000	$37,800	$29,600

Investment tax credits, excluding those arising under safe harbor leases, are recorded as reductions in the provision for income taxes in the year the property is placed in service.

Deferral Method

BROWNING-FERRIS INDUSTRIES, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Deferred items. The Company uses the deferral method of accounting for the investment tax credit. For the three years ended September 30, 1985, the total estimated investment tax credits of $9,715,000 for 1985, $5,901,000 for 1984 and $4,957,000 for 1983 were deferred and are being amortized over the estimated useful lives of the assets acquired. At September 30, 1985, $23,786,000 of investment tax credit remained unamortized.

Deferred income taxes result from differences in the timing of the recognition of certain revenue and expense items for income tax and financial reporting purposes. The balances in the deferred income tax account for the three years ended September 30, 1985, including the unamortized investment credit, were $65,107,000 for 1985, $61,546,000 for 1984 and $53,388,000 for 1983. The remaining deferred items consist of accrued non-current landfill closure and postclosure costs.

12 (In Part): Income Taxes

The components of income tax expense are as follows:

	Federal	Foreign	State and Local	Total
1985:				
Current	$76,956	$5,428	$12,652	$95,036
Deferred	$ (248)	$ 606	$ 210	$ 568
Amortization of investment tax credit	$(6,663)	$ —	$ —	$(6,663)
1984:				
Current	$53,835	$4,688	$10,081	$68,604
Deferred	$ 7,563	$1,051	$ 853	$ 9,467
Amortization of investment tax credit	$(5,703)	$ —	$ —	$(5,703)
1983:				
Current	$53,965	$4,094	$ 8,508	$66,567
Deferred	$ 1,609	$2,918	$ 71	$ 4,598
Amortization of investment tax credit	$(5,179)	$ —	$ —	$(5,179)

GENERAL MOTORS CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Income Taxes

Investment tax credits are generally deferred and amortized over the lives of the related assets (the "deferral method"). In 1985, Electronic Data Systems Corporation changed its method of accounting for investment tax credits from the flow-through method to the deferral method used by the Corporation. The effect of the change was to reduce 1985 earnings attributable to Class E common stock by $0.41 per share and defer the recognition to earnings attributable to Class E common stock in future years. The tax effects of timing differences between pretax accounting income and taxable income (principally related to depreciation, sales and product allowances, vehicle instalment sales, and benefit plans expense) are deferred. Provisions are made for estimated United States and foreign taxes, less available tax credits and deductions, which may be incurred on remittance of the Corporation's share of subsidiaries' undistributed earnings less those deemed to be permanently reinvested. Possible taxes beyond those provided would not be material.

Note 8 (In Part): United States, Foreign and Other Income Taxes

(Dollars in Millions)	1985	1984	1983
Taxes estimated to be payable currently:			
United States Federal	$1,465.4	$1,151.7	$ 254.4
Foreign	287.3	662.5	146.0
State and local	147.9	140.1	126.0
Total	1,900.6	1,954.3	526.4
Taxes deferred—net:			
United States Federal	(386.7)	8.3	1,241.3
Foreign	54.9	(170.6)	192.7
State and local	(4.6)	32.1	142.0
Total	(336.4)	(130.2)	1,576.0
Investment tax credits deferred—net:			
United States Federal	49.0	(15.1)	47.7
Foreign	17.1	(3.9)	73.7
Total	66.1	(19.0)	121.4
Total taxes	$1,630.3	$1,805.1	$2,223.8

Investment tax credits entering into the determination of taxes estimated to be payable currently amounted to $427.6 million in 1985, $311.6 million in 1984 and $406.2 million in 1983.

TAXES ON UNDISTRIBUTED EARNINGS

APB Opinion No. 23 stipulates that income taxes should be accrued for undistributed earnings of subsidiaries and corporate joint ventures included in consolidated earnings and that such accruals should be accounted for as timing differences. If there is evidence that the undistributed earnings of a subsidiary or corporate joint venture will not be transferred to the investor, income taxes should not be accrued, but disclosures should be made as to the reasons for not accruing taxes (earnings will be reinvested or remitted in the form of a tax-free liquidation) and as to the cumulative amount of undistributed earnings. With regard to the undistributed earnings of other investees which are included in consolidated earnings, *APB Opinion No. 24* stipulates that income taxes should be accrued and treated as a timing difference.

An *AICPA Accounting Interpretation of Opinion No. 23*, published in the March 1973 issue of *The Journal of Accountancy*, discusses disclosure of untaxed undistributed earnings of subsidiaries. The interpretation states in part:

> Care should be exercised in drafting the footnote required by paragraph 14-b of *APB Opinion No. 23* so that readers may be fully apprised of tax implications of unremitted earnings of subsidiaries. The following is illustrative.
>
> "It is the policy of the Company to accrue appropriate U.S. and foreign income taxes on earnings of subsidiary companies which are intended to be remitted to the parent company in the near future. Unremitted earnings of subsidiaries which have been, or are intended to be, permanently reinvested (disclosure of purpose), exclusive of those amounts which if remitted in the near future would result in little or no such tax by operation of relevant statutes currently in effect, aggregate $ at December 31, 1972."

Table 3-14 shows the extent to which the survey companies accrued taxes on undistributed earnings.

TABLE 3-14: TAXES ON UNDISTRIBUTED EARNINGS

	1985	1984	1983	1982
Taxes accrued on all undistributed earnings..........	25	16	26	28
Taxes accrued on a portion of undistributed earnings.	128	136	158	139
Taxes not accrued on undistributed earnings..........	217	247	229	244
No mention of undistributed earnings	230	201	187	189
Total Companies	**600**	**600**	**600**	**600**

Taxes Accrued On All Undistributed Earnings

COOPER INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Major Accounting Policies

Income Taxes

Income tax expense includes United States and foreign income taxes, including United States Federal taxes on undistributed earnings of foreign subsidiaries. To the extent that income for financial and tax purposes is not the same due to differences in the timing of certain reported items, principally depreciation, deferred taxes are provided in the consolidated financial statements. Investment tax credits and other permanent differences are included in the calculation of income tax expense currently.

Note 8 (In Part): Income Taxes

	Year Ended December 31, 1985	1984	1983
	(000 omitted)		
Income before income taxes:			
United States operations	$206,146	$161,093	$106,645
Foreign...........................	52,022	48,289	33,806
Income before income taxes	$258,168	$209,382	$140,451

The Company's income tax provision includes the elements shown below. The U.S. Federal portion of the provision includes U.S. tax expected to be payable on the foreign portion of the Company's income before income taxes when such earnings are remitted. Through December 31, 1985, the Company has provided such tax on essentially all unremitted earnings of its consolidated foreign subsidiaries.

	Year Ended December 31, 1985	1984	1983
	(000 omitted except percentages)		
Income taxes:			
Currently payable:			
U.S. Federal..................	$ 55,893	$ 55,594	$25,275
U.S. state and local	12,755	10,876	8,542
Foreign........................	23,813	19,736	13,221
	92,461	86,206	47,038
Deferred:			
U.S. Federal..................	30,940	16,093	21,897
Foreign........................	(313)	219	347
	30,627	16,312	22,244
Income taxes..............	$123,088	$102,518	$69,282

DRESSER INDUSTRIES, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Summary of Significant Accounting Policies

Taxes

Deferred income taxes are provided for timing differences between income and expenses reported for financial statement purposes and tax purposes and for Federal income taxes payable on the earnings of foreign subsidiaries.

Investment tax credits are reflected as reductions of income tax expense in the years in which such credits arise.

Note G (In Part): Income Taxes

The following is a reconciliation of income taxes based on the U.S. Federal income tax rate to the income taxes reflected in the Consolidated Statements of Earnings (in millions):

Years Ended October 31,	1985	1984	1983
Income taxes based on 46% U.S. Federal income tax rate	$ (96.2)	$58.4	$(37.5)
Investment tax credit	(4.4)	(3.9)	(10.2)
Foreign sales corporation	(3.0)	—	—
DISC earnings not subject to U.S. taxes	(.4)	(4.5)	(8.4)
Statutory depletion	(2.5)	(3.4)	(2.2)
Foreign earnings	5.3	2.3	1.4
Benefit of depreciation of property with no book value	(5.7)	—	—
Other	(2.6)	5.3	(.8)
Tax benefits not recognized subject to future realization	116.9	—	—
Total income taxes	$ 7.4	$54.2	$(57.7)

The deferred income tax provisions (credits) result from timing differences related to the following (in millions):

Years Ended October 31,	1985	1984	1983
Depreciation	$ (1.6)	$20.0	$ 7.7
Unrepatriated foreign earnings	13.3	(1.0)	(5.9)
Profit on long-term contracts	(3.8)	.1	(10.5)
Allowance for asset valuations	(48.8)	(8.7)	(20.9)
Pension liability	(7.5)	(1.4)	(17.5)
Other items including deferred compensation and warranty and insurance accruals	(16.2)	(1.7)	(7.2)
Tax benefits not recognized subject to future realization	56.9	—	—
	$ (7.7)	$ 7.3	$(54.3)

Taxes Accrued on Portion of Undistributed Earnings

ABBOTT LABORATORIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

(dollars in thousands)

Income Taxes—Provisions are made for the estimated amount of income taxes on reported earnings which are payable currently and in the future. Investment tax credits are deferred and amortized over the estimated lives of the related assets. U.S. income taxes are provided on the earnings of subsidiaries, including subsidiaries operating in Puerto Rico under tax incentive grants, which are intended to be remitted to the parent company. Undistributed earnings reinvested indefinitely in subsidiaries as working capital and plant and equipment aggregated $283,000 at December 31, 1985.

BAKER INTERNATIONAL CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Income Taxes:

The sources and the amounts of deferred taxes for the three years ended September 30, 1985 were as follows:

In thousands of dollars	1985	1984	1983
Depreciation expense	$23,311	$28,051	$36,576
United States income tax on:			
Foreign earnings	9,660	4,352	6,188
DISC earnings	1,511	(13,934)	(18,543)
Tax carryforwards (foreign tax, investment credit, etc.)	(21,621)	(16,343)	
Inventory valuations—net	2,221	(4,464)	1,135
Unusual charges (Note 7)	13,805	7,802	(77,457)
Original issue discount	4,566	5,403	6,228
Accrued liabilities and allowances	6,533	(8,317)	(3,046)
Other—net	4,791	899	7,193
Total deferred tax provision (credit)	$44,777	$ 3,449	$(41,726)

Prior to fiscal 1983, the Company fully provided deferred income taxes on DISC earnings. During 1983, the Company determined a substantial portion of these earnings would be permanently reinvested and therefore not subject to tax in the foreseeable future. Accordingly, in 1983 the Company restored to income $20,000,000 ($.29 per share) of previously recorded deferred tax liabilities relating to DISC earnings. The Tax Reform Act of 1984 effectively forgave income taxes on DISC earnings. Accordingly, in 1984 the Company restored to income $12,500,000 ($.18 per share), representing the remaining deferred tax liabilities relating to DISC earnings.

The Company accrues United States income taxes on foreign earnings expected to be repatriated in the foreseeable future. If such earnings are not repatriated during the forecast period, the taxes previously accrued are credited against the provision for United States income taxes on foreign earnings. Repatriation of all accumulated foreign earnings at September 30, 1985, 1984 and 1983 would have resulted in tax liabilities of approximately $96,814,000, $76,507,000, and $63,866,000, respectively, for which the Company has provided deferred tax liabilities of $46,651,000, $36,365,000, and $32,083,000, respectively.

At September 30, 1985, the Company has approximately $25,600,000 in foreign tax credits and $8,000,000 in investment tax credits available to offset future payments of federal income taxes. The foreign tax credits expire as follows: $6,400,000 in 1988, $8,900,000 in 1989 and $10,300,000 in 1990. The investment tax credits expire in varying amounts between 1997 and 2000.

FOSTER WHEELER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

(In Thousands of Dollars)

1 (In Part): Summary of Significant Accounting Policies

Income Taxes—Deferred income taxes are provided for timing differences between financial and taxable income.

Revenues on long-term contracts of several subsidiaries are determined on the completed contract basis for book and tax purposes and on the percentage-of-completion basis for financial reporting purposes. For Federal income tax purposes, accelerated methods of depreciation are used.

Provision is made for Federal income taxes which may be payable on foreign subsidiary earnings to the extent that the Corporation anticipates they will be remitted. Unremitted earnings of foreign subsidiaries which have been, or are intended to be, permanently reinvested (and for which no Federal income tax has been provided) aggregated $105,500 at December 27, 1985.

The provision for Federal income taxes for any year is reduced by investment tax credits for that year.

KIMBERLY-CLARK CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 4 (In Part): Income Taxes

Provisions for income taxes were as follows:

	Year Ended December 31		
(Millions)	1985	1984	1983
Current income taxes			
United States	$ 74.1	$ 57.8	$ 30.7
State	15.6	8.8	6.3
Other countries	42.1	28.6	25.8
Investment tax credits	(29.6)	(24.4)	(19.5)
	102.2	70.8	43.3
Deferred income taxes due to			
Depreciation			
United States	72.2	53.1	41.8
State	9.1	7.8	4.2
Other countries	(3.6)	1.8	(1.9)
Obsolescence Allowance			
United States	(3.5)	(8.9)	(4.0)
State	(.5)	(1.4)	(.4)
Other timing differences			
United States	9.8	1.3	14.1
Other	3.7	3.1	8.6
	87.2	56.8	62.4
Total	$189.4	$127.6	$105.7

As of December 31, 1985, income taxes for the U.S. and other countries have been provided on $29 million of unremitted net income of operations outside the U.S., which may be received as dividends. However, income taxes have not been provided on $543 million of unremitted net income which had been permanently invested as of December 31, 1985.

Income before income taxes included $80.0 million in 1985, $66.0 million in 1984 and $54.8 million in 1983 representing income from subsidiaries outside the U.S.

No Accrual for Taxes

AMOCO CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

15 (In Part): Taxes

Undistributed earnings of certain foreign subsidiaries aggregated $217 million on December 31, 1985, which, under existing law, will not be subject to U.S. tax until distributed as dividends. Since the earnings have been or are intended to be indefinitely reinvested in foreign operations, no provision has been made for any U.S. taxes that may be applicable thereto. Furthermore, any taxes paid to foreign governments on those earnings may be used, in whole or in part, as credits against the U.S. tax on any dividends distributed from such earnings.

BECTON, DICKINSON AND COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Income Taxes

The investment tax credit is recorded as a reduction of the current provision for income taxes. United States income taxes are not provided on substantially all undistributed foreign earnings since the Company reinvests such earnings in expanding foreign operations or has them remitted to the Company by means of tax free liquidations or utilization of available tax credits. At September 30, 1985, the cumulative amount of such undistributed foreign and Puerto Rico earnings approximated $349,000,000 against which United States tax free liquidation provisions and substantial tax credits are available.

CHAMPION SPARK PLUG COMPANY (DEC)

FINANCIAL REVIEW

Taxation (In Part)

Champion Spark Plug Company's share of its foreign subsidiaries' unremitted earnings for which no United States income tax has been provided total $77 million at December 31, 1985, $5 million of which was unavailable for distribution because of various local statutory restrictions. Appropriate income taxes have been provided on dividends which have been declared but not remitted. The Company considers the balance of accumulated unremitted earnings permanently invested and unavailable for distribution.

The Company treats foreign and investment tax credits as a reduction of the provision for federal and foreign income taxes in the year in which the credits are utilized.

The Internal Revenue Service has completed examinations of Champion and its domestic subsidiaries' income tax returns through 1979. It began examination of the 1980, 1981 and 1982 returns in 1984 and has not completed its examination.

EATON CORPORATION (DEC)

FINANCIAL REVIEW

Accounting Policies (In Part)

Income Taxes

Current federal income taxes are reduced by the investment tax credit using the flow-through method. Deferred income taxes are not provided for undistributed earnings of consolidated subsidiaries when such earnings are reinvested for an indefinite period of time by the subsidiaries.

Income Taxes (In Part)

At December 31, 1985, undistributed earnings of consolidated subsidiaries aggregated approximately $223 million, all of which has been reinvested by the subsidiaries. Approximately $181 million of such undistributed earnings relate to foreign subsidiaries, for which substantial foreign tax credits could be available to offset United States income taxes on future remittances of such undistributed earnings. The balance principally represents the undistributed earnings of domestic international sales corporations, which are nontaxable under current United States income tax laws.

At December 31, 1985, certain subsidiaries outside the United States had unused tax loss carryforwards, aggregating approximately $47 million, available for offset against taxable income of such subsidiaries. Carryforwards of approximately $28 million have no expiration dates and the balance expires at various dates through 1991. For financial statement purposes, unused loss carryforwards aggregated approximately $35 million which, if utilized, will reduce future financial statement income tax expense.

MOHASCO CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

3 (In Part)—Income Taxes

Additional taxes would be payable if undistributed earnings of the Mexican subsidiary were remitted as dividends. The amount of such taxes has not been calculated nor have any taxes been provided since these earnings have been reinvested for growth and expansion. The amount of unremitted earnings of the Mexican subsidiary at December 31, 1985 is $32,267,000.

The Internal Revenue Service has examined the Company's Federal income tax returns through December 31, 1982.

SCHOLASTIC INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands except shares and per share data)

7 (In Part): Income Tax Expense

It is the Company's intention to reinvest substantially all unremitted earnings of its subsidiaries where permitted by foreign jurisdictions and, therefore, no provision for taxes upon distribution of these earnings has been made. The undistributed earnings of subsidiaries that have been included in consolidated earnings through May 31, 1985, are approximately $11,762. The tax on any distribution of such earnings would be significantly reduced by foreign tax credits.

VARIAN ASSOCIATES, INC. (SEP)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Taxes on Earnings

The Company plans to continue reinvesting earnings of its non-U.S. subsidiaries to expand its international activities. Therefore, it makes no provision for additional U.S. taxes which might result from distribution of such earnings unless they are actually repatriated. In 1985, the Company repatriated $18.9 million of earnings from certain non-U.S. subsidiaries providing U.S. tax of $11.6 million and claiming foreign tax credits of $11.6 million. At fiscal year end 1985, 1984 and 1983, the cumulative amount of earnings from certain subsidiaries on which the Company has not provided U.S. income taxes was approximately $14 million, $10 million and $9 million, respectively.

The Company formed a Domestic International Sales Corporation (DISC) in 1972 and, as is the case with its non-U.S. subsidiaries, made no provision for U.S. taxes on its undistributed earnings. The Tax Reform Act of 1984 effectively forgave the income taxes on the undistributed earnings of the DISC and, thus, there was no impact on the Company's results from operations when the DISC ceased its exporting activities and distributed its earnings during 1985.

The Company formed a Foreign Sales Corporation (FSC) during 1985 to assist with its export activities. The Tax Reform Act of 1984 provides that a portion of the earnings of the FSC is taxable and provision has been made for those taxes.

LONG-TERM CONTRACTS

Accounting and disclosure requirements for long term contracts are discussed in *ARB No. 45*, Chapter 11 of *ARB No. 43* and AICPA *Statement of Position 81-1*.

Table 3-15 shows that usually, the percentage of completion method or a modification of this method, the unit of production method, is used to recognize revenue on long-term contracts. Examples of disclosures for long-term contracts follow.

TABLE 3-15: METHOD OF ACCOUNTING FOR LONG-TERM CONTRACTS

	1985	1984	1983	1982
Percentage-of-completion	101	98	97	98
Completed contract	9	9	10	10
Not determinable	3	2	2	1
Referring to long-term contracts	**113**	**109**	**109**	**109**
Not referring to such contracts	487	491	491	491
Total Companies	**600**	**600**	**600**	**600**

AIR PRODUCTS AND CHEMICALS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting for Revenues

Revenues from equipment and engineering and construction contracts are recorded primarily using the percentage-of-completion method. Under this method, revenues are recognized based on labor costs incurred to date compared with total estimated labor costs for equipment contracts, and on contract costs incurred to date compared with total estimated contract costs for engineering and construction contracts. Changes to total estimated labor or contract costs and anticipated losses, if any, are recognized in the period determined.

The engineering services business incurs costs directly related to projects. These costs are then billed to the customer. The company excludes these costs from reported sales.

ARVIN INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies:

Contract Revenue Recognition: Sales under short-term and long-term government and certain other contracts are recorded on the percentage of completion method. Under this approach, sales and gross margin are recognized as the work is performed, based on the ratio that incurred costs bear to estimated total completion costs. Provisions for anticipated losses are made in the period in which they first become determinable.

Unbilled charges are included as a part of accounts receivable and represent accrued fees and costs on contracts incurred to date, including allocated technical, general and administrative overhead, reduced by amounts identifiable with revenue recognized.

EMERSON ELECTRIC CO. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Long-Term Contracts

Income on long-term contracts, principally government and defense contracts, is recognized on the percentage-of-completion or unit-of-delivery basis. On contracts where the percentage-of-completion method is used, costs and estimated earnings in excess of progress billings are shown as a current asset. Unbilled costs on unit-of-delivery contracts are included in inventory. Payments received in excess of costs incurred on long-term contracts are shown as a current liability.

FISCHBACH CORPORATION (SEP)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition—The companies generally follow the completed contract method of reporting income from contracts and provide for estimated losses on uncompleted contracts.

Contracts entered into by the companies generally provide that billings are to be made monthly in amounts which are commensurate with the extent of performance under contracts. In the normal course of business, the companies do not bill or receive compensation under the contracts in advance of performance. Accordingly, the amounts included in the accompanying consolidated balance sheets as "Billings in Excess of Costs on Uncompleted Contracts" generally do not represent a liability for future performance. Rather, they consist principally of the accumulated estimated gross profit on related uncompleted contracts to date of billing which, under the companies' method of accounting, will not be recognized as income until the contracts are completed. "Billings in Excess of Costs on Uncompleted Contracts" neither includes nor represents the estimated gross profit on all uncompleted contracts in process. Based upon current tax rates, Federal income taxes applicable to "Billings in Excess of Costs on Uncompleted Contracts" would be approximately $30,250,000 at September 30, 1985 and $23,450,000 at September 30, 1984.

GENERAL DYNAMICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Sales and Earnings Under Long-Term Contracts. Substantially all long-term contracts are accounted for under the percentage-of-completion method wherein sales and estimated earnings are recognized as work is performed.

Rates used for recording sales and earnings are adjusted prospectively, based upon revisions in contract value and estimated cost at completion. Estimated losses are recorded in full when identified.

GOULD INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies

Long-Term Contracts: Long-term contracts in process are accounted for primarily on a percentage-of-completion method whereby, based upon the work performed, estimated sales values and estimated costs (including general and administrative costs) are recognized in earnings. These estimates are reviewed and revised periodically throughout the lives of the contract and adjustments are made to current period earnings for the cumulative effect of the revision. When a current contract estimate indicates a loss, provision is made for the total anticipated loss. Accordingly, contracts in progress are stated at cost plus estimated profit, but not in excess of realizable value.

GRUMMAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

Sales Under U.S. Government Contracts

Sales under fixed-price production contracts are recorded at the time of delivery. Sales, including fees earned, under cost-reimbursement and research, development, test and evaluation contracts are recorded as costs are incurred.

Certain contracts contain cost and/or performance incentives. Such incentives are included in sales at the time actual performance can be related to the target and the earned amount can be reasonably determined. Accordingly, earnings recorded in one period may include adjustments related to sales recorded in a prior period. Losses on contracts are recorded when they become known.

HARSCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. (In Part): Summary of Significant Accounting Policies:

Long-term Defense Contracts:

Defense contracts are accounted for under the percentage of completion (unit-of-delivery) method, whereby sales and estimated average cost of the units to be produced under a contract are recognized as deliveries are made or accepted. Inventoried costs include factory overhead, general and administrative expenses, initial tooling and other related costs.

MARTIN MARIETTA CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies

Revenues Recognition Sales under long-term contracts generally are recognized under percentage-of-completion methods and include a proportion of the earnings expected to be realized on the contract in the ratio that costs incurred bear to estimated total costs. Sales are recorded on cost-type contracts as costs are incurred and on fixed-price-type contracts when deliveries are made or work is performed. Contracts in progress are reviewed quarterly, and sales and earnings are adjusted in current accounting periods based on revisions in contract value and estimated costs at completion. Performance incentives are incorporated in certain contracts and are recognized when incentives are earned or awarded or penalties are incurred or assessed. Provisions for estimated losses on contracts are recorded when identified.

Other sales are recorded upon shipment of products or performance of services.

PORTEC, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Long-term contracts—Sales and earnings on long-term automated systems contracts are stated on the percentage-of-completion method, based on costs incurred in relation to total estimated costs. The Company reports such earnings on the completed contract method for income tax purposes.

TEXTRON INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Long-term contracts and programs

Sales under fixed price contracts and programs are generally recorded as deliveries are made. Sales under cost reimbursement-type contracts are recorded as costs are incurred and fees are earned. Profits expected to be realized on long-term contracts and programs are based on estimates of total sales value and cost at completion, which estimates are reviewed and revised periodically throughout the lives of the contracts and programs. Adjustments to profits resulting from such revisions are recorded in the accounting period in which the revisions are made. Estimated losses on contracts and programs are recorded when identified.

DISCONTINUED OPERATIONS

Paragraph 8 of *APB Opinion No. 30* states:

Discontinued Operations of a Segment of a Business. For purposes of this Opinion, the term *discontinued operations* refers to the operations of a segment of a business as defined in paragraph 13 that has been sold, abandoned, spun off, or otherwise disposed of or, although still operating, is the subject of a formal plan for disposal (see paragraph 14). The Board concludes that the results of continuing operations should be reported separately from discontinued operations and that any gain or loss from disposal of a segment of a business (determined in accordance with paragraphs 15 and 16) should be reported in conjunction with the related results of discontinued operations and not as an extraordinary item. Accordingly, operations of a segment that has been or will be discontinued should be reported separately as a component of income before extraordinary items and the cumulative effect of accounting changes (if applicable) in the following manner:

Income from continuing operations before income taxes	$xxx	
Provision for income taxes	xxx	
Income from continuing operations		$xxx
Discontinued operations (Note—):		
Income (loss) from operations of discontinued Division X (less applicable income taxes of $—)	$xxx	
Loss on disposal of Division X, including provision of $— for operating losses during phaseout period (less applicable income taxes of $—)	xxx	xxx
Net income		$xxx

Amounts of income taxes applicable to the results of discontinued operations and the gain or loss from disposal of the segment should be disclosed on the face of the income statement or in related notes. Revenues applicable to the discontinued operations should be separately disclosed in the related notes.

An *AICPA Accounting Interpretation* published in the November 1973 issue of the *Journal of Accountancy* provides illustrations of transactions which should and should not be accounted for as a business segment disposal. These examples are reprinted in Section I 13 of *FASB Accounting Standards—Current Text*.

In 1985, 93 survey companies discontinued the operations of a business segment. Examples of discontinued operations accounted for as a disposal of a business segment follow.

Disposals of Segments

AMERICAN CYANAMID COMPANY (DEC)

	1985	1984	1983
	(Millions of dollars)		
Earnings From Continuing Operations	$120.2	$198.3	$153.5
Discontinued Operations (Note 2):			
Earnings (after taxes of $6.4, $12.7 and $6.4)	5.9	17.6	12.9
Gain on sale (after taxes of $4.9)	3.0	—	—
Net Earnings	129.1	215.9	166.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Millions of dollars)

2. Discontinued Operations:

During the second quarter of 1985, a major portion of the Formica Brand Products Group business was sold for approximately $200 million in cash and securities to a new company formed by *Formica* management and Shearson Lehman/American Express. Net sales of the discontinued segment were $129.8, $333.2 and $298.6 for the period prior to sale in 1985 and the years ended December 31, 1984 and 1983, respectively.

The Consolidated Statements of Earnings and Changes in Financial Position for the years ended December 31, 1984 and 1983 have been restated to reflect discontinued operations separately. The December 31, 1984 Consolidated Balance Sheet has not been restated, since the effect of the sale was not significant.

BROWN GROUP, INC. (OCT)

	1985	1984	1983
Earnings From Continuing Operations	$48,771	$53,706	$65,669
Discontinued Operations			
Earnings (Loss) From Operations, net of income taxes	(1,657)	357	1,530
Provision for Disposal, net of $8,700 tax benefit	(9,300)	—	—
Net Earnings	$37,814	$54,063	$67,199

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B: Discontinued Operations

Effective with the first quarter of 1985, the corporation adopted a formal plan to divest its Recreational Products companies. In connection with this plan, a loss on disposal of $9.3 million, net of the related income tax benefit of $8.7 million, was recognized. On May 6, 1985 the net assets of the Recreational Products companies were sold for $35.0 million in cash and $13.9 million in notes. In addition, $12.8 million of liabilities were assumed by the buyer.

Summarized results of the Recreational Products segment are shown separately as discontinued operations in the accompanying consolidated financial statements. Operating results of the Recreational Products segment are as follows:

	1985 (six months)	1984	1983
	(000's omitted)		
Net Sales	$50,299	$135,407	$145,724
Earnings (loss) before income taxes	(3,124)	654	2,781
Income tax (provision) benefit	1,467	(297)	(1,251)
Earnings (loss) from operations	$(1,657)	$ 357	$ 1,530

THE COCA-COLA COMPANY (DEC)

	1985	1984	1983
	(In thousands)		
Income From Continuing Operations Before Income Taxes	$1,092,849	$1,054,829	$990,510
Income taxes	415,283	433,071	437,566
Income From Continuing Operations	677,566	621,758	552,944
Income from discontinued operations (net of applicable income taxes of $7,870 in 1985, $6,144 in 1984 and $4,920 in 1983)	9,000	7,060	5,843
Gain on disposal of discontinued operations (net of applicable income taxes of $20,252)	35,733	—	—
Net Income	$ 722,299	$ 628,818	$558,787

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Divestitures and Discontinued Operations

In December 1985, the Company sold Presto Products, Incorporated, and Winkler/Flexible Products, Inc., manufacturers of plastic products, for approximately $112 million. In November 1983, the Company sold its wine business for book value plus advances, amounting to approximately $230 million. Operating results for these companies have been reported as discontinued operations. Net revenues of discontinued operations were $235 million, $212 million and $350 million in 1985, 1984 and 1983, respectively. In 1984, the Company sold Ronco Enterprises, Inc., a manufacturer and distributor of pasta products, for cash. This transaction had no significant effect on consolidated operating results.

MORTON THIOKOL, INC. (JUN)

	1985	1984	1983
		(in millions)	
Income from Continuing Operations Before Income Taxes	$205.1	$167.2	$107.2
Income Taxes Relating to Continuing Operations	85.6	70.1	42.0
Income from Continuing Operations	119.5	97.1	65.2
Discontinued operations, less applicable income taxes			
Income from discontinued operations	3.3	12.7	13.3
Gain on disposition of discontinued operations	75.1	—	—
Net Income	197.9	109.8	78.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquisitions and Discontinued Operations (In Part):

On November 15, 1984, the Company entered into a letter agreement providing for the sale of the Company's Texize Division, a manufacturer of household products, to Dow Chemical Company for $131 million cash plus 4,197,600 shares of Morton Thiokol Common Stock owned by Dow Chemical Company. The sale closed on January 4, 1985 and the gain on disposition was reported in the quarter ended March 31, 1985, offset in part by provisions for the estimated loss on discontinuance of the Company's chemical herbicide business at Weeks Island, Louisiana. Summary information relating to the discontinued Household Products and herbicide operations is as follows:

	Year Ended June 30		
(in millions)	1985	1984	1983
Net Sales	$125.4	$266.5	$238.8
Cost and expenses	118.7	241.1	212.5
Operating income before income taxes	6.7	25.4	26.3
Income taxes	3.4	12.7	13.0
Net operating income	$ 3.3	$ 12.7	$ 13.3
Gain on disposals less applicable income taxes of $58.3	$ 75.1	$ —	$ —

SQUARE D COMPANY (DEC)

	1985	1984	1983
		(Amounts in thousands)	
Earnings from Continuing Operations before Income Taxes	$182,548	$197,779	129,608
Provision for Income Taxes	80,110	88,021	63,088
Earnings from Continuing Operations	102,438	109,758	66,520
Discontinued Operations (Note C):			
Loss from operations, net of income tax benefit (1985—$3,309; 1984—$3,249; 1983—$3,248)	(3,666)	(3,605)	(3,609)
Provision for loss on disposal, net of income tax benefit—$11,584	(11,584)	—	—
Loss from Discontinued Operations	(15,250)	(3,605)	(3,609)
Net Earnings	$ 87,188	$106,153	$ 62,911

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share)

C. Discontinued Operations

On October 23, 1985, the Company announced its intention to dispose of the Building Products Division. A provision of $11,584, net of deferred tax benefits of $11,584, has been made in the fourth quarter ended December 31, 1985, to reduce the carrying amount of assets of discontinued operations to their net realizable values and provide for other costs and expenses related to the disposal. Although the ultimate costs of this disposition cannot be fully determined, the provision for loss from discontinued operations is believed to be sufficient to cover costs related to the disposal including operating losses during the phase-out period. Operating losses were $658, net of tax benefit of $619, from the date of discontinuance to December 31, 1985.

Assets of discontinued operations at December 31, 1985 include current assets of $13,452 consisting primarily of inventories and non-current assets of $14,296 consisting of property, plant and equipment which have been reduced to their estimated net realizable values. Sales applicable to discontinued operations were $54,087, $55,378 and $50,206 in 1985, 1984 and 1983, respectively.

Management anticipates the disposal of the Building Products Division will be completed during 1986.

STALEY CONTINENTAL, INC. (SEP)

	1985	1984	1983
		(in thousands)	
Earnings from continuing operations	$25,709	$49,111	$32,707
Loss from discontinued operations			
Operating losses—less income tax benefits of $3,893 in 1985, $13,137 in 1984 and $23,729 in 1983	(3,893)	(12,462)	(22,755)
Provisions for disposal—less income tax benefits of $5,205	(15,161)	—	—
Total	(19,054)	(12,462)	(22,755)
Earnings before extraordinary items	6,655	36,649	9,952

NOTES TO FINANCIAL STATEMENTS

Discontinued Operations

On January 11, 1985, the Company sold certain plant, equipment and manufacturing supplies related to its soybean milling operations for approximately $84 million in cash.

Working capital employed in the soybean milling operations was not included in the sale and was liquidated through customary business channels. The net book value of the assets sold and the working capital pertaining to these operations, reflected in the balance sheet at September 30, 1984, approximated $81 million and $47 million, respectively.

During October 1985, the Company finalized a plan to divest its soy protein concentrate operations and is presently pursuing the identified alternatives. The net book value of the fixed assets and the working capital employed in these operations are not material.

The results for the soybean milling and soy protein concentrate operations, including provisions for losses expected to be realized in the dispositions, have been classified as discontinued operations in the statements of consolidated earnings. Net sales of these discontinued operations were $230 million, $833 million and $662 million in 1985, 1984 and 1983, respectively.

Adjustment of Amounts Reported in Prior Periods

PENNZOIL COMPANY (DEC)

	1985	1984	1983
	(Expressed in thousands except per share amounts)		
Income From Continuing Operations	$188,204	$213,548	$180,482
Discontinued Operations			
Loss from operations, net of taxes	—	(16,039)	(16,247)
Estimated loss on disposition, net of taxes	(75,000)	(67,000)	—
Net Income	113,204	130,509	164,235

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Discontinued Operations—

In November 1984, the Board of Directors approved a plan to withdraw from the mining of base and precious metals and to sell or otherwise dispose of the related properties in an orderly manner. As part of this effort, Pennzoil distributed the stock of its former subsidiary, Battle Mountain Gold Company, to its shareholders in the form of a spinoff on a share-for-share basis in August 1985. Pennzoil is negotiating for the sale of its copper-molybdenum properties.

In connection with the decision to discontinue the metals mining business, in 1984 the Board of Directors authorized a writedown of $100 million ($67 million after tax) of the related metals assets to estimated net realizable values, including estimated future costs and operating results to the anticipated disposal date. Because of the further deterioration in base metals markets, particularly molybdenum, and the status of ongoing negotiations for the sale of the copper-molybdenum properties during 1985 which have led to a lower estimate of net realizable value than in 1984, the Board of Directors authorized an additional writedown of $123 million ($75 million after tax) in 1985.

The loss from discontinued operations is as follows:

	Year Ended December 31, 1985	1984	1983
	(Expressed in thousands)		
Operating revenues	$ —	$197,364	$252,403
Loss from operations before income taxes	$ —	$(31,099)	$(30,421)
Income tax benefits	—	15,060	14,174
Loss from operations	—	(16,039)	(16,247)
Estimated loss on disposition, net of income tax benefits	(75,000)	(67,000)	—
Loss from discontinued operations	$(75,000)	$(83,039)	$(16,247)

The assets and liabilities of the discontinued operations have been reclassified on the balance sheet from the historic classification to separately identify them as net assets of discontinued operations.

CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

Table 3-16 indicates the nature of charges or credits, other than extraordinary items, positioned on an income statement after the caption for income taxes applicable to income from continuing operation. Examples of charges or credits shown after the caption for income taxes applicable to income from continuing operations follow.

ACTION INDUSTRIES, INC. (JUN)

	1985	1984	1983
Earnings From Continuing Operations Before Income Taxes, Equity In Net Earnings Of Unconsolidated Affiliates And Extraordinary Charge	$10,305,834	$17,723,139	$9,919,446
Provision for Income Taxes	5,165,000	9,538,745	4,701,605
Earnings From Continuing Operations Before Equity in Net Earnings of Unconsolidated Affiliates and Extraordinary Charge	5,140,834	8,184,394	5,217,841
Equity in Net Earnings of Unconsolidated Affiliates	678,680	391,763	492,156
Earnings From Continuing Operations Before Extraordinary Charge	5,819,514	8,576,157	5,709,997

AMERICAN MAIZE-PRODUCTS COMPANY (DEC)

	1985	1984	1983
	Dollars in thousands		
Income (loss) before income taxes and minority interest	$(12,802)	$14,883	$5,090
Benefit from (provision for) income taxes:			
Currently payable:			
Federal	844	555	1,314
State and local	(345)	(170)	(241)
Deferred	7,320	(3,356)	(2,373)
	7,819	(2,971)	(1,300)
Income (loss) before minority interest	(4,983)	11,912	3,790
Minority interest in (earnings) loss of subsidiary (Note 2)	315	(1,910)	—
Net income (loss)	(4,668)	10,002	3,790

Note 2 (In Part): Business Changes

In February 1984, AFC sold 2,875,000 shares of its com-

TABLE 3-16: CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

	Number of Companies			
	1985	1984	1983	1982
Equity in earnings or losses of investees	56	58	66	65
Minority interest	41	45	50	51
Cumulative effect of accounting change	8	8	6	17
Other	1	6	4	5

mon stock to the public which decreased the Company's ownership of AFC to 67.8%. The Company recognized a non-taxable gain of $6,275,000 resulting from the offering price per share exceeding the Company's carrying amount per share. The portion of AFC held by the public and earnings or losses since February 1984 allocated thereto are presented as "minority interest" in the accompanying consolidated financial statements.

CORNING GLASS WORKS (DEC)

	1985	1984	1983
	(In millions, except per-share amounts)		
Income before Extraordinary Credit and Cumulative Effect of a Change in Accounting Method (per share, $2.53/1985; $2.11/1984; $2.19/1983)	$107.6	$ 88.9	$92.2
Tax benefit of loss carryforwards	5.6	11.4	
Cumulative effect on prior years (to December 30, 1984) of change to capitalization of furnace rebuilds, net of applicable income taxes (per share, $0.47/1985)	20.1		
Net Income (per share, $3.13/1985; $2.38/1984; $2.19/1983)	$133.3	$100.3	$92.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per-share amounts)

7 (In Part): Changes in Accounting Methods

In 1985, the company adopted the capitalization method of accounting for costs of rebuilding glass-melting furnaces. Under this method, costs are capitalized and depreciated over the estimated useful life of the rebuild. Previously the company established an accrual for estimated future rebuilding costs by charging earnings each period between dates of rebuilds. The capitalization method was adopted because it more appropriately measures the company's capital investment and is the preferred method used by most manufacturers in the glass industry. The $20.1 million ($.47 per share) cumulative effect on prior years (to December 30, 1984) of the change (after reduction for income taxes of $17.4 million) is included as an increase in net income retroactive to the first quarter of 1985. The effect of the accounting change was to increase depreciation expense and reduce the accruals. The change did not have a material effect upon operating results for 1983, 1984 or 1985.

NIKE, INC. (MAY)

	1985	1984	1983
	(in thousands)		
Income before provision for income taxes and minority interest	$22,398	$78,421	$118,123
Provision for income taxes	15,630	37,567	60,922
Income before minority interest	6,768	40,854	57,201
Minority interest (Note 8)	(3,502)	164	197
Net income	$10,270	$40,690	$ 57,004

Note 8—Minority Interest in Consolidated Subsidiaries:

As a result of operating losses in the current year, Nike Japan Inc., a 51 percent owned consolidated subsidiary of the Company, had a negative net equity of $5,077,000 at May 31, 1985. By agreement between the Company and the minority shareholder, each party intends to continue their obligation to financially support the subsidiary and, accordingly, the losses are being shared based upon each shareholder's ownership interest.

RTE CORPORATION (DEC)

	1985	1984	1983
	($000's omitted)		
Earnings Before Income Taxes and Equity in Operations of Affiliates	$27,266	$24,663	$22,067
Income taxes	12,000	11,600	9,450
Earnings Before Equity in Operations of Affiliates	15,266	13,063	12,617
Equity in losses of affiliates	(41)	(43)	(767)
Net Earnings	$15,225	$13,020	$11,850

EXTRAORDINARY ITEMS

APB Opinion No. 30 defines extraordinary items as "events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence," and states that an event or transaction "should be presumed to be an ordinary and usual activity of the reporting entity, the effects of which should be included in income from operations, unless the evidence clearly supports its classification as an extraordinary item as defined in this Opinion." *Opinion No. 30*, along with its *Accounting Interpretation* published in the November 1973 issue of the *Journal of Accountancy* illustrates events and transactions which should and should not be classified as extraordinary items. These examples are reprinted in Section I 17 of *FASB Accounting Standards—Current Text*. FASB *Statement of Financial Accounting Standards No. 4* specified that material debt extinguishment gains and losses be classified as extraordinary items.

Table 3-17 shows the nature of items classified as extraordinary by the survey companies. Examples of extraordinary items follow.

TABLE 3-17: EXTRAORDINARY ITEMS

	1985	1984	1983	1982
Nature				
Operating loss carryforwards	48	46	37	25
Debt extinguishments	15	22	40	31
Litigation settlements	7	2	2	9
Pension plan terminations	5	10	9	2
Other	6	12	7	12
Total Extraordinary Items	**81**	**92**	**95**	**79**
Number of Companies				
Presenting extraordinary items	72	74	84	69
Not presenting extraordinary items	528	526	516	531
Total Companies	**600**	**600**	**600**	**600**

Tax Loss Carryovers

AMERICAN BILTRITE INC. (DEC)

	1985	1984	1983
	(In thousands of dollars)		
Earnings Before Income Taxes and Extraordinary Credit	$4,769	$4,694	$1,652
Provision for income taxes—Note J	2,197	2,021	544
Earnings Before Extraordinary Credit	2,572	2,673	1,108
Extraordinary tax credit resulting from utilization of operating loss carryforward	1,452	1,532	70
Net Earnings	4,024	4,205	1,178

Note J (In Part): Income Taxes

The provision (credit) for federal, foreign and state income taxes consists of the following:

	1985	1984	1983
	(In thousands of dollars)		
Current:			
Federal	$1,452	$1,532	$129
Foreign	596	342	336
State	274	266	35
Deferred:			
Foreign	(125)	(119)	44
	$2,197	$2,021	$544

ARMCO (DEC)

	1985	1984	1983
	(Dollars in millions)		
Loss before income taxes	$ (98.1)	$(160.0)	$(494.0)
(Provision) credit for income taxes and in lieu of income taxes (Note 3)			
Current—United States	(4.6)	(5.2)	(3.5)
Foreign and state	(15.6)	(11.6)	(15.9)
Deferred	0.2	0.7	7.2
Total provision for income taxes	(20.0)	(16.1)	(12.2)
Loss from continuing operations	(118.1	(176.1)	(506.2)
Discontinued operations			
Aerospace and Strategic Materials			
Income from operations	35.0	40.5	9.5
Gain on sale	134.7	—	—
Provision in lieu of income taxes (Note 3)	(54.6)	—	—
Financial services (AFSG)			
Loss from operations	—	(43.9)	(175.8)
Provision for future losses	—	(120.0)	—
Loss before extraordinary items	(3.0)	(299.5)	(672.5)
Tax benefit of loss carryforwards (Note 3)	58.0	—	—
Gain on early retirement of debt	—	4.5	—
Net income (loss)	$ 55.0	$(295.0)	$(672.5)

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions, except per share amounts)

Note 3 (In Part): Income Taxes

Loss from continuing operations before income taxes is composed of the following:

	1985	1984	1983
United States	$(119.4)	$(106.0)	$(500.4)
Foreign	21.3	(54.0)	6.4
Total	$ (98.1)	$(160.0)	$(494.0)

Armco has not had to pay U.S. income taxes for the last four years because of its large net operating losses. However, there have been adjustments of taxes resulting from Internal Revenue Service examinations for the years 1979 and prior. Certain profitable subsidiaries continue to provide for state and foreign income taxes.

For U.S. income tax purposes, Armco has net operating losses and investment tax credit carryforwards of $725.0 and $99.9 available to offset future income taxes. The carryforward period is 15 years and Armco's carryforwards expire from 1994 through 1999. For financial reporting purposes these carryforwards are $76.8 less and $29.5 less, respectively, due to timing differences of expense deductions, primarily depreciation. Armco also has unrecognized loss carryforwards available at certain foreign subsidiaries in the amount of $115.8, which expire at various future dates.

Armco had U.S. pretax income for 1985 due to the sale of the Aerospace and Strategic Materials segment. Therefore, a provision in lieu of income taxes of $54.6 is included in the results of the discontinued Aerospace and Strategic Materials segment. The 1985 loss from continuing operations includes a $3.4 provision in lieu of income taxes on foreign subsidiaries' pretax income. The total of $58.0 is reported as an extraordinary item for the tax benefit of loss carryforwards. The effect on net income is nil. Armco had pretax losses in 1984 and 1983; therefore, no tax benefit was recorded in those years.

COLECO INDUSTRIES, INC. (DEC)

	1985	1984	1983
	(Amounts in thousands)		
Earnings (Loss) Before Income Taxes and Extraordinary Credit	$92,812	$(89,178)	$(24,849)
Income Tax Provision (Benefit)...	28,597	(9,360)	(17,416)
Earnings (Loss) Before Extraordinary Credit	64,215	(79,818)	(7,433)
Extraordinary Credit Resulting from Utilization of Tax Loss Carryforwards	18,700		
Net Earnings (Loss)	$82,915	$(79,818)	$ 7,433)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Income Taxes:

The 1985 provision for income taxes contains charges in lieu of federal and state income taxes of $18,700,000, representing taxes which would have been provided in the absence of operating loss carryforwards from 1984. Income tax benefits for the year ended December 31, 1985 resulting from utilization for financial reporting purposes of the operating loss carryforwards are presented as an extraordinary credit.

No provision is required for U.S. federal taxes on the undistributed earnings of subsidiaries not consolidated for domestic income tax purposes since it is the intention of the Company to reinvest such undistributed earnings in the foreign location. At December 31, 1985, the net undistributed earnings of subsidiaries not consolidated for domestic income tax purposes was $22,907,000. Foreign tax credits may be available as a reduction of domestic income taxes in the event of distribution.

Extinguishment of Debt

FLUOR CORPORATION (OCT)

	1985	1984	1983
		($000)	
Earnings (Loss) Before Extraordinary Item	$(616,963)	$1,008	$27,700
Extraordinary item—premium on early extinguishment of debt (net of income tax benefit of $14,508)	(16,361)	—	—
Net Earnings (Loss)	$(633,324)	$1,008	$27,700

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long-Term Debt (In Part)

The company utilized a major portion of the cash proceeds from asset sales to extinguish long-term debt prior to scheduled maturities. At October 31, 1985, a total of $304,788,000 of long-term debt had been extinguished prior to scheduled maturities at a net after-tax premium of $16,361,000. This premium has been classified as an extraordinary item in the Consolidated Statement of Operations.

In October 1985, the company completed an "in-substance defeasance" on $63,090,000 of 14% Eurodollar notes then outstanding by placing in an irrevocable trust $72,870,000 of U.S. government securities to be used solely for satisfying scheduled payments of both interest and principal on the notes, which will be called in September 1986. The notes and U.S. government securities have been excluded from the Consolidated Balance Sheet at October 31, 1985. The premium on early extinguishment of the notes is included in the extraordinary item discussed above.

LONE STAR INDUSTRIES, INC. (DEC)

	1985	1984	1983
	(Dollars in thousands)		
Income before extraordinary gains	$54,481	$52,420	$17,180
Extraordinary gains:			
Extinguishments of debt (net of applicable deferred income taxes of $1,994 in 1985, $316 in 1984, $3,454 in 1983)	2,340	371	4,055
Utilization of tax loss carryforward by a joint venture	1,495	645	—
Income from extraordinary gains	3,835	1,016	4,055
Net income	58,316	53,436	21,235

NOTES TO FINANCIAL STATEMENTS

14. Extraordinary Gains

In 1985, the company offered to purchase any and all of the outstanding 8% sinking fund debentures due 1997 at $810 per $1,000 principal amount of debentures plus accrued interest. Of the $27,111,000 outstanding debentures, $22,925,000 were tendered. The company purchased all debentures tendered for $18,569,000 which resulted in a pre-tax gain, net of $22,000 in related expenses, of $4,334,000.

During 1984 the company purchased $2,113,000 of its 8% sinking fund debentures due 1997 in excess of the mandatory sinking fund requirements for $1,413,000 which resulted in a pre-tax gain, net of $13,000 in related expenses, of $687,000.

In 1983, the company purchased for $85,000,000 the $95,000,000 in face value of notes assumed with the acquisition of Marquette Company. The notes had a book value of $91,043,000, net of discount, on the date of purchase. Also in 1983 the company purchased $7,200,000 of its 8% sinking fund debentures due 1997 in excess of the mandatory sinking fund requirements for $5,686,000. These transactions resulted in a pre-tax gain, net of $48,000 in related expenses, of $7,509,000.

During 1985 and 1984, Pacific Coast Cement Corporation, a joint venture, utilized tax loss carryforward benefits totaling $2,989,000 and $1,290,000 respectively. Lone Star's 50% share or $1,495,000 in 1985 and $645,000 in 1984 is reflected as an extraordinary gain.

UNITED BRANDS COMPANY (MAR)

	1985	1984	1983
		(In thousands)	
Income (loss) before extraordinary gain	$21,048	$46,213	$(167,285)
Extraordinary gain on exchange of capital stock for debt	2,071	—	—
Net income (loss)	$23,119	$46,213	$(167,285)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Long-Term Debt

In fiscal 1985, the Company issued approximately 2,466,000 shares of capital stock in exchange for $53,036,000 outstanding principal amount of its 5½% convertible subordinated debentures in response to a temporary reduction of the conversion price to $21.50 a share for holders who converted. The extinguishment of such debt resulted in an extraordinary gain of $2,071,000 ($.16 per share) net of applicable taxes of $2,051,000. American Financial Corporation converted its holdings of the 5½% debentures which accounted for approximately 55% of this transaction.

Condemnation Suit Settlement

GEORGIA-PACIFIC CORPORATION (DEC)

	1985	1984	1983
		(Millions)	
Income before extraordinary item	$177	$119	$105
Settlement of condemnation suit, net of taxes	10	—	—
Net income	$187	$119	$105

NOTES TO FINANCIAL STATEMENTS

Note 3. Extraordinary Item

In 1975, the Corporation filed a condemnation suit alleging that it had been insufficiently compensated for certain lands in southwestern West Virginia that the U.S. Army Corps of Engineers acquired through the Federal government's power of eminent domain for the R.D. Bailey Lake Project. Pursuant to a court-approved settlement entered on December 3, 1985, the Corporation will receive approximately $14 million. The Corporation expects to receive the settlement amount, plus interest from November 22, 1985, during the first quarter of 1986. A $10 million extraordinary gain from this settlement, net of related income taxes of $4 million, was recorded in the fourth quarter of 1985.

Pension Plan Termination

BMC INDUSTRIES, INC. (DEC)

	1985	1984	1983
		(in thousands)	
Earnings (loss) before Extraordinary Gain	$(72,233)	$2,449	$7,987
Extraordinary Gain—termination of domestic pension plans for salaried employees (no income tax effect).	2,620	—	—
Net Earnings (Loss)	$(69,613)	$2,449	$7,987

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Pension and Profit Sharing Plans

In 1985 the Company terminated its existing defined benefit pension plans covering substantially all domestic salaried employees. All benefits earned under the terminated plans became fully vested. Plan assets will be used for either lump sum distributions or to purchase guaranteed annuity contracts, with the balance of the assets reverting to the Company. An extraordinary gain of $2,620 was recognized in the fourth quarter of 1985, representing estimated excess assets which will revert to the Company.

The terminated pension plans were replaced by a noncontributory profit sharing plan. Under the terms of the new profit sharing plan, the Company makes an annual minimum contribution equal to 3 percent of participants' wages, with the potential for a greater contribution depending upon the profitability of the Company, as defined. Provisions of the plan include 100 percent vesting after ten years continuous service and benefits payable upon retirement, total disability and death.

Insurance Settlement

CYCLOPS CORPORATION (DEC)

	1985	1984	1983
		Dollars in Thousands	
Income (loss) before extraordinary gain	$24,462	$18,434	$(2,190)
Extraordinary gain (less applicable taxes of $1,262) (Note 13)	1,766	—	—
Net income (loss)	26,228	18,434	(2,190)

Note 13—Extraordinary Gain

The Company suffered significant property damage to one of its steel manufacturing facilities during 1985. The loss was insured, and as a result of the insurance settlement, the Company realized an after tax gain of $1,766,000 that was recognized in the third quarter. The insurance proceeds received from the settlement for the loss are expected to be sufficient to replace the facility.

Adjustment Of Amounts Reported In Prior Periods

PANTRY PRIDE, INC. (JUL)

	1985	1984 ($000)	1983
(Loss) earnings before extraordinary items	$(9,589)	$5,536	$ 6,291
Extraordinary items:			
Utilization of net operating loss carryforward		3,242	5,949
Gain from debt reduction and restructuring	1,775	1,150	1,300
	1,775	4,392	7,249
Net (loss) earnings	$(7,814)	$9,928	$13,540

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands except per share data)

5. Plan of Arrangement

On July 6, 1981 the Bankruptcy Court confirmed the Company's Amended Consolidated Plan of Arrangement, dated December 15, 1980, as modified, and the Company was discharged from its Chapter XI proceedings. On January 15, 1985, the Company made its final semi-annual distribution of approximately $10,500 and 1,200,000 shares of the Company's common stock.

In 1985, 1984 and 1983, $1,775, $1,150, and $1,300, respectively, were recognized as income due to better-than-anticipated claims settlements and are reflected in the Consolidated Statements of Operations as extraordinary items.

TABLE 3-18: EARNINGS PER SHARE—1985

	Additional shares issuable for			
	Debt	Preferred Stock	Options	Warrants
Included in primary per share calculation	27	37	208	30
Included in fully diluted per share calculation	68	38	27	—
No dilution	41	49	163	15
Not disclosed	42	20	132	6
No additional shares issuable	422	456	70	549
Total Companies	600	600	600	600

EARNINGS PER SHARE

APB Opinion No. 15 states in part:

12. The Board believes that the significance attached by investors and others to earnings per share data, together with the importance of evaluating the data in conjunction with the financial statements, requires that such data be presented prominently in the financial statements. The Board has therefore concluded that earnings per share or net loss per share data should be shown on the face of the income statement. The extent of the data to be presented and the captions used will vary with the complexity of the company's capital structure, as discussed in the following paragraphs.

Examples of earnings per share presentations follow.

Simple Capital Structure

ASARCO INCORPORATED (DEC)

	1985	1984 (dollars in thousands, except per share amounts)	1983
Net Earnings (Loss) Applicable to Common Shares	$(80,847)	$(324,743)	$39,666
Net Earnings (Loss)—Per Common Share	$ (2.87)	$ (12.56)	$ 1.54

NOTES TO FINANCIAL STATEMENTS

4. Earnings Per Share

Earnings per share are calculated by using the weighted average number of common shares outstanding after deducting the Company's pro rata interest in its shares held by M.I.M. Holdings Limited.

	1985	1984	1983
Weighted average number of Asarco shares outstanding (000)	31,136	28,321	28,084
Asarco's pro rata, weighted average interest in its shares held by M.I.M. Holdings Limited (000)	3,008	2,463	2,402

The dilutive effect of the Company's Common Stock equivalents (shares under option) and Convertible Preferred Stock was insignificant or anti-dilutive.

CONTROL DATA CORPORATION (DEC)

	1985	1984 (Dollars in millions, except per share data)	1983
Net earnings (loss)	$(567.5)	$5.1	$161.7
Earnings (Loss) per share of common stock	$(14.56)	$.12	$ 4.20

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Accounting Policies

Earnings (Loss) per Share

Earnings (loss) per share have been computed by dividing net earnings (loss), after reduction for dividends declared on preferred stock in the amount of $.5 for each year, by the weighted average number of common shares and equivalents outstanding of 39,022,000 for 1985, 38,520,000 for 1984 and 38,338,000 for 1983. Common share equivalents included in the computation represent shares issuable upon assumed exercise of stock options which would have a dilutive effect in the respective years. There were no common share equivalents in 1985, 296,000 in 1984 and 616,000 in 1983.

INGERSOLL-RAND COMPANY (DEC)

	1985	1984	1983
	In thousands except per share amounts		
Net earnings (loss)	$79,581	$58,895	$(112,166)
Net earnings (loss) per share of common stock	$3.78	$2.70	$(5.94)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies:

Earnings Per Share: Net earnings per share of common stock are earnings less annual dividend requirements for preference stock divided by the average number of common shares outstanding during the year. The conversion of the $2.35 preference stock has not been assumed because it would result in antidilution.

Complex Capital Structure

AFG INDUSTRIES, INC. (DEC)

	1985	1984	1983
Earnings per common share:			
Primary:			
Income before extraordinary items	$2.11	$1.82	$1.43
Extraordinary items		.54	
Net income	$2.11	$2.36	$1.43
Fully diluted:			
Income before extraordinary items	$2.00	$1.82	$1.43
Extraordinary items		.54	
Net income	$2.00	$2.36	$1.43

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Earnings Per Common Share—Primary earnings per share are computed on the basis of the weighted average number of shares outstanding plus the common stock equivalents which would arise from the exercise of stock options.

Fully diluted earnings per share assume both the conversion of 8⅜% convertible subordinated debentures for the period they were outstanding and common stock equivalents which would arise from the exercise of stock options.

The average number of shares used was:

	1985	1984	1983
Primary	10,001,534	10,027,824	9,915,079
Fully diluted	11,188,660	10,027,824	9,915,079

BERGEN BRUNSWIG CORPORATION (AUG)

	1985	1984	1983
Earnings per common and common equivalent share:			
From continuing operations before extraordinary item	$1.91	$1.86	$1.69
Loss from discontinued operations		(.41)	(.19)
Earnings before extraordinary item	1.91	1.45	1.50
Extraordinary item	(.08)	—	—
Net earnings	$1.83	$1.45	$1.50

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Earnings Per Common and Common Equivalent Share

Earnings per share are based on the combined weighted average number of shares of Class A and Class B Common Stock outstanding during each year, the assumed conversion of the 9⅞% Convertible Subordinated Debentures (which were "Common stock equivalents") prior to conversion and redemption, the assumed exercise of dilutive employees' stock options (less the number of treasury shares assumed to be purchased from the proceeds using the average market price of the Corporation's Common Stock) and the assumed issuance of certain shares related to an acquisition. Earnings per share are based upon 12,697,724 shares in 1985, 12,632,870 shares in 1984, and 12,633,125 shares in 1983. Fully diluted earnings per share did not differ significantly from primary earnings per share in any year.

FISCHBACH CORPORATION (SEP)

	1985	1984	1983
Income (Loss) per Share of Common Stock:			
Assuming No Dilution:			
Before extraordinary loss	$(1.67)	$1.83	$7.39
Extraordinary loss	(1.02)	(.71)	
Net income (loss)	$(2.69)	$1.12	$7.39
Assuming Full Dilution:			
Before extraordinary loss	*	$1.76	$5.96
Extraordinary loss	*	(.62)	
Net income	*	$1.14	$5.96

*Anti-dilutive

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Net Income per Share of Common Stock—Net income per share of common stock, assuming no dilution, is computed by dividing net income by the weighted average number of shares outstanding during the year. The effect of dilutive stock options on the computation is insignificant for 1984 and 1983, and is anti-dilutive in 1985.

Net income per share of common stock, assuming full dilution, gives effect to the conversion of outstanding convertible debentures (after elimination of related interest expense, net of income tax effect) and exercise of dilutive stock options.

11. Net Income Per Share of Common Stock

The weighted average number of common shares used in the computation of net income per share of common stock is as follows:

	1985	1984	1983
Assuming no dilution	3,879,814	3,826,415	3,608,189
Add shares for:			
Assumed conversion of debentures	*	579,299	1,151,061
Dilutive stock options	*	7,062	8,960
Assuming full dilution	*	4,412,776	4,768,210

*Anti-dilutive

REFLECTONE, INC. (MAR)

	1985	1984	1983
Earnings per common and common equivalent share (1)			
Primary			
Continuing operations	$1.32	$.43	$2.46
Discontinued operations	—	—	—
Net earnings	$1.32	$.43	$2.46
Fully diluted			
Continuing operations	$1.25		$2.29
Discontinued operations	—		—
Net earnings	$1.25		$2.29

(1) In 1983 primary and fully diluted per share data includes $1.31 and $1.19, respectively, attributable to income from disposition of asset (before tax) of $2,643,097.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7—Earnings Per Share

Primary earnings per share are based on the weighted average number of common shares and common share equivalents outstanding. Common share equivalents include dilutive stock options and warrants using the treasury stock method.

Fully diluted earnings per share assumes, in addition to the above, (i) that senior convertible notes were converted at the beginning of each period or date of issuance, if later, with earnings being increased for interest expense, net of taxes, that would not have been incurred had conversion taken place and (ii) the additional dilutive effect of stock options and warrants.

Earnings per common and common equivalent share, and common and common share equivalents, have been retroactively adjusted for a stock dividend of 10% in 1985.

The numbers of shares used in the earnings per share computation are below:

	1985	1984	1983
Primary			
Weighted average common shares	1,288,045	1,260,895	1,326,228
Stock options and warrants	48,263	39,405	50,891
Average common shares outstanding	1,336,308	1,300,300	1,377,119
Fully diluted			
Convertible notes	225,051	225,051	141,755
Additional dilutive effect of stock options and warrants	5,113	806	4,700
Fully diluted assumed common shares outstanding	1,566,472	1,526,157	1,523,574

In 1984 fully diluted per share data is not disclosed since the effect would be antidilutive.

SOCIAL AWARENESS EXPENDITURES

Certain survey companies disclosed contributions to charitable organizations, grants to community related activities, expenditures to aid minority groups or enterprises, and other forms of social awareness or responsibility. Such disclosures of social awareness or responsibility are almost always made in the annual report narrative which is not part of the financial statements; accordingly, no attempt was made to tabulate these disclosures. Examples of such disclosures follow.

ALUMINUM COMPANY OF AMERICA (DEC)

ALCOA FOUNDATION

Alcoa Foundation was established in 1952 by Alcoa to assist worthwhile activities of higher education, civic and community groups, health and welfare organizations, cultural societies and youth organizations. Consistently, the largest category of grants has been education, though more support is now being given to such general community needs as food banks, shelters for the homeless and family counseling centers. Alcoa Foundation's only direct aid to individuals is the awarding of college scholarships to sons and daughters of Alcoa employees.

The foundation made 2,700 grants totaling over $10.6 million in 1985, including funds to double-match employee gifts to eligible educational institutions. In its 33-year history, Alcoa Foundation has given nearly $120 million worldwide.

In 1985, an Alcoa Foundation award helped gerontologists and agencies for the elderly in the Northeast learn to treat people who have Alzheimer's Disease. Another 1985 grant is funding a study by Massachusetts Institute of Technology, the U.S. Department of Labor, nine U.S. corporations and associated unions on the changing nature of industrial relations in the U.S. In Pittsburgh, Alcoa Foundation is helping a nonprofit neighborhood coalition called the Garfield Jubilee Association refurbish old houses and build new ones for low and moderate income families.

West Indies Hospital in Kingston, Jamaica began installing a burn unit with help from Alcoa Foundation. And a grant to Save the Children is furthering that organization's relief efforts in Sudan, the largest country in Africa.

The total market value of Alcoa Foundation's assets as of December 31, 1985 was $187 million, making it the largest permanently funded corporate foundation in the U.S.

THE BOEING COMPANY (DEC)

COMMUNITY INVOLVEMENT

The Boeing Company believes that in the community, good business and good quality of life go hand in hand. Each supports the other, and the result is a partnership that benefits both.

In keeping with that belief, both employees and the Company made substantial donations of money and time to a variety of social, educational, cultural and civic programs to the benefit of the communities in which Boeing employees live and work.

Employees donated an untold number of hours of personal time to community projects such as youth activities, Special Olympics, food banks and schools, to name a few. In addition they contributed $10 million in cash through the Boeing Employees Good Neighbor Fund and the Company's gift matching program for educational, cultural and art purposes.

Over its 34 years, the Boeing Employees Good Neighbor Fund has provided more than $133 million to the communities in which employees live, primarily through United Way agencies. During the fund's most recent fiscal year, $9.5 million in employee-donated funds were distributed.

Another employee-initiated project, the Holiday Community Outreach Program, was a cooperative effort of the Company, its employees, unions and retirees in the Seattle area. Similar programs were conducted at Boeing plants in Portland, Oregon, and Huntsville, Alabama. Participants made nearly 9,000 dolls and wooden toys for needy children, donated 20 semi-trailer loads of food and household essentials for distribution through food banks, gave hundreds of volunteer hours to their communities, and collected and wrapped gifts for delivery to 68 senior centers. In addition, the Company bought 111,000 pounds of poultry to give to food banks.

Boeing employees purchased $20 million in U.S. Savings Bonds in 1985. Following the annual campaign, 93.5 percent of the employees had enrolled.

One of the larger volunteer programs for the past ten years has been the Washington State Special Olympics for the handicapped conducted by the Boeing Management Association. About 60 people donate their time year around, while during the event 1,000 employees volunteer. Similar support to the Special Olympics is provided by Boeing Computer Services employees in Vienna, Virginia.

In Wichita, Kansas, 20 Military Airplane Company engineers regularly visit area high schools to tutor students in science and math in a program begun three years ago.

In addition to employee contributions, The Boeing Company cash contributions totaled $9.2 million, distributed to various health and human resources, educational, civic and community service, and cultural and art programs.

A major Company donation was a $500,000 payment toward a total $1 million contribution to the Seattle Art Museum building fund.

Other examples of Company contributions include $50,000 given to the Union Gospel Mission in Seattle, which provides emergency shelter to homeless individuals and families, $30,000 to the Cerebral Palsy Foundation of Kansas, $200,000 to the Seattle Corporate Council for the Arts, $6,750 to the Philadelphia Urban Coalition, and $55,000 distributed among several Junior Achievement programs across the country.

Boeing matched more than $500,000 in employee donations in a gift-matching program for educational and cultural purposes. Of the combined $1 million, $800,000 went to education, and $230,000 to cultural and art programs.

NL INDUSTRIES, INC. (DEC)

CORPORATE SOCIAL RESPONSIBILITY

The NL Industries Foundation, Inc., an independent not-for-profit organization incorporated in the State of New York, was established in 1953. Its purpose is to serve as a separate philanthropic entity for NL Industries, Inc.

The NL Industries Foundation's programs are designed to improve community services and help ensure the availability of adequate health care and human service support, primarily in the local communities in which the Company operates; promote educational excellence in business and in technical areas of interest to NL; foster high standards in culture and the arts, especially in communities in which NL has major operations; and maintain a positive awareness of NL Industries as a socially responsible corporation. In addition, NL employees are encouraged to consider their own responsibility for the continued welfare of their communities and for society as a whole through the Foundation's Matching Gifts Program.

The largest program of The NL Industries Foundation is the matching of employee gifts to the local United Ways of America. In 1985, contributions from employees and matching grants by the Foundation totaled approximately $550,000. The per-capita contribution of NL employees increased almost 10% in 1985 and continues to be one of the highest in its industry.

J.C. PENNEY COMPANY, INC. (JAN)

CORPORATE RESPONSIBILITY

During 1985, the Company continued to make prudent investments in the social concerns and well-being of the communities in which it does business. A policy of recognizing our obligations and seeking opportunities to meet them led to the following representative initiatives.

Charitable Contributions. The focus of Company giving programs is on health, human service, and civic betterment organizations in communities where it does business. In 1985, charitable contributions totaled $9.7 million and included $3.0 million contributed by the Company to more than 1,000 local United Ways. Over 90,000 employees throughout the country pledged an additional $4.0 million in United Way support.

Giving by local JCPenney department stores and other facilities within their communities represents the major share of our charitable support. In addition, the Company makes grants to national organizations with programs benefiting local communities as well as to those addressing nationwide concerns.

Community Programs. The Company participates in a number of programs to help improve the quality of community life.

Working with the National Association of Bank Women, the Company conducted community leadership training seminars in 29 markets during 1985. Women who are active or potential leaders in non-profit and governmental organizations participated, thus enhancing their effectiveness through improved leadership skills. The Company also sponsors leadership training for 4-H Club volunteer leaders to improve their skills in working with children. More than 1,000 4-H leaders received training in 1985.

Considerable community relations emphasis is placed on working with youth through local programs conducted with Junior Achievement, Distributive Education Clubs of America, the National School Volunteer Program, and the Hugh O'Brian Youth Foundation. Store managers and other employees represent the Company on boards and councils of these and other youth organizations, thereby furthering our involvement.

National Programs. During national Missing Children's Month in May, 1985, the Company developed and mailed "Protect Your Child" pamphlets to nearly 10 million charge account customers. These pamphlets help parents to educate children in ways of preventing abduction. Since then, more than 800,000 additional pamphlets have been distributed in response to public inquiries.

The Company also underwrote the first National Organization on Disability recognition program, which honors associations and organizations for the development of activities and policies addressing the needs of the disabled. Awardees were honored in special ceremonies last June in Washington.

Minority Affairs. The Company has a commitment to support programs fostering equal opportunity for all. Working with the National Urban League, NAACP, League of United Latin American Citizens, United Negro College Fund, and other groups, the Company participates in scholarship programs, youth leadership development seminars, and job training programs.

As a member of the National Minority Supplier Development Council, JCPenney works with minority-owned business firms to help them become potential suppliers of goods and services. The Company was honored with national awards from the U.S. Department of Commerce and the National Minority Business Council for its efforts in 1985.

Purchases of goods and services from minority-owned businesses exceeded $122 million, representing relationships with more than 1,150 minority suppliers. Additionally, we spent $4.3 million on advertising in 119 minority media, and we maintained active accounts with 14 minority-owned banks.

THE PILLSBURY COMPANY (MAY)

CITIZENSHIP AND COMMUNITY INVOLVEMENT

Pillsbury is active in the communities where its employees live and work. Charitable contributions by the Company and The Pillsbury Company Foundation were increased significantly during Fiscal 1985. Cash grants of $6 million exceeded those of the prior year by $1.5 million and were supplemented by donations of more than two million pounds of Pillsbury products.

As one of the world's leading food companies and the nation's second largest employer of young people, Pillsbury is focusing its charitable efforts on the needs of hunger and youth. At the same time, Pillsbury sees an important role for employee volunteerism, product donations and in-kind contributions as a way to extend its dollar contributions to help meet community needs.

During Fiscal 1985, Pillsbury:

Served as catalyst in creating programs to help children who are home alone after school because of working parents. The Company sponsored a "Latchkey Resource Fair" in Minneapolis to advise parents of the numerous agencies serving such children. A national survey was commissioned to determine what parents believe their unattended children need in after-school activities, and support was given for a telephone hot line to help "latchkey" children worried about everything from minor spills to intruders.

Through the Burger King Corporation, gave $718,000 to fund higher education grants for employees, support curriculum development in Washington, D.C., and begin an annual recognition and professional development conference for outstanding teachers and principals. Burger King also gave $50,000 toward construction of the James W. McLamore Children's Center for abused and neglected children in Miami.

Donated more than two million pounds of Pillsbury food products to Second Harvest, the nation-wide food surplus network, the Minnesota Food Bank and to unemployed families on northeastern Minnesota's Iron Range.

Matched $815,000 in employee contributions to United Way organizations in more than 50 communities and 377 gifts by employees and directors to colleges and universities.

Supported numerous cultural organizations, including The Minnesota Orchestra, The Children's Theater, The Saint Paul Chamber Orchestra, The Minneapolis Society of Fine Arts, the Guthrie Theater and the Walker Art Center.

Section 4: Stockholders' Equity

This section reviews the presentation of transactions, other than net income (loss) for the year, affecting the stockholders' equity accounts.

RETAINED EARNINGS

PRESENTATION OF CHANGES IN RETAINED EARNINGS

Table 4-1 summarizes the presentation formats used by the survey companies to present changes in retained earnings. Examples of statements showing the increase or decrease in retained earnings resulting from 1985 fiscal year transactions are presented throughout this section.

TABLE 4-1: PRESENTATION OF CHANGES IN RETAINED EARNINGS

	1985	1984	1983	1982
Statement of Stockholders' Equity	394	390	371	354
Separate statement of retained earnings	94	105	114	125
Combined statement of income and retained earnings	74	73	87	94
Changes shown in balance sheet or notes	38	32	28	27
Total Companies	**600**	**600**	**600**	**600**

DIVIDENDS

Chapter 7B of *ARB No. 43* discusses the accounting for stock dividends. *APB Opinion No. 15* refers to Chapter 7B and states in part:

> 48. *Stock dividends or splits.* If the number of common shares outstanding increases as a result of a stock dividend or stock split or decreases as a result of a reverse split, the computations should give retroactive recognition to an appropriate equivalent change in capital structure for all periods presented. If changes in common stock resulting from stock dividends or stock splits or reverse splits have been consummated after the close of the period but before completion of the financial report, the per share computations should be based on the new number of shares because the readers' primary interest is presumed to be related to the current capitalization. When per share computations reflect such changes in the number of shares after the close of the period, this fact should be disclosed.

Table 4-2 shows the nature of distributions made by the survey companies to their shareholders. Approximately 68% of the survey companies paying cash dividends to common stock shareholders indicate the per share amount of such dividends in the statement of retained earnings; approximately 42% of the survey companies make a similar disclosure for cash dividends paid to preferred stock shareholders.

Examples of distributions to shareholders follow.

Cash Dividends

ARMSTRONG WORLD INDUSTRIES, INC.

Consolidated Statements of Retained Earnings

Years ended December 31	1985 (000)	1984 (000)	1983 (000)
Amount at beginning of year	$634,471	$571,225	$535,774
Net earnings for year	100,892	92,230	63,126
	735,363	663,455	598,900
Less dividends:			
Preferred stock—$3.75 per share	443	443	443
Common stock—$1.275 per share in 1985; $1.175 per share in 1984; $1.10 per share in 1983	30,523	28,541	27,232
	30,966	28,984	27,675
Amount at end of year	$704,397	$634,471	$571,225

GENERAL MILLS, INC.

Consolidated Statements of Retained Earnings

(Amounts in Millions, Except Per Share Data)	Fiscal Year Ended May 26, 1985 (52 Weeks)	May 27, 1984 (52 Weeks)	May 29, 1983 (52 Weeks)
Retained Earnings At Beginning Of Year	$1,375.0	$1,237.6	$1,085.2
Net earnings (loss)	(72.9)	233.4	245.1
Deduct dividends of $2.24 per share in 1985, $2.04 per share in 1984 and $1.84 per share in 1983	(100.4)	(96.0)	(92.7)
Retained Earnings At End of Year	$1,201.7	$1,375.0	$1,237.6

TABLE 4-2: DIVIDENDS

	Number of Companies 1985	1984	1983	1982
Cash Dividends Paid to Common Stock Shareholders				
Per share amount disclosed in retained earnings statement	340	347	348	362
Per share amount not disclosed in retained earnings statement	159	156	159	156
Total	**499**	**503**	**507**	**518**
Cash Dividends Paid to Preferred Stock Shareholders				
Per share amount disclosed in retained earnings statement	88	99	110	110
Per share amount not disclosed in retained earnings statement	98	101	97	106
Total	**186**	**200**	**207**	**216**
Dividends Paid By Pooled Companies	**2**	**2**	**4**	**2**
Stock Dividends	**10**	**14**	**14**	**17**
Dividends In Kind	**10**	**6**	**6**	**3**

WESTVACO CORPORATION

Consolidated Statement of Income and Retained Income

In thousands, except per share

Year ended October 31	1985	1984	1983
Net income	$104,625	$129,974	$ 62,789
Retained income at beginning of year	646,200	550,955	520,815
	750,825	680,929	583,604
Dividends:			
Preferred stock ($4.50 per share)	—	2	8
Common stock (1985-$1.32 per share; 1984-$1.23 per share; and 1983-$1.20 per share)	37,832	34,727	32,641
	37,832	34,729	32,649
Retained income at end of year	$712,993	$646,200	$550,955

PITNEY BOWES INC.

Statement of Consolidated Stockholders' Equity

(Dollars in thousands)

	Preferred stock	Preference stock	Common stock	Capital in excess of par value	Retained earnings	Treasury stock, at cost	Cumulative translation adjustments
Balance, January 1, 1983	$1,592	$76,567	$32,625	$116,587	$336,926	$ —	$(16,944)
Net income—1983					86,934		
Cash dividends:							
Preferred ($2.00 per share)					(49)		
Preference ($2.12 per share)					(5,037)		
Common ($.89 per share)					(29,979)		
Sales under stock purchase and option plans		482	639	3,901			
Conversions to common stock	(704)	(17,687)	1,942	16,449			
Conversions of debt		483	78	959			
Translation adjustments							(5,805)
Tax credits relating to stock options				372			
2-for-1 stock split			33,375	(33,375)			
Balance, December 31, 1983	888	59,845	68,659	104,893	388,795	—	(22,749)
Net income—1984					138,171		
Cash dividends:							
Preferred ($2.00 per share)					(26)		
Preference ($2.12 per share)					(3,777)		
Common ($1.04 per share)					(36,732)		
Sales under stock purchase and option plans		138	786	4,379			
Conversions to common stock	(226)	(15,935)	2,304	13,857			
Conversions of debt		110	57	540			
Translation adjustments							(10,292)
Tax credits relating to stock options				780			
Balance, December 31, 1984	662	44,158	71,806	124,449	486,431	—	(33,041)
Net income—1985					150,357		
Cash dividends:							
Preferred ($2.00 per share)					(22)		
Preference ($2.12 per share)					(2,105)		
Common ($1.20 per share)					(44,777)		
Sales under stock purchase, option and dividend reinvestment plans		30	968	12,057			
Conversions to common stock	(179)	(23,811)	3,423	20,567			
Conversions of debt		54	153	1,452			
Purchase of treasury stock						(17,504)	
Translation adjustments							6,620
Tax credits relating to stock options				1,099			
Balance, December 31, 1985	$ 483	$20,431	$76,350	$159,624	$589,884	$(17,504)	$(26,241)

RUSS TOGS, INC.

Consolidated Statement of Stockholders' Equity

	Year Ended February 1, 1986	February 2, 1985	January 28, 1984
Capital stock—$1 par value:			
Preferred:			
Balance at beginning of year	$ 277,000	$ 280,000	$ 215,000
Adjustment to stated value			65,000
Converted to common stock	(29,000)	(3,000)	
Balance at end of year	248,000	277,000	280,000
Common:			
Balance at beginning of year	5,124,000	5,121,000	4,114,000
Treasury shares cancelled			(699,000)
Three-for-two stock split			1,706,000
Conversion of preferred stock	29,000	3,000	
Balance at end of year	5,153,000	5,124,000	5,121,000
Additional paid-in capital:			
Balance at beginning of year	1,242,000	1,242,000	10,088,000
Excess of cost over par value of treasury shares cancelled			(7,061,000)
Par value of shares issued and cash paid in lieu of fractional shares on three-for-two stock split			(1,720,000)
Adjustment to stated value of preferred shares			(65,000)
Balance at end of year	1,242,000	1,242,000	1,242,000
Retained earnings:			
Balance at beginning of year	83,110,000	76,297,000	68,363,000
Net earnings (statement attached)	10,986,000	11,113,000	12,114,000
Total	94,096,000	87,410,000	80,477,000
Less cash dividends:			
Common ($.76 in 1986 and 1985 and $.73⅔ a share in 1984)	3,903,000	3,893,000	3,772,000
Preferred ($1.90 a share)	387,000	407,000	408,000
Total	4,290,000	4,300,000	4,180,000
Balance at end of year	89,806,000	83,110,000	76,297,000
Treasury stock:			
Balance at beginning of year	—	—	(7,760,000)
Purchase of common stock for treasury (126,025 shares)	(2,914,000)		
Treasury shares cancelled			7,760,000
Balance at end of year	(2,914,000)	—	—
Total Stockholders' Equity (To Balance Sheet)	$93,535,000	$89,753,000	$82,940,000

Stock Dividends

THE ARUNDEL CORPORATION

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 1985, 1984 and 1983

	Common Stock Issued		Non-Redeemable Preferred Stock Issued		Additional Paid-In Capital	Retained Earnings	Treasury Stock
	Shares	Amount	Series A	Series B			
Balance, January 1, 1983	1,855,635	$5,566,905	$364,000	$884,500	$ 7,529,112	$12,482,960	$ 477,217
Exercise of stock options	10,318	30,954	—	—	29,729	—	7,311
Conversion of 1,252 shares of Series A and 6,267 shares of Series B preferred for 27,677 shares of common stock	14,012	42,036	—	—	293,036	—	335,103
Issuance of 200,000 shares of common stock in connection with acquisition	148,518	445,554	—	—	1,650,000	—	(154,446)
Cash dividends on preferred stock:							
Series A—$2.50 per share	—	—	—	—	—	(12,231)	—
Series B—$1.60 per share	—	—	—	—	—	(17,620)	—
Net earnings for the year	—	—	—	—	—	2,343,517	—
Balance, December 31, 1983	2,028,483	6,085,449	364,000	884,500	9,501,877	14,796,626	665,185
Exercise of stock options	17,724	53,172	—	—	45,275	—	13,371
Conversion of 728 shares of Series A and 405 shares of Series B preferred for 4,169 shares of common stock	4,169	12,507	—	—	62,417	—	74,953
Cash dividends on preferred stock:							
Series A—$2.50 per share	—	—	—	—	—	(10,120)	—
Series B—$1.60 per share	—	—	—	—	—	(12,327)	—
Net earnings for the year	—	—	—	—	—	2,894,265	—
Balance, December 31, 1984	2,050,376	6,151,128	364,000	884,500	9,609,569	17,668,444	753,509
Exercise of stock options	16,800	50,400	—	—	229,643	—	—
Conversion of 3,139 shares of Series A and 7,098 shares of Series B preferred for 37,675 shares of common stock	37,675	113,025	—	—	616,895	—	730,111
Redemption of 362 shares of Series A and 403 shares of Series B preferred stock	—	—	—	—	—	—	38,250
Retirement of preferred stock	—	—	(364,000)	(884,500)	(229,999)	—	(1,478,499)
Ten percent stock dividend	207,498	622,494	—	—	3,164,345	(3,794,897)	—
Cash dividends on preferred stock:							
Series A—	—	—	—	—	—	(188)	—
Series B—	—	—	—	—	—	(133)	—
Net earnings for the year	—	—	—	—	—	5,339,793	—
Balance, December 31, 1985	2,312,349	$6,937,047	$ —	$ —	$13,390,453	$19,213,019	$ 43,371

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G (In Part): Stockholders' Equity

Stock Dividend

A ten percent stock dividend was distributed on December 2, 1985 to stockholders of record on November 1, 1985. Average shares outstanding and all per share amounts included in the financial statements and notes are based on the increased number of shares giving retroactive effect to the stock dividend.

DESIGNCRAFT INDUSTRIES, INC.

Consolidated Statement of Changes in Stockholders' Equity

Three years ended February 28, 1985

	Common Stock ($.02 Par Value)		Capital in Excess of Par Value	Retained Earnings (Deficit)	Treasury Stock	
	Shares	Amount			Shares	Amount
Balance—February 28, 1982	1,097,888	$21,958	$4,399,974	($ 121,104)	(8,248)	($ 11,487)
Net income				688,442		
Shares issued for options exercised	1,168	23	1,570			
Shares purchased					(46,300)	(177,050)
Balance—February 28, 1983	1,099,056	21,981	4,401,544	567,338	(54,548)	(188,537)
Net income				1,258,363		
10% stock dividend	104,400	2,088	506,862	(509,198)		
Shares issued for options exercised	7,681	154	31,184			
Balance—February 29, 1984	1,211,137	24,223	4,939,590	1,316,503	(54,548)	(188,537)
Net income				1,030,594		
10% stock dividend	61,294	1,226	809,375	(999,716)	54,548	188,537
Shares issued for services rendered	2,500	50	26,825			
Balance—February 28, 1985	1,274,931	$25,499	$5,775,790	$1,347,381	-0-	-0-

Dividends in Kind

AMOCO CORPORATION

Consolidated Statement of Shareholders' Equity

For the Years 1985, 1984, and 1983

millions of dollars, except per-share amounts	Common Stock	Earnings Retained and Invested in the Business	Foreign Currency Translation Adjustment	Treasury Shares	Total
Balance on December 31, 1982	$2,244	$ 9,897	$(134)	$ (581)	$11,426
Net income		1,868			1,868
Cash dividends of $2.80 per share		(819)			(819)
Foreign currency translation adjustment			(29)		(29)
Issuances (acquisitions) of treasury shares, etc.	3			(9)	(6)
Balance on December 31, 1983	2,247	10,946	(163)	(590)	12,440
Net income		2,183			2,183
Cash dividends of $3.00 per share		(856)			(856)
Foreign currency translation adjustment			(43)		(43)
Acquisitions of treasury shares, etc.	(9)			(1,191)	(1,200)
Balance on December 31, 1984	2,238	12,273	(206)	(1,781)	12,524
Net income		1,953			1,953
Dividends paid					
Cash dividends of $3.30 per share		(872)			(872)
Distribution of Cyprus Minerals Company		(1,212)	4		(1,208)
Foreign currency translation adjustment			1		1
Acquisitions of treasury shares, etc.	(4)			(806)	(810)
Balance on December 31, 1985	$2,234	$12,142	$(201)	$(2,587)	$11,588

NOTES TO FINANCIAL STATEMENTS

2 (In Part): Asset Dispositions

Effective July 1, 1985, the corporation spun off to its shareholders its minerals subsidiary, Cyprus Minerals Company, in a tax-free distribution. The spun-off operations included all majority owned metals, coal, and industrial minerals activities. The transaction resulted in a reduction of shareholders' equity of $1,208 million, the net assets of the spun-off operations.

UNOCAL CORPORATION

Consolidated Shareowners' Equity

	1985	1984	1983
	Millions of Dollars		
Common Shares			
Balance at beginning of year	$ 174	$ 174	$ 362
Sale of Common Shares, etc	—	—	—
Purchase of Common Shares	(58)	—	—
Change in par value of Common Shares	—	—	(188)
Balance at end of year	116	174	174
Capital in Excess of Par Value of Shares Issued			
Balance at beginning of year	351	351	162
Sale of Common Shares, etc	16	—	1
Purchase of Common Shares	(363)	—	—
Change in par value of Common Shares	—	—	188
Balance at end of year	4	351	351
Foreign Currency Translation Adjustment			
Balance at beginning of year	(20)	(8)	(5)
Current year adjustment	(13)	(12)	(3)
Balance at end of year	(33)	(20)	(8)
Retained Earnings			
Balance at beginning of year	5,189	4,663	4,221
Translation adjustment for foreign deferred taxes	—	—	(10)
Adjusted balance at beginning of year	5,189	4,663	4,211
Purchase of Common Shares (net of tax effect)	(3,757)	—	—
Net earnings for year	325	700	626
Total	1,757	5,363	4,837
Dividends declared			
Cash—$1.20 per share in 1985; $1.00 per share in 1984 and 1983	(157)	(174)	(174)
UXP units—$.49 per share (cash equivalent)	(57)	—	—
Balance at end of year	1,543	5,189	4,663
Total shareowners' equity	$1,630	$5,694	$5,180

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Union Exploration Partners (UXP), Ltd.

On August 1, 1985, the company transferred substantially all of Union Oil Company of California's Gulf Region oil and gas properties to the newly formed UXP in exchange for 220 million partnership units. Subsequently, the company sold approximately 8.6 million limited partnership units in an initial public offering and retained approximately 211.4 million units as general partner units representing a 96.1% interest in UXP. The Partnership is accounted for by the company on a fully consolidated basis and follows the company's accounting policies on its oil and gas activities. Union Oil Company of California is the managing general partner of UXP. In December 1985, the company purchased 3.3 million of newly issued units for $68 million to fund UXP's exploration and development activities, and distributed all of these units to its shareowners as dividends. As a result, the company's ownership interest in UXP decreased to 94.7% at year-end 1985.

ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

Reasons for which the opening balance of retained earnings is properly restated include certain changes in accounting principles, changes in reporting entity, and prior period adjustments. Effective for financial statements for fiscal periods beginning after October 15, 1977, *Statement of Financial Accounting Standards No. 16* stipulates that only corrections of errors and "Adjustments that result from realization of income tax benefits of pre-acquisition operating loss carryforwards of purchased subsidiaries," are properly accounted for as prior period adjustments.

Table 4-3 summarizes the reasons disclosed by the survey companies as to why the opening balance of retained earnings was adjusted. As shown in Table 4-3, the most frequently disclosed reason for adjusting the opening balance of retained earnings was for a pooling of interests. Examples of adjustments to the opening balance of retained earnings follow.

TABLE 4-3: ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

	Number of Companies			
	1985	1984	1983	1982
Pooling of interests	10	12	11	11
LIFO discontinued	4	3	3	2
Change in accounting for foreign currency translation	—	—	2	19
Change in accounting for compensated absences	—	1	—	39
Other—Described	5	8	9	12

Pooling of Interests

HUGHES SUPPLY, INC.

Consolidated Statements of Shareholders' Equity

	Common Stock Par Value $1 Per Share	Capital in Excess of Par Value	Retained Earnings
Balance, January 28, 1983, as previously reported	$2,403,957	$ 5,258,828	$30,424,939
Adjustments for pooling of interests	134,145	165,855	212,441
Balance, January 28, 1983, as restated	2,538,102	5,424,683	30,637,380
Net income	—	—	5,872,836
Common shares sold under stock option plan, and related tax benefits (19,695 shares)	19,695	244,994	—
Cash dividends—$.28 per share	—	—	(868,109)
Sale of common shares (685,000 shares)	685,000	15,287,281	—
Purchase and retirement of common shares (1,897 shares)	(1,897)	(12,690)	(33,355)
Gain on common shares contributed to employee benefit plans	—	7,569	—
Balance, January 27, 1984	3,240,900	20,951,837	36,608,752
Net income	—	—	6,823,581
Common shares sold under stock option plan, and related tax benefits (81,333 shares)	81,333	873,910	—
Cash dividends—$.31 per share	—	—	(974,376)
Purchase and retirement of common shares (14,291 shares)	(14,291)	(88,019)	(161,848)
Common shares contributed to employee benefit plans (18,938 shares)	18,938	423,010	—
Balance, January 25, 1985	3,326,880	22,160,738	41,296,109
Net income	—	—	6,601,717
Common shares sold under stock option plan, and related tax benefits (2,381 shares)	2,381	61,877	—
Cash dividends—$.32 per share	—	—	(1,041,176)
Purchase and retirement of common shares (2,186 shares)	(2,186)	(16,261)	(30,498)
Common shares contributed to employee benefit plans (3,733 shares)	3,733	79,592	—
Balance, January 31, 1986	$3,330,808	$22,285,946	$46,826,152

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7—Business Combination:

On September 24, 1985, the Company acquired all the common stock of Carolina Pump & Supply Corp. in exchange for 134,145 shares of the Company's common stock. Carolina is a wholesale distributor of water and sewer products and pump and irrigation equipment and supplies, with eleven sales outlets in North and South Carolina. The business combination has been accounted for as a pooling of interests and, accordingly, the consolidated financial statements for periods prior to the combination have been restated to include the accounts of Carolina. Carolina's previous financial results have been restated from a calendar year to the Company's January fiscal year, the effect of which was immaterial.

The following table shows the effect on results of operations for the periods prior to the combination:

Six Months Ended July 31, 1985 (Unaudited):	Sales	Net Income	Net Income Per Share	Average Number of Shares Outstanding
The Company	$143,050,110	$2,996,188	$ .94	3,191,457
Carolina	14,909,613	340,414		
Combined	$157,959,723	$3,336,602	$1.01	3,325,602

Fiscal Year Ended January 25, 1985	Sales	Net Income	Net Income Per Share	Average Number of Shares Outstanding
The Company (as previously reported)	$285,454,791	$6,327,120	$2.02	3,127,847
Carolina	25,014,863	496,461		
Combined	$310,469,654	$6,823,581	$2.09	3,261,992

Fiscal Year Ended January 27, 1984	Sales	Net Income	Net Income Per Share	Average Number of Shares Outstanding
The Company (as previously reported)	$237,240,176	$5,438,458	$1.85	2,943,392
Carolina	19,438,262	434,378		
Combined	$256,678,438	$5,872,836	$1.91	3,077,537

There were no transactions between the Company and Carolina prior to the combination.

Change in Accounting Principles

BMC INDUSTRIES, INC.

Consolidated Statements of Stockholders' Equity

(in thousands, except per share amounts) Years Ended December 31, 1985, 1984 and 1983	Common Stock	Capital in Excess of Par Value	Retained Earnings (Deficit)	Treasury Stock	Cumulative Translation Adjustment
Balance at December 31, 1982	$ 453	$20,214	$37,321	$(3,013)	$ (953)
Adjustment for the cumulative effect of retroactive application of change to average cost inventory valuation method			516		
Net earnings—1983			7,987		
Dividends—$.40 per share			(1,897)		
Exercise of options—15 shares		(142)		282	
Reclassification as common stock without par value and retirement of treasury stock	19,835	(20,072)	(2,494)	2,731	
Exercise of options—2 shares	18				
800 shares issued—public offering	18,180				
Translation adjustment for 1983					(209)
Balance at December 31, 1983	38,486	—	41,433	—	(1,162)
Net earnings—1984			2,449		
Dividends—$.46 per share			(2,379)		
Exercise of options—33 shares	329				
Translation adjustment for 1984					(701)
Balance at December 31, 1984	38,815	—	41,503	—	(1,863)
Net (loss)—1985			(69,613)		
Dividends—$.12 per share			(621)		
Restricted shares issued under 1984 Omnibus Stock Program—9 shares	47				
Translation adjustment for 1985					1,170
Balance at December 31, 1985	$38,862	$ —	$(28,731)	$ —	$ (693)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share amounts)

4. Inventories

The following is a summary of inventories at December 31:

	1985	1984
Raw materials	$ 9,519	$ 6,183
Work in process	2,835	2,407
Finished goods	14,092	12,305
Total inventories	$26,446	$20,895

In the third quarter of 1985, the Company changed its method of determining cost for domestic aperture mask and certain optical product inventories to the average cost method from the last-in, first-out (LIFO) method. The Company believes the change is to a preferable method in the present circumstances because the change in valuation method will more fairly present significant financial statement amounts and ratios, as well as the stockholders' equity in the business, which, because of the loss from discontinued operations, including the provision for loss on disposal (see Note 3), and the resulting noncompliance with covenants of the revolving credit and subordinated debt agreements (see Note 6), have become a significant concern of the many constituencies who support the Company. Under those circumstances, use of the average cost method of inventory valuation presents inventories at cost values that more closely reflect the inventories' current worth. In addition, the change in method of accounting for the cost of domestic aperture mask and certain optical product inventories conforms the method of accounting for those inventories to the method used for the Company's other inventories and to the method of accounting used for federal income tax purposes.

The change in accounting method has been applied by retroactively restating the financial statements. As a result, retained earnings were increased $516 as of December 31, 1982. The effect of the change in accounting method on the Consolidated Statements of Operations is as follows:

	Twelve Months Ended December 31,		
Earnings (Loss):	1985	1984	1983
Effect on Continuing Operations	$114	$502	$238
Effect on Discontinued Operations	—	—	(39)
Effect on Net Earnings (Loss)	$114	$502	$199
Per Share			
Effect on Continuing Operations	$.02	$.10	$.05
Effect on Discontinued Operations	—	—	(.01)
Effect on Net Earnings (Loss)	$.02	$.10	$.04

BORDEN, INC.

Consolidated Statement of Shareholders' Equity

For the Three Years Ended December 31, 1985
(In thousands)

	Capital Stock Issued					
	Preferred Series B	Common	Paid-In Capital	Accumulated Translation Adjustment	Retained Earnings	Treasury Stock
Balance, December 31, 1982 as previously reported	$101	$123,403	$236,323	$(51,349)	$1,161,432	$(128,577)
Cumulative effect of retroactive change in accounting method for oil and gas operations					(44,527)	
Balance, December 31, 1982 as restated	101	123,403	236,323	(51,349)	1,116,905	(128,577)
Net income					184,581	
Cash dividends:						
Common stock					(68,649)	
Preferred series B					(31)	
Translation adjustment for the period				(23,915)		
Stock reacquired for acquisitions and treasury						(70,217)
Convertible debentures and preferred series B stock converted	(8)	2,157	14,957			
Stock issued for exercised options and Management Incentive Plan		590	5,753			
Balance, December 31, 1983	93	126,150	257,033	(75,264)	1,232,806	(198,794)
Net income					182,082	
Cash dividends:						
Common stock					(71,038)	
Preferred series B					(28)	
Translation adjustment for the period				(28,078)		
Stock reacquired for acquisitions and treasury						(118,665)
Preferred series B stock converted	(11)	2	(84)			93
Stock issued for exercised options and Management Incentive Plan		88	1,266			1,953
Balance, December 31, 1984	82	126,240	258,215	(103,342)	1,343,822	(315,413)
Net income					193,804	
Cash dividends:						
Common stock					(76,477)	
Preferred series B					(24)	
Translation adjustment for the period				9,324		
Stock reacquired for acquisitions and treasury						(42,324)
Preferred series B stock converted	(11)		(119)			130
Stock issued for exercised options			1,290			3,998
Stock issued for acquisitions			4,151			4,449
Balance, December 31, 1985	$ 71	$126,240	$263,537	$ (94,018)	$1,461,125	$(349,160)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands except share and per share data)

2 (In Part): Restatement of Previously Reported Financial Information

A. Change in Accounting Method

During 1985 the Company accounted for its oil and gas operations under the "successful efforts" method whereas in prior periods those operations were accounted for under the "full cost" method. As required by generally accepted accounting principles, the financial statements of prior periods have been restated to retroactively reflect the change, such change having been previously reported upon and filed with the Securities and Exchange Commission on November 6, 1985. The "successful efforts" method was adopted because the Company's management believes it more accurately reflects the current and planned future levels of the Company's exploration and production activities. The effect of the accounting change on income and earnings per share for 1984 and 1983 is as follows:

	1984	1983
Net income as previously reported	$191,407	$189,069
Effect of change in accounting method	(9,325)	(4,488)
Net income as restated	$182,082	$184,581
Per share amounts:		
Net income as previously reported	$ 3.57	$ 3.28
Effect of change in accounting method	(.18)	(.08)
Net income as restated	$ 3.39	$ 3.20

The effect of the change on the December 31, 1984 balance sheet was to decrease property by $116,992, deferred income taxes by $58,682 and retained earnings by $58,340.

THE DOW CHEMICAL COMPANY

Consolidated Statement of Stockholders' Equity

December 31 (in millions)	1985	1984	1983
Common stock			
Balance at beginning of year	$ 522	$ 516	$ 510
Sold to employees	6	6	6
Balance at end of year	$ 528	$ 522	$ 516
Additional paid-in capital			
Balance at beginning of year	$ 597	$ 552	$ 516
Sale of common stock to employees in excess of par	55	45	44
Excess of cost over market value of treasury shares issued in exchange for long-term debt			(8)
Balance at end of year	$ 652	$ 597	$ 552
Retained earnings			
Balance at beginning of year (as previously reported)	$4,361	$4,123	$4,141
Retroactive inventory accounting change (Note A)	(20)	5	11
Balance at beginning of year (as adjusted)	4,341	4,128	4,152
Net income	58	560	328
Cash dividends declared ($1.80 per share)	(341)	(347)	(352)
Balance at end of year	$4,058	$4,341	$4,128
Cumulative translation adjustments			
Balance at beginning of year	$ (37)	$ 8	$ 18
Current year translation adjustment	57	(45)	(10)
Balance at end of year	$ 20	$ (37)	$ 8
Treasury stock			
Balance at beginning of year	$ 383	$ 153	$ 127
Purchase of stock	83	230	73
Exchanged for long-term debt			(47)
Balance at end of year	$ 466	$ 383	$ 153

NOTES TO FINANCIAL STATEMENTS

(dollars in millions, except per share)

A. Accounting Change

As a result of continued high inflation rates in many foreign countries and the devaluation of their currencies against the U.S. dollar, Dow's worldwide use of the last-in, first-out (LIFO) inventory accounting method no longer yields the best matching of costs and revenue. Effective January 1, 1985, management has decided to change its method of accounting for most of the foreign inventories from LIFO and adopt the first-in, first-out (FIFO) or average cost methods to provide a better matching of costs and revenue, consistent with conservative accounting practices.

Inventories in the United States and Dow's Foreign Sales Corporation, plus foreign hydrocarbon inventories, remained on LIFO.

On a restated basis, net income was reduced $25 or $.13 per share and $6 or $.03 per share in 1984 and 1983, respectively, and $78 or $.41 per share and $34 or $.18 per share in 1982 and 1981, respectively.

All reference to results for these years in the Notes to Financial Statements reflect the impact of the accounting change and restatement.

Prior Period Adjustment

DSC COMMUNICATIONS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Restatement of Consolidated Financial Statements

On October 2, 1985, the Company announced that it was restating the 1984 consolidated financial statements to exclude approximately $25,700,000 of revenue for shipments of certain switching expansion systems and units for which a customer denied any obligation or commitment. There is a long-term Supply Agreement between the Company and the customer which sets forth terms and conditions, including those covering price and delivery, that are applicable to purchases of digital switching systems and related equipment and software. The Agreement further provides that the customer shall issue a purchase order for each purchase under the Agreement. The Company was informed that the customer believed it did not have any commitment or obligation to retain or pay for equipment under certain purchase orders. Although the Company believes that the purchase orders were valid and the equipment had been delivered as contractually required, the customer was allowed to return the equipment to the Company.

Adjustments were also made to exclude approximately $6,900,000 of revenue from certain orders or contracts from other customers for switching systems where there were uncertainties at December 31, 1984.

The effect of the restatements on the 1984 financial statements is summarized as follows:

	As Previously Reported	As Restated
	(In thousands, except per share data)	
Statement of Operations		
Revenue	$352,187	$319,604
Cost of revenue	179,515	172,739
Income taxes	40,699	28,312
Net earnings	57,316	43,896
Earnings per share	$ 1.40	$ 1.08
Balance Sheet		
Receivables	$156,090	$123,507
Inventories	125,151	130,652
Other current assets	11,566	11,965
Accrued liabilities	30,628	29,752
Deferred income taxes (current)	40,493	28,106
Total shareholders' equity	245,039	231,619

The Company restated its consolidated financial statements for the first quarter of 1985 to exclude approximately $26,008,000 of revenue from shipments of certain switching systems to customer-designated interim storage locations during the first quarter of 1985 for the same customer referred to above. The switching systems shipped to the customer-designated storage locations in 1985 and recorded as revenue in the first quarter of 1985 were shipped when requested and pursuant to an order which identified the customer's proposed operating sites and stated that the systems were planned for the second and third quarters of 1985. However, in September of 1985, Company management became aware of the existence of a letter from the customer which provided that at the date of the order the customer did not have firm requirements for the switching systems and would not be required to retain or pay for such equipment if the customer did not have future requirements for the equipment. The Company concluded after becoming aware of these details that the first quarter's results of operations should not have included revenue attributable to the particular equipment. In the fourth quarter of 1985, the Company and the customer released each other from claims arising from the transactions included in the restatements.

OTHER CHANGES IN RETAINED EARNINGS

In addition to opening balance adjustments, the retained earnings account is affected by direct charges and credits. The most frequent direct charges to retained earnings are net loss for the year, losses on treasury stock transactions, and cash or stock dividends. The most common direct credit to retained earnings is net income for the year. Direct charges and credits—other than net loss, net income, dividends and stock splits—are summarized in Table 4-4. Examples of such charges and credits follow.

Treasury Stock Transactions

ATLANTIC RICHFIELD COMPANY

Consolidated Statement of Retained Earnings

(Millions of dollars except per share amounts)	1985	1984	1983
Balance, January 1	$8,782	$8,969	$8,025
Net income (loss)	(202)	567	1,548
Cash dividends:			
Cumulative preferred stock, 3.75% Series B	(1)	(1)	(1)
$3.00 Cumulative convertible preference stock	(1)	(1)	(1)
$2.80 Cumulative convertible preference stock	(6)	(6)	(7)
Common stock	(766)	(746)	(595)
Cancellation of treasury stock	(1,542)	—	—
Balance, December 31	$6,264	$8,782	$8,969

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Stockholders' Equity

In May 1985, the stockholders of Atlantic Richfield approved a plan of merger by which the Company would change its state of incorporation from Pennsylvania to Delaware by merging into a wholly owned Delaware subsidiary. In order to consummate the merger, the Company cancelled approximately 34 million shares (at a total cost of $1,808 million) of common stock held in treasury. As a result of the cancellation, common stock decreased by $86 million; capital in excess of par value of stock decreased by $180 million, and retained earnings decreased by $1,542 million.

ABBOTT LABORATORIES

Consolidated Statement of Earnings Employed in the Business

(dollars in thousands except per share data)	Year ended December 31 1985	1984	1983
Balance at Beginning of Year	$1,651,227	$1,402,742	$1,188,022
Net earnings	465,335	402,575	347,617
Cash dividends declared—on common shares at $1.40, $1.20, and $1.00 per share in 1985, 1984, and 1983, respectively	(167,913)	(144,582)	(121,512)
Cost of treasury shares retired in excess of stated capital amount	(92,236)	—	—
Cost of treasury shares issued over proceeds from stock options exercised	(12,213)	(9,508)	(11,385)
Balance at End of Year	$1,844,200	$1,651,227	$1,402,742

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5—Capital Shares

(dollars in thousands)

Changes in outstanding common shares were as follows:

	Issued Shares	
	Shares	Amount
Issued January 1, 1983	124,086,672	$180,683
Tax effect from sale of option shares	—	3,042
Issued December 31, 1983	124,086,672	$183,725
Tax effect from sale of option shares	—	2,659
Issued December 31, 1984	124,086,672	$186,384
Tax effect from sale of option shares	—	2,563
Retired	(2,042,270)	(3,068)
Issued December 31, 1985	122,044,302	$185,879
	Treasury Shares	
	Shares	Amount
Treasury shares, January 1, 1983	1,983,006	$ 57,819
Purchased or exchanged	1,704,209	76,421
Issued under stock option plans	(698,315)	(23,160)
Treasury shares, December 31, 1983	2,988,900	$111,080
Purchased or exchanged	1,414,824	60,062
Issued under stock option plans	(551,324)	(20,463)
Treasury shares, December 31, 1984	3,852,400	$150,679
Purchased or exchanged	1,371,125	75,654
Issued under stock option plans	(732,237)	(27,635)
Retired	(2,042,370)	(95,304)
Treasury shares, December 31, 1985	2,448,918	$103,394

As of December, 1985, the Company retired all treasury shares repurchased during the period July, 1984 through December, 1985.

At December 31, 1985, 5,540,579 common shares were reserved for current and future stock option grants.

At December 31, 1985, the Company had 1,000,000 preferred shares (one dollar par value) authorized and unissued.

TABLE 4-4: OTHER CHANGES IN RETAINED EARNINGS

	Number of Companies			
	1985	1984	1983	1982
Charges				
Purchase or retirement of capital stock..............	61	51	37	43
Treasury stock issued for less than cost............	27	25	22	21
Translation adjustments.....	11	17	15	15
Preferred stock accretion...	13	12	10	6
Other—Described	21	22	13	14
Credits				
Poolings of interests.........	7	7	8	9
Other—Described	20	12	16	22

IROQUOIS BRANDS, LTD.

Consolidated Statement of Changes in Shareholders' Equity

	$1 par value Common stock	Capital in excess of par value	Retained earnings	Cumulative translation adjustment	Treasury stock, at cost
December 31, 1982........................	$1,843,000	$14,258,000	$13,161,000	$(772,000)	$ (548,000)
Net income—1983..........................	—	—	3,120,000	—	—
Purchase of 273,402 common shares.....	—	—	—	—	(4,196,000)
Exercise of stock options	39,000	236,000	—	—	(235,000)
Retirement of treasury shares.............	(337,000)	(2,300,000)	(2,342,000)	—	4,979,000
Aggregate translation adjustment for the year.......................................	—	—	—	(62,000)	—
December 31, 1983........................	1,545,000	12,194,000	13,939,000	(834,000)	—
Net income—1984..........................	—	—	6,410,000	—	—
Purchase of 431,317 common shares.....	—	—	—	—	(10,880,000)
Exercise of stock options	11,000	80,000	—	—	(17,000)
Retirement of treasury shares.............	(432,000)	(3,422,000)	(7,043,000)	—	10,897,000
Aggregate translation adjustment for the year.......................................	——		—	(111,000)	—
Capital adjustment at a subsidiary.........	—	(36,000)	—	—	—
December 31, 1984........................	1,124,000	8,816,000	13,306,000	(945,000)	—
Net income—1985..........................	—	—	19,000	—	—
Purchase of 243,800 common shares.....	—	—	—	—	(9,335,000)
Exercise of stock options	30,000	352,000	—	—	(369,000)
Retirement of treasury shares.............	(255,000)	(1,907,000)	(7,543,000)	—	9,704,000
Aggregate translation adjustment for the year.......................................	—	—	—	116,000	—
December 31, 1985........................	$ 899,000	$7,261,000	$ 5,782,000	$(829,000)	$ —

JOHNSON CONTROLS, INC.

Consolidated Statement of Shareholders' Equity

	Total	Preferred Stock	Common Stock	Capital In Excess of Par Value	Retained Earnings	Treasury Stock at Cost	Cumulative Translation Adjustments
				(In thousands)			
At September 30, 1982	$382,349	$ 743	$13,135	$159,047	$219,326	$(5)	$ (9,897)
Net income	59,041	—	—	—	59,041	—	—
Cash dividends							
Series B preferred ($2.00 per share)	(1,368)	—	—	—	(1,368)	—	—
Common ($1.50 per share)	(19,835)	—	—	—	(19,835)	—	—
Translation adjustments	(2,069)	—	—	—	—	—	(2,069)
Other	405	(86)	128	358	—	5	—
At September 30, 1983	418,523	657	13,263	159,405	257,164	—	(11,966)
Net income	66,723	—	—	—	66,723	—	—
Conversion and redemption of Series B preferred stock	(99)	(657)	808	(250)	—	—	—
Change in par value of common stock from $1.00 to $.50	—	—	(7,041)	7,041	—	—	—
Cash dividends							
Common ($1.66 per share)	(23,385)	—	—	—	(23,385)	—	—
Translation adjustments	(2,106)	—	—	—	—	—	(2,106)
Other	489	—	18	471	—	—	—
At September 30, 1984	460,145	—	7,048	166,667	300,502	—	(14,072)
Net income	78,290	—	—	—	78,290	—	—
Issuance of common stock in Hoover acquisition	263,476	—	3,136	260,340	—	—	—
Repurchase and retirement of common stock	(79,912)	—	(887)	(37,577)	(41,448)	—	—
Issuance of Series C preferred stock	72,521	1,500	—	71,021	—	—	—
Cash dividends							
Series C preferred ($.2479 per share)	(372)	—	—	—	(372)	—	—
Common ($1.86 per share)	(31,330)	—	—	—	(31,330)	—	—
Translation adjustments	(260)	—	—	—	—	—	(260)
Other	2,773	—	59	2,714	—	—	—
At September 30, 1985	$765,331	$1,500	$ 9,356	$463,165	$305,642	$—	$(14,332)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Shareholders' Equity

On May 12, 1985, 6,273,240 shares of common stock were issued in connection with the acquisition of Hoover. Each share was valued at $42.00, the prevailing market price. On July 5, 1985, the Company repurchased from certain shareholders and retired 1,773,845 shares of its common stock for an aggregate cost, including expenses, of $79.9 million.

LEE ENTERPRISES, INCORPORATED

Consolidated Statements of Stockholders' Equity

Years Ended September 30	1985	1984 ($000)	1983
Common Stock			
Balance, beginning	$ 30,224	$ 30,224	$ 15,112
Add common stock split	—	—	15,112
Balance, ending	$30,224	$ 30,224	$ 30,224
Retained Earnings			
Balance, beginning	$128,206	$111,335	$111,024
Add net income	30,730	26,749	22,774
	$158,936	$138,084	$133,798
Deduct:			
Cash dividends 1985 $.89 per share; 1984 $.74 per share; 1983 $.63 per share	11,580	9,878	8,424
Common stock split	—	—	14,039
Excess of cost over proceeds of treasury shares issued	3,397	—	—
Balance, ending	$143,959	$128,206	$111,335
Treasury Stock			
Balance, beginning	$ 27,753	$ 22,214	$ 16,476
Add treasury stock reacquired 1985 754,000 shares; 1984 342,000 shares; 1983 413,000 shares	27,995	8,293	8,223
	$ 55,748	$ 30,507	$ 24,699
Deduct shares issued 1985 185,000 shares; 1984 152,000 shares; 1983 201,000 shares	7,141	2,754	2,485
Balance, ending 1985 2,447,000 shares; 1984 1,878,000 shares; 1983 1,688,000 shares	$ 48,607	$ 27,753	$ 22,214
Stockholders' Equity	$125,576	$130,677	$119,345

Preferred Stock Conversion

ALLEGHENY INTERNATIONAL, INC.

Consolidated Statements of Additional Paid-in Capital and Retained Earnings

	1985	1984 (In thousands)	1983
Additional Paid-In Capital			
Amount at beginning of year	$146,365	$136,842	$134,815
Excess of carrying value over cost of $2.19 Cumulative Preference Stock acquired for sinking fund	340	9,995	1,429
Conversion of $11.25 Convertible Preferred Stock	66,368	—	15
Other	235	(472)	583
Amount at end of year	$213,308	$146,365	$136,842
Retained Earnings			
Amount at beginning of year	$265,337	$308,050	$339,856
Net earnings (loss)	(109,143)	14,918	28,305
	156,194	322,968	368,161
Dividends:			
On $2.19 Cumulative Preference Stock—$2.19 per share	(6,177)	(8,227)	(10,352)
On $11.25 Convertible Preferred Stock—$11.25 per share	(22,873)	(30,773)	(30,773)
On Common Stock—$1.40 per share	(15,062)	(15,280)	(15,703)
Accretion of $2.19 Cumulative Preference Stock	(427)	(650)	(919)
Accretion of $11.25 Convertible Preferred Stock	(1,600)	(2,701)	(2,364)
Excess of cost over carrying value of $11.25 Convertible Preferred Stock acquired	(8,314)	—	—
	(54,453)	(57,631)	(60,111)
Amount at end of year	$101,741	$265,337	$308,050

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Redeemable Preferred Stocks

The $2.19 Cumulative Preference Stock ("$2.19 Preference Stock"), of which 9,271,629 shares without par value are authorized, may be redeemed by Allegheny in whole or in part at a price of $26.39 per share to June 30, 1986, and thereafter the per share amount is reduced by $.10 each subsequent July 1 to a minimum of $25.00 per share on July 1, 1999, plus in all cases accrued dividends. On each July 1 through the year 2002, Allegheny is required to redeem as a sinking fund 276,010 shares of $2.19 Preference Stock at a per share price of $25.00, plus accrued dividends. As of December 29, 1985, Allegheny held a sufficient number of shares to satisfy the redemption requirements through the year 1991.

In the event of voluntary liquidation of Allegheny, the holders of the $2.19 Preference Stock are entitled to receive an amount equal to the per share redemption price.

The $11.25 Convertible Preferred Stock ("$11.25 Preferred Stock"), of which 2,821,318 shares without par value are authorized, was issued as a series of Allegheny's Cumulative Preferred Stock having 10,000,000 authorized shares.

The $11.25 Preferred Stock is convertible into Common Stock at the rate of 1.724 shares of Common Stock for each share of $11.25 Preferred Stock (which conversion rate is subject to adjustment). The $11.25 Preferred Stock may be redeemed by Allegheny in whole, but not in part, to January 2, 1987 at $100.00 per share plus accrued dividends if the average market price per share of Allegheny Common Stock at that time exceeds 110% of the conversion price per share (the conversion price per share at December 29, 1985 being $58.00) and is redeemable in whole or in part at Allegheny's option at any time after January 2, 1987 at $100.00 per share, plus accrued dividends. On December 1 of each of the years 1991 through 2015, Allegheny is required to redeem as a sinking fund 109,425 shares of $11.25 Preferred Stock, at a per share price of $100.00, plus accrued dividends.

In the event of voluntary liquidation of Allegheny, the holders of $11.25 Preferred Stock are entitled to receive a liquidation preference of $100.00 per share, plus accrued dividends, subject to the prior payment by Allegheny of the liquidation preference of the $2.19 Preference Stock.

The initial assigned values of the $2.19 Preference Stock and $11.25 Preferred Stock ($22.03 and $81.00 per share, respectively) are being increased to their redemption prices ($25.00 and $100.00 per share, respectively) during the period in which such stocks are outstanding. Periodic accretions, based on the "interest method," are charged to retained earnings.

Holders of the $2.19 Preference Stock and $11.25 Preferred Stock are entitled to one-quarter vote and one vote per share, respectively.

No additional shares of $2.19 Preference Stock or $11.25 Preferred Stock may be issued.

Changes in the number of outstanding shares of redeemable preferred stocks were as follows:

	$2.19 Cumulative Preference Stock	$11.25 Convertible Preferred Stock
Balance at January 2, 1983	4,992,656	2,735,533
Purchased for sinking fund	(430,900)	—
Converted into Common Stock	—	(180)
Balance at January 1, 1984	4,561,756	2,735,353
Purchased for sinking fund	(124,187)	—
Acquired in exchange offer	(1,546,562)	—
Balance at December 30, 1984	2,891,007	2,735,353
Purchased for sinking fund	(76,900)	—
Converted into Common Stock	—	(819,403)
Balance at December 29, 1985	2,814,107	1,915,950

In 1985, a wholly-owned foreign subsidiary of Allegheny purchased 819,400 shares of the $11.25 Preferred Stock which it converted into shares of Allegheny Common Stock. The Common Stock was then distributed to Allegheny in the form of a dividend and is being held as treasury stock.

Preferred Stock Accretion

LUCKY STORES, INC.

Consolidated Retained Earnings

Years ended February 2, 1986, February 3, 1985, and January 29, 1984 (in thousands except per share amount)	1985	1984	1983
Beginning of year	$351,025	$316,708	$271,494
Net earnings	86,526	94,631	105,400
Cash dividends:			
Preference	(1,368)	(1,370)	(1,372)
Common—$1.16 a share	(59,130)	(58,944)	(58,814)
Amortization of the excess of redemption value over fair value of preference shares	(2,512)		
End of year	$374,541	$351,025	$316,708

FINANCIAL REVIEW 1985

Shareholders' Investment (In Part)

At February 2, 1986, 232,641 shares of the five million shares authorized of no par value preference shares were issued and outstanding. All shares have preference as to dividends and redemption value in liquidation and substantially all are convertible into common shares. All are redeemable under sinking funds after various stipulated dates, 225,641 shares at $100 a share and 7,000 shares at $50 a share. The preference shares with a redemption value of $100 a share were issued in 1979 in connection with the acquisition of Tampa Wholesale Company. The shares were originally recorded at their estimated fair value of $75.34 a share. Beginning in 1985 this amount is being periodically increased to the redemption value of $100 a share through a charge to retained earnings. Redemption requirements through 1988 are not significant. Beginning in 1989, annual sinking fund requirements are $2.3 million.

The Company's authorized capital also includes one hundred thousand preferred shares of $50 par value which are unissued.

Reclassification to Common Stock Subject to Redemption

CBS INC.

Consolidated Statements of Retained Earnings and Additional Paid-In Capital

(Dollars in millions, except per share amounts)

	Year ended December 31		
	1985	1984	1983
Retained Earnings			
Balance at beginning of year	$1,309.3	$1,181.7	$1,077.6
Net income	27.4	212.4	187.2
Less cash dividends:			
Common stock, $3.00 per share in 1985, $2.85 per share in 1984 and $2.80 per share in 1983 (dividend restrictions are contained in note 13)	(79.8)	(84.7)	(83.0)
Preference stock, Series A, $1.00 per share		(.1)	(.1)
Preference stock, Series B, $4.17 per share	(5.2)		
Accretion of preference stock, Series B	(.1)		
Retirement of common stock repurchased	(936.8)		
Reclassification to common stock subject to redemption (note 17)	(63.4)		
Balance at end of year	$ 251.4	$1,309.3	$1,181.7
Additional Paid-In Capital			
Balance at beginning of year	$ 286.4	$ 286.6	$ 287.7
Retirement of common stock repurchased	(58.3)		
Reclassification to common stock subject to redemption (note 17)	(4.0)		
Conversion of Series A preference stock	(.8)	(.3)	(.9)
Exercise of stock options	3.4	.1	
Miscellaneous, net	.2		(.2)
Balance at end of year	$ 226.9	$ 286.4	$ 286.6

Note 17. Common Stock Subject To Redemption

At the time of the Offer to Purchase, as described in note 16, William S. Paley, Founder Chairman, Chairman of the Executive Committee and a director of the Company, owned directly 1,548,091 shares of the Company's common stock, and certain members of his family, a related partnership and certain affiliated trusts (Related Persons) collectively owned 360,155 shares of common stock. Mr. Paley and the partnership entered into an agreement with the Company under which they agreed not to tender any shares owned by them pursuant to the Offer to Purchase. However, Mr. Paley and the Related Persons have the option to sell to the Company, subject to certain limitations, a maximum of 434,489 shares for $150 per share in cash (without interest). The option may not be exercised prior to August 1, 1988, except in the case of the earlier death of Mr. Paley, and will expire on August 1, 1995.

A reclassification to Common Stock Subject to Redemption has been made by the removal from Shareholders' Equity of the pro rata share of the individual components related to the shares covered by the option as follows:

	(In millions)
Common stock	$ (1.1)
Additional paid-in capital	(4.0)
Foreign currency fluctuations	3.3
Retained earnings	(63.4)
	$(65.2)

Redemption of Rights

RCA CORPORATION

Consolidated Changes in Shareholders' Equity

	$3.50 Cumulative Preferred	$4 Cumulative Convertible Preferred	Common Stock	Additional Paid-In Capital	Retained Earnings	Translation Adjustment	Total
Balance at December 31, 1982..	$2.1	$7.7	$54.4	$586.1	$1,221.9	$(46.7)	$1,825.5
Net income					227.0		227.0
Dividends							
$3.65 preference					(41.3)		(41.3)
$2.125 preference					(23.7)		(23.7)
$3.50 preferred					(.5)		(.5)
$4 preferred					(3.8)		(3.8)
Common					(73.4)		(73.4)
Translation adjustment						(9.8)	(9.8)
Exercise of stock options			.1	5.4			5.5
Balance at December 31, 1983..	2.1	7.7	54.5	591.5	1,306.2	(56.5)	1,905.5
Net income					341.0		341.0
Dividends							
$3.65 preference					(41.7)		(41.7)
$2.125 preference					(23.8)		(23.8)
$3.50 preferred					(.5)		(.5)
$4 preferred					(3.8)		(3.8)
Common					(82.3)		(82.3)
Translation adjustment						(11.3)	(11.3)
Exercise of stock options			.2	6.5			6.7
Conversion of securities		(.1)		.3			.2
Balance at December 31, 1984..	2.1	7.6	54.7	598.3	1,495.1	(67.8)	2,090.0
Net income					369.1		369.1
Dividends							
$3.65 preference					(13.9)		(13.9)
$2.125 preference					(6.6)		(6.6)
$3.50 preferred					(.5)		(.5)
$4 preferred					(3.4)		(3.4)
Common					(89.5)		(89.5)
Translation adjustment (Note 3)..						28.3	28.3
Exercise of stock options			.2	12.5			12.7
Conversion of $2.125 preference			4.9	206.7			211.6
Conversion of other securities....		(1.5)	.3	1.5			.3
Purchases of $3.65 preference ..					(36.6)		(36.6)
Redemption of $2.125 preference					(2.7)		(2.7)
Redemption of rights (Note 2)....					(9.0)		(9.0)
Balance at December 31, 1985..	$2.1	$6.1	$60.1	$819.0	$1,702.0	$(39.5)	$2,549.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Proposed Merger With General Electric Company

In anticipation of the proposed merger, on December 31, 1985 RCA redeemed the Preference Share Purchase Rights at $.10 per Right. These Rights had been declared as a dividend to shareholders on September 9, 1985 and were never exercisable.

Merger costs incurred and included in Other Income, net in 1985 were $5 million. This amount does not include other costs that will be incurred upon consummation of the merger.

Adjustment Related to Step Acquisition

REICHHOLD CHEMICALS, INC.

Consolidated Statements of Common Shareholders' Equity

Years Ended December 31, 1985, 1984 and 1983

(Dollars in thousands)	Common stock	Capital in excess of par value	Retained earnings	Unrealized loss on marketable equity security	Cumulative foreign currency translation adjustment	Treasury stock
Balance, January 1, 1983	6,923,770	$55,552	$116,226	$(3,383)	$ (6,947)	$ (91)
Net income	—	—	21,700	—	—	—
Dividends:						
Common stock—$.51 per share	—	—	(3,542)	—	—	—
Preferred stock	—	—	(2,738)	—	—	—
Exercise of stock options	51,853	522	—	—	—	(288)
Adjustment of unrealized loss	—	—	—	2,053	—	—
Translation adjustment	—	—	—	—	(2,407)	—
Income taxes allocated to translation adjustments	—	—	—	—	(68)	—
Balande, December 31, 1983	6,975,623	56,074	131,646	(1,330)	(9,422)	(379)
Net income	—	—	25,709	—	—	—
Dividends:						
Common stock—$.65 per share	—	—	(4,659)	—	—	—
Preferred stock	—	—	(1,419)	—	—	—
Discount on preferred stock repurchase	—	—	1,500	—	—	—
Issuance of common stock	350,000	8,250	—	—	—	—
Exercise of stock options	26,758	290	—	—	—	(62)
Treasury stock sold to savings investment plan	—	50	—	—	—	292
Adjustment of unrealized loss	—	—	—	(1,230)	—	—
Translation adjustment	—	—	—	—	(4,240)	—
Income taxes allocated to translation adjustments	—	—	—	—	8	—
Balance, December 31, 1984	7,352,381	64,664	152,777	(2,560)	(13,654)	(149)
Net (loss)	—	—	(28,432)	—	—	—
Dividends:						
Common stock—$.80 per share	—	—	(5,905)	—	—	—
Exercise of stock options	45,383	993	—	—	—	(406)
Stock sold to savings investment plan	21,476	793	—	—	—	167
Purchase of Reichhold Limited	—	(897)	(2,385)	2,560	(364)	—
Translation adjustment	—	—	—	—	4,269	—
Balance, December 31, 1985	7,419,240	$65,553	$116,055	$ —	$ (9,749)	$(388)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part):

Business Combinations

During April, 1985, the Company purchased all the outstanding common stock of Reichhold Limited, a Canadian corporation, for approximately $42.8 million. The Company previously owned 11.3% of Reichhold Limited and accounted for the investment as a noncurrent marketable equity security. At December 31, 1984, the investment was carried at the lower of cost, $5.8 million, or market, $3.2 million, with the related valuation account included as a separate component of shareholders' equity. The acquisition has been accounted for as a purchase using the consolidation procedures for step acquisitions. Accordingly, components of shareholders' equity have been adjusted as of April 1, 1985 to reflect the Company's previous ownership interest in Reichhold Limited.

Repurchase of Warrants

WARNER COMMUNICATIONS INC.

Consolidated Statement of Shareholders' Equity

(Thousands, except per share amounts)	Preferred Shares	Common Shares	Paid In Capital	Foreign Currency Translation Adjustment	Retained Earnings (Accumulated Deficit)	WCI's Interest In Its Stock Owned By BHC	Common Shares in Treasury
Balance at December 31, 1982	$ —	$65,394	$417,786	$(11,972)	$956,877	$ —	$(32,113)
Net loss					(417,803)		
Common stock dividends ($.75 per share)					(48,566)		
Employee stock option transactions		711	8,778				
Dividend reinvestment plan		531	11,901				
Translation adjustment				(3,207)			
Other		209	5,669				5,852
Balance at December 31, 1983	—	66,845	444,134	(15,179)	490,508	—	(26,261)
Net loss					(586,099)		
Common stock dividends ($.50 per share)					(31,280)		
Series B preferred stock dividends ($.41 per share)					(3,613)		
Series C preferred stock dividends ($.34 per share)					(1,431)		
Issuance of Series B preferred stock to acquire 42.5% of BHC	15,200		260,800			(117,300)	
Issuance of Series C preferred stock	7,263		65,165			(29,881)	
Issuance of warrants			12,500				
Purchase of WCI stock by BHC						(36,293)	
Purchase of common stock by WCI		(5,568)	(36,632)		(141,514)		
Employee stock option transactions		493	7,198				
Translation adjustment				(9,100)			
Dividend reinvestment plan		263	5,658				
Other		64	918				676
Balance at December 31, 1984	22,463	62,097	759,741	(24,279)	(273,429)	(183,474)	(25,585)
Net income					195,305		
Series B preferred stock dividends ($.50 per share)					(4,372)		
Series C preferred stock dividends ($.70 per share)					(2,991)		
Purchase of WCI stock by BHC						(5,941)	
Repurchase of warrants			(12,500)		(2,500)		
Employee stock option transactions		799	20,595				
Translation adjustment				(680)			
Other	(3)	2	47				
Balance at December 31, 1985	$22,460	$62,898	$767,883	$(24,959)	$ (87,987)	$(189,415)	$(25,585)

Note 12 (In Part): Capital Shares

There were 3,650,817 warrants outstanding at December 31, 1985, each of which permits the holder to purchase one share of WCI common stock at $55 per share and expires on April 30, 1986. To the extent that the warrants remain outstanding on April 30, 1986, they automatically will be converted into shares of common stock at the rate of one share of common stock for each 50 warrants.

In connection with the sale of certain assets to Atari Corp., WCI issued 1,000,000 warrants in July 1984 and 1,000,000 warrants in September 1984. Each warrant permitted the holder to purchase one share of WCI common stock at $22 per share. In October 1984, Atari Corp. exercised its right to require WCI to repurchase 640,000 of the September warrants for $8,000,000 and agreed to require WCI to repurchase the balance; therefore, no September warrants are recorded as outstanding warrants. In November 1985, WCI repurchased the July warrants for $15,000,000.

TABLE 4-5: PRESENTATION OF CHANGES IN ADDITIONAL PAID-IN CAPITAL

	1985	1984	1983	1982
Statement of stockholders' equity	340	346	326	308
Statement of additional paid-in capital	16	15	22	25
Schedule in notes	114	109	108	97
No statement or schedule but changes disclosed	24	23	37	33
Balance unchanged during year	38	37	40	67
Subtotal	**532**	**530**	**533**	**530**
Additional paid-in capital account not presented	68	70	67	70
Total Companies	**600**	**600**	**600**	**600**

ADDITIONAL PAID-IN CAPITAL

PRESENTATION OF CHANGES IN ADDITIONAL PAID-IN CAPITAL

APB Opinion No. 12 states in part:

10. When both financial position and results of operations are presented, disclosure of changes in the separate accounts comprising stockholders' equity (in addition to retained earnings) and of the changes in the number of shares of equity securities during at least the most recent annual fiscal period and any subsequent interim period presented is required to make the financial statements sufficiently informative. Disclosure of such changes may take the form of separate statements or may be made in the basic financial statements or notes thereto.

Table 4-5 summarizes the presentation formats used by the survey companies to present changes in additional paid-in capital.

TABLE 4-6: STOCK SPLITS

	1985	1984	1983	1982
Ratio				
Less than three-for-two	6	6	10	7
Three-for-two (50%) to two-for-one	23	13	31	15
Two-for-one (100%)	31	24	53	18
Greater than two-for-one	7	6	8	2
Total Companies	**67**	**49**	**102**	**42**
Account charged				
Additional paid-in capital	35	23	60	20
Retained earnings	12	14	29	11
No charge	20	12	13	11
Total Companies	**67**	**49**	**102**	**42**

STOCK SPLITS

Chapter 7B of *ARB No. 43* discusses the accounting for stock splits. *APB Opinion No. 15* refers to Chapter 7B and states in part:

48. *Stock dividends or splits.* If the number of common shares outstanding increases as a result of a stock dividend or stock split or decreases as a result of a reverse split, the computations should give retroactive recognition to an appropriate equivalent change in capital structure for all periods presented. If changes in common stock resulting from stock dividends or stock splits or reverse splits have been consummated after the close of the period but before completion of the financial report, the per share computations should be based on the new number of shares because the readers' primary interest is presumed to be related to the current capitalization. When per share computations reflect such changes in the number of shares after the close of the period, this fact should be disclosed.

Table 4-6 shows the number of survey companies disclosing stock splits and summarizes the accounting treatments for stock splits. Examples of stock splits follow.

ARVIN INDUSTRIES, INC.

Consolidated Statement of Shareholders' Equity (In Part)

(Dollars in thousands except per share amounts)

	Year Ended 12/29/85 Shares	Amount	12/30/84 Shares	Amount	1/1/84 Shares	Amount
Common Shares (30,000,000 authorized): (a)						
Beginning Balance	15,135,516	$28,735	15,124,144	$18,905	14,025,152	$17,531
Conversions of preferred shares	406,582	772	95,200	119	776,344	971
Shares purchased on open market	(193,132)	—	(180,700)	—	—	—
Stock splits	—	10,623	—	9,578	—	—
Exercise of stock options	254,322	666	96,872	133	322,648	403
Additional common shares issued	1,028,572	1,975	—	—	—	—
Ending Balance	16,631,860	$42,771	15,135,516	$28,735	15,124,144	$18,905
Capital In Excess of Par Value:						
Beginning Balance		$30,462		$38,730		$31,447
Conversion of preferred shares		2,801		580		5,242
Stock splits		(10,623)		(9,578)		—
Exercise of stock options		2,625		730		2,041
Additional common shares issued		15,498		—		—
Ending Balance		$40,763		$30,462		$38,730
Treasury Shares:						
Common Shares: (a)						
Beginning Balance	189,697	$ 2,122	—	$ —	—	$ —
Shares purchased on open market	193,132	3,307	180,700	2,006	—	—
Stock exchange for stock options exercised	93,738	1,653	8,997	116	—	—
Ending Balance	476,567	$ 7,082	189,697	$ 2,122	—	$ —

(a) Adjusted for stock split in 1985.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Shareholders' Equity:

Stock Split: At its November meeting the Company's Board of Directors declared a 4-for-3 split of its common stock to the shareholders of record November 22, 1985. The stock split was effected by a 33⅓ percent stock distribution on December 20, 1985, and resulted in an increase of 4,249,252 common shares. The par value ($2.50) of these additional shares was capitalized by a transfer of $10,623,130 from additional paid-in capital to the common stock amount. All prior year common share and per share disclosures have been restated to reflect the stock split.

CONAGRA, INC.

Consolidated Statements of Common Stockholders' Equity

Dollars in thousands

	Common Stock	Additional Paid-In Capital	Retained Earnings	Foreign Currency Translation Adjustment	Treasury Stock	Total
Balance at May 30, 1982	$ 66,381	$ 8,029	$ 84,078	$ (825)	$(1,212)	$156,451
Conversion of 13,834 shares of preferred stock into 98,521 shares of common stock	328	253	—	—	—	581
7,496,702 shares issued in connection with the acquisition of Peavey Company	24,989	59,974	—	—	—	84,963
191,126 shares issued in connection with the final payment due to United Agri Products shareholders per the acquisition agreement	637	2,963	—	—	—	3,600
57,198 shares issued in connection with employee stock option plan	191	186	—	—	—	377
53,330 shares issued in connection with the senior management incentive plan	—	429	—	—	263	692
Contracts to sell 97,500 shares under executive stock purchase plan	—	35	—	—	—	35
147 shares of treasury stock purchased	—	—	—	—	(3)	(3)
Foreign currency translation adjustment	—	—	—	(1,381)	—	(1,381)
Cash dividends: Preferred stock, all classes	—	—	(2,180)	—	—	(2,180)
Common stock, $.6433 per share	—	—	(17,573)	—	—	(17,573)
Net income	—	—	47,770	—	—	47,770
Balance at May 29, 1983	92,526	71,869	112,095	(2,206)	(952)	273,332
Conversion of 43,264 shares of preferred stock into 144,116 shares of common stock	480	823	—	—	—	1,303
5,100,000 shares issued in connection with the acquisition of Armour Food Company	17,000	75,000	—	—	—	92,000
76,215 shares issued in connection with employee stock option plan	254	295	—	—	—	549
54,789 shares issued in connection with incentive plans	183	848	—	—	—	1,031
150,000 shares issued in connection with the executive stock purchase plan	500	358	—	—	—	858
4,266 shares issued from treasury in connection with the acquisition of Peavey Company	—	—	—	—	23	23
Foreign currency translation adjustment	—	—	—	(1,472)	—	(1,472)
Cash dividends: Preferred stock, all classes	—	—	(2,421)	—	—	(2,421)
Common stock, $.7367 per share	—	—	(22,309)	—	—	(22,309)
Net income	—	—	62,648	—	—	62,648
Balance at May 27, 1984	110,943	149,193	150,013	(3,678)	(929)	405,542
100,728 shares issued in connection with employee stock option plan	32	(635)	—	—	1,619	1,016
67,401 shares issued in connection with incentive plans	—	—	—	—	375	375
108,000 shares issued in connection with the executive stock purchase plan	140	(512)	—	—	985	613
Conversion of 65,616 shares of preferred stock into 156,878 shares of common stock	417	(89)	—	—	1,476	1,804
1,076 shares issued from treasury in connection with the acquisition of Peavey Company	—	—	—	—	22	22
Purchase of 435,900 shares for treasury stock	—	—	—	—	(12,283)	(12,283)
Three-for-two common stock split, 11,118,316 shares	55,592	(55,592)	—	—	—	—
Fractional share payments in connection with three-for-two stock split	—	(15)	—	—	—	(15)
Foreign currency translation adjustment	——		—	(291)	—	(291)
Cash dividends: Preferred stock, all classes	—	—	(2,273)	—	53	(2,220)
Common stock, $.8425 per share	—	—	(28,038)	—	—	(28,038)
Net income	—	—	91,728	—	—	91,728
Balance at May 26, 1985	$167,124	$ 92,350	$211,430	$(3,969)	$(8,682)	$458,253

NOTES TO FINANCIAL STATEMENTS

8. Capital Stock

The Company has authorized shares of preferred stock as follows:

Class B, $50 par value; 150,000 shares
Class C, $100 par value; 250,000 shares
Class C, without par value; 1,100,000 shares

All classes are cumulative and nonparticipating. The Class B stock may be issued in series and each series shall be so designated as to distinguish the shares thereof from the shares of all other series and classes.

The Class C stock may be issued in series with such designations, preferences, rights, and limitations as the Board of Directors may establish, except that it may not be given any priority over any shares of Class B Preferred Stock as to payment of dividends or as to distribution of assets upon liquidation, distribution, or winding up of the Company.

The Class D stock may be issued in series and each series shall be so designated as to distinguish the shares thereof from the shares of all other series and classes and shall not have any priority over Class B or Class C Preferred Stock as to payment of dividends or as to distribution of assets upon liquidation, distribution, or winding up of the Company.

Effective December 1, 1984, the Company issued 11,118,316 shares of common stock in connection with a three-for-two stock split. All references in the financial statements with regard to number of shares of common stock and related dividends per share amounts have been restated to reflect the stock split.

ECHLIN INC.

Consolidated Statements of Changes in Shareholders' Equity

(Dollars in thousands, except per share data)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Equity Adjustment from Foreign Currency Translation	Treasury Stock	Total Shareholders' Equity
Balance at August 31, 1982	$20,722	$82,327	$114,026	$(2,165)	$(2,995)	$211,915
Net income	—	—	30,732	—	—	30,732
Cash dividends paid ($0.30 per share)	—	—	(12,322)	—	—	(12,322)
Shares issued under stock option plans	167	1,813	—	—	—	1,980
Foreign currency translation adjustment	—	—	—	(232)	—	(232)
Balance at August 31, 1983	20,889	84,140	132,436	(2,397)	(2,995)	232,073
Net income	—	—	43,820	—	—	43,820
Cash dividends paid ($0.35 per share)	—	—	(14,484)	—	—	(14,484)
Shares issued under stock option plans	146	1,710	—	—	—	1,856
Foreign currency translation adjustment	—	—	—	(2,410)	—	(2,410)
Balance at August 31, 1984	21,035	85,850	161,772	(4,807)	(2,995)	260,855
Net income	—	—	45,603	—	—	45,603
Cash dividends paid ($0.41 per share)	—	—	(17,058)	—	—	(17,058)
Shares issued under stock option plans	84	1,046	—	—	—	1,130
Effect of 2 for 1 stock split	20,836	(20,836)	—	—	—	—
Costs related to stock split	—	(72)	—	—	—	(72)
Foreign currency translation adjustment	—	—	—	(737)	—	(737)
Balance at August 31, 1985	$41,955	$65,988	$190,317	$(5,544)	$(2,995)	$289,721

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Shareholders' Equity:

On June 28, 1985, the Board of Directors declared a 2 for 1 stock split, excluding treasury stock, effective August 7, 1985 to shareholders of record on July 15, 1985. Accordingly, the fiscal 1985 balance sheet has been adjusted to reflect the split by increasing common stock and reducing capital in excess of par value by $20,836,000. Expenses of $72,000 relating to the stock split have been charged to capital in excess of par value. All stock option and per share data have been retroactively adjusted to reflect the split.

FLOWERS INDUSTRIES, INC.

Consolidated Statement of Changes in Common Stockholders' Equity

(Amounts in Thousands except Number of Shares)

	Common Stock				Treasury Stock	
	Number of Shares	Par Value	Capital in Excess of Par Value	Retained Earnings	Number of Shares	Cost
Balances at July 3, 1982 as previously reported	15,738,054	$ 9,836	$12,032	$ 76,169	670,757	$3,507
Three-for-two common stock split (Note 8)	7,868,558	4,918	(4,918)		335,379	
Balances at July 3, 1982 as adjusted	23,606,612	14,754	7,114	76,169	1,006,136	3,507
Stock issued in connection with Performance Share Plan				344	(161,921)	(564)
Purchase of treasury stock					11,850	107
Exercise of employee stock options				(5)	(43,020)	(152)
Stock issued for acquisition			3,388	630	(540,000)	(1,922)
Net income for the year				19,214		
Dividends paid:						
$3.00 per Class A preferred share				(19)		
$5.50 per Class E preferred share				(50)		
$6.00 per Class F preferred share				(34)		
$.273 per common share				(6,234)		
Balances at July 2, 1983	23,606,612	14,754	10,502	90,015	273,045	976
Purchase of treasury stock					175,334	2,195
Exercise of employee stock options				(8)	(36,075)	(131)
Net income for the year				22,140		
Dividends paid:						
$3.00 per Class A preferred share				(15)		
$5.50 per Class E preferred share				(30)		
$6.00 per Class F preferred share				(34)		
$.327 per common share				(7,626)		
Balances at June 30, 1984	23,606,612	14,754	10,502	104,442	412,304	3,040
Stock issued in connection with Performance Share Plan				368	(73,031)	(538)
Exercise of employee stock options				8	(3,263)	(29)
Purchase of treasury stock					144,559	2,381
Stock issued for acquisition			728	8	(88,053)	(864)
Net income				25,645		
Dividends paid:						
$3.00 per Class A preferred share				(12)		
$2.75 per Class E preferred share				(10)		
$6.00 per Class F preferred share				(25)		
$.390 per common share				(9,053)		
Balances at June 29, 1985	23,606,612	$14,754	$11,230	$121,371	392,516	$3,990

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Common Stockholders' Equity

On September 18, 1984, the Board of Directors declared a three-for-two split of the Company's common stock, effected in the form of a stock dividend payable on October 17, 1984 to shareholders of record on October 3, 1984. All agreements concerning stock options and other commitments payable in shares of the Company's common stock were amended to provide for issuance of three shares of common stock for every two shares issuable prior to declaration of the stock split. An amount equal to the par value of the common shares issued plus cash paid in lieu of fractional shares was transferred from capital in excess of par value to the common stock account. This transfer has been reflected in the consolidated statement of changes in common stockholders' equity at July 3, 1982. All references to number of shares, except shares authorized, and to per share information in the consolidated financial statements have been adjusted to reflect the stock split on a retroactive basis.

GERBER PRODUCTS COMPANY

Consolidated Statements of Shareowners' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Foreign Currency Translation Adjustments	Cost of Common Stock in Treasury
		(Thousands of Dollars)			
Balances at April 1, 1982	$22,980	$20,764	$223,390		$(6,144)
Net earnings for the year			39,045		
Cash dividends of $.91 per share			(18,201)		
Issuance of 6,891,511 shares in connection with 3 for 2 stock split	11,485	(11,517)			
Issuance of 57,036 shares of treasury stock upon exercise of stock options		134			548
Additional paid-in capital from disposition of majority interest in Mexican company		432			
Balances at March 31, 1983	34,465	9,813	244,234		(5,596)
Cumulative foreign currency translation adjustment through April 1, 1983				$(142)	
Net earnings for the year			50,133		
Cash dividends of $.99 per share			(20,000)		
Issuance of 278,520 shares of treasury stock for purchase of subsidiary		4,950			2,677
Issuance of 74,134 shares of treasury stock upon exercise of stock options		435			713
Foreign currency translation adjustments for the year				(194)	
Balances At March 31, 1984	34,465	15,198	274,367	(336)	(2,206)
Net earnings for the year			56,387		
Cash dividends of $1.16 per share			(23,566)		
Repurchase of 250,000 shares for treasury					(5,825)
Issuance of 101,472 shares of treasury stock upon exercise of stock options		30	(335)		2,074
Issuance of 6,890,714 shares in connection with 3 for 2 stock split—Note G	17,227	(15,228)	(2,060)		
Foreign currency translation adjustments for the year				(308)	
Balances At March 31, 1985	$51,692	$ -0-	$304,793	$(644)	$(5,957)

Note G—Stock Split

On May 9, 1984, the Company declared a 3 for 2 stock split in the form of a 50% stock dividend payable on July 6, 1984. The par value of the additional shares of common stock issued plus the cash paid in lieu of fractional shares was charged to additional paid-in capital and retained earnings. All share and per share data have been restated to reflect the stock split.

GOLDEN ENTERPRISES, INC.

Consolidated Statements of Changes in Stockholders' Equity

Years ended May 31, 1985, 1984 and 1983

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Shares	Notes From Employees For Common Stock Purchases	Total Stockholders' Equity
Balance, May 31, 1982	$2,419,847	$2,316,558	$20,186,608	$(752,779)	$(257,458)	$23,912,776
Net income			6,564,490			6,564,490
Cash dividends declared—$.15 per share (Note 5)			(1,432,539)			(1,432,539)
Proceeds from sale of additional common stock	173,333	3,022,536				3,195,869
Shares issued under 2 for 1 stock split (Note 5)	2,593,180		(2,593,180)			
Purchase of shares for Treasury				(2,569)		(2,569)
Collection on notes from employees for common stock purchases					119,876	119,876
Balance, May 31, 1983	5,186,360	5,339,094	22,725,379	(755,348)	(137,582)	32,357,903
Net income			8,666,525			8,666,525
Cash dividends declared—$.19 per share (Note 5)			(1,812,672)			(1,812,672)
Purchase of shares for Treasury				(38,250)		(38,250)
Collection on notes from employees for common stock purchases					72,127	72,127
Balance, May 31, 1984	5,186,360	5,339,094	29,579,232	(793,598)	(65,455)	39,245,633
Net income			9,443,217			9,443,217
Cash dividends declared—$.23 per share (Note 5)			(2,241,980)			(2,241,980)
Shares issued under 4 for 3 stock split (Note 5)	1,728,387		(1,728,387)			
Purchase of shares for Treasury				(54,303)		(54,303)
Collection on notes from employees for common stock purchases					44,785	44,785
Stock options exercised		33,019		10,668		43,687
Balance, May 31, 1985	$6,914,747	$5,372,113	$35,052,082	$(837,233)	$(20,670)	$46,481,039

Note 5: Stock Splits

On May 25, 1983, the Company issued 3,889,770 shares of common stock in connection with a two-for-one stock split effected in the form of a 100% stock dividend. Accordingly, $2,593,180, representing the par value of the additional shares issued, was transferred from retained earnings to the common stock account.

On October 31, 1984, the Company issued 2,592,581 shares of common stock in connection with a four-for-three stock split effected in the form of a 33⅓% stock dividend. Accordingly, $1,728,387, representing the par value of the additional shares issued, was transferred from retained earnings to the common stock account.

All per share figures included in the consolidated financial statements and notes are based on the increased number of shares of common stock after giving effect to these splits.

HARSCO CORPORATION

Consolidated Statements of Changes in Shareholders' Equity

for the years 1985, 1984 and 1983

(All dollars in thousands, except per share)	Common Stock Issued	Common Stock Treasury	Additional Paid-in Capital	Cumulative Translation Adjustments	Retained Earnings
Balances, January 1, 1983 (issued 31,217,670 shares; treasury 2,647,280 shares)...............	$26,015	$28,574	$75,276	$(4,906)	$319,922
Net income for the year					27,586
Cash dividends declared, $.80 per share					(22,872)
Translation adjustments for year, net of $910 deferred income taxes................................				(986)	
Stock options exercised, 26,916 shares	22		276		
Other, 546 shares......................................		(7)			
Balances, December 31, 1983 (issued 31,244,586 shares; treasury 2,646,734 shares)...............	26,037	28,567	75,552	(5,892)	324,636
Net income for the year					47,550
Cash dividends declared, $.81 per share					(24,425)
Translation adjustments for year, net of $681 deferred income taxes................................				(738)	
Acquisition of a company, 1,108,574 shares		(13,742)	3,810		
Stock options exercised, 62,135 shares	52		580		
Other, 679 shares......................................		(10)			
Balances, December 31, 1984 (issued 31,306,721 shares; treasury 1,537,481 shares)...............	26,089	14,815	79,942	(6,630)	347,761
Net income for the year					60,458
Cash dividends declared, $.87 per share					(25,952)
Three-for-two stock distribution at par value (additional 10,461,305 shares)....................	13,077		(13,077)		
Translation adjustments for year, net of $11 deferred income taxes...				(12)	
Stock options exercised, 77,193 shares	64		771		
Other, 567 shares......................................		(7)	4		
Balances, December 31, 1985 (issued 31,383,914 shares; treasury 1,536,914 shares)...............	$39,230	$14,808	$67,640	$(6,642)	$382,267

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Capital Stock:

The authorized capital stock consists of 50,000,000 shares of common stock and 4,000,000 shares of preferred stock both having a par value of $1.25 per share. The preferred stock is issuable in series with terms as fixed by the Board of Directors. No preferred stock has been issued.

On November 19, 1985, the Board of Directors authorized a three-for-two common stock distribution payable on March 3, 1986 to shareholders of record on January 31, 1986.

R.J. REYNOLDS INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Common Stock and Paid-In Capital

A two and one-half for one split of the Company's Common Stock, without par value, became effective May 17, 1985. Accordingly, the stated value of the Common Stock was reduced from $2.50 to $1.00 per share. The split had no effect on total common stockholders' equity.

All references in the Financial Statements to the number of common shares, earnings and dividend amounts per share, stock option data and other per share amounts have been restated to give effect to the stock split.

KELLOGG COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 9 (In Part): Common stock and other capital

On December 30, 1985, shareholders approved an increase in the authorized shares of common stock from 100 million to 165 million and approved a two-for-one stock split to shareholders of record on January 6, 1986. The stated par value per share of common stock was changed from $.50 to $.25. All share and per share amounts have been restated to retroactively reflect the stock split.

TYSON FOODS, INC.

Consolidated Statement of Stockholders' Equity

Three Years Ended September 28, 1985

	Common Stock	Capital In Excess of Par Value	Retained Earnings	Treasury Stock	Total
Balance—October 2, 1982	$ 3,904,512	$ 3,060,958	$48,984,027	($ 184,056)	$ 55,765,441
Contribution of 24,400 treasury shares to profit-sharing plan		364,944		184,056	549,000
2-for-1 stock split	3,904,512		(3,904,512)		
Net income for the year			11,069,096		11,069,096
Cash dividend paid ($.032 per share)			(623,746)		(623,746)
Balance—October 1, 1983	7,809,024	3,425,902	55,524,865	-0-	66,759,791
Net income for the year			18,164,058		18,164,058
Cash dividend paid ($.032 per share)			(624,722)		(624,722)
Balance—September 29, 1984	7,809,024	3,425,902	73,064,201	-0-	84,299,127
Purchase of 475,000 treasury shares				(3,634,000)	(3,634,000)
Common stock issued:					
5-for-2 stock split	11,713,360	(2,781)	(11,713,536)		(2,957)
In public offering	2,208,000	37,896,128			40,104,128
Exercise of options		(26,090)		59,575	33,485
Net income for the year			34,830,985		34,830,985
Cash dividend paid ($.046 per share)			(909,316)		(909,316)
Balance—September 28, 1985	$21,730,384	$41,293,159	$95,272,334	($3,574,425)	$154,721,452

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Significant Accounting Policies

Five-for-Two Stock Split

A five-for-two stock split was effected on April 15, 1985, to shareholders of record as of March 29, 1985. The number of shares and per-share amounts included in the consolidated financial statements and notes thereto have accordingly been restated.

CHANGES IN ADDITIONAL PAID-IN CAPITAL

Table 4-7 summarizes credits and charges to additional paid-in capital. Examples of such credits and charges follow.

Common Stock Issued in Connection with Employee Benefit Plans

W.W. GRAINGER, INC.

Consolidated Statements of Shareholders' Equity

(In thousands of dollars except for per share amounts)

	Common Stock	Additional Contributed Capital	Retained Earnings
Balance at January 1, 1983	$14,346	$37,921	$322,333
Exercise of stock options	63	2,648	—
Net earnings	—	—	51,744
Cash dividends paid ($0.595 per share)	—	—	(17,119)
Balance at December 31, 1983	14,409	40,569	356,958
Exercise of stock options	23	1,065	—
Exercise of stock appreciation rights	3	185	—
Purchase of 9,600 shares of Common Stock	(9)	(28)	(502)
Net earnings	—	—	68,942
Cash dividends paid ($0.615 per share)	—	—	(17,741)
Balance at December 31, 1984	14,426	41,791	407,657
Exercise of stock options	56	2,191	—
Exercise of stock appreciation rights	8	527	—
Purchase of 19,900 shares of Common Stock	(20)	(46)	(909)
Two-for-one stock split June 7, 1985	14,449	(14,449)	—
Net earnings	—	—	71,775
Cash dividends paid ($0.665 per share)	—	—	(19,222)
Balance at December 31, 1985	$28,919	$30,014	$459,301

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Stock Options and Stock Appreciation Rights

The Company's Non-Qualified Stock Option Plan authorized the granting of options to purchase a maximum of 2,000,000 shares of Common Stock to key executive, administrative, and other employees of the Company and its subsidiaries at a price not less than 85% of the closing market price on the last trading day preceding the date of grant. Options become exercisable one year, and expire ten years, after the date of grant. The Plan also permits the issuance of stock appreciation rights in tandem with options already issued and to be issued in the future under the Plan. The stock appreciation rights permit the holder to receive stock, cash, or a combination thereof, equal to the amount by which the fair market value on the date of exercise exceeds the option price. Exercise of a stock option or a stock appreciation right automatically cancels the respective stock appreciation right or stock option. Shares available for option grants increase for all option cancellations net of the number of shares issued from the exercise of stock appreciation rights.

During 1985, stock appreciation rights were granted for 58,720 shares, 5,600 were cancelled, and 55,400 were exercised at $33.438 to $34.375 per share. The Company issued 16,354 shares of Common Stock in conjunction with the exercise of the 55,400 stock appreciation rights.

During 1984, stock appreciation rights were granted for 47,000 shares, 900 were cancelled, and 25,950 were exercised at $28.00 to $28.438 per share. The Company issued 6,734 shares of Common Stock in conjunction with the exercise of 25,950 stock appreciation rights.

During 1983, stock appreciation rights were granted for 58,600 shares, none were cancelled, and none were exercised.

At December 31, 1985, there were 96,570 stock appreciation rights outstanding.

TABLE 4-7: CHANGES IN ADDITIONAL PAID-IN CAPITAL

	Number of Companies			
	1985	1984	1983	1982
Credits				
Common stock issued for:				
Employee benefits	360	365	368	335
Debt conversions/extinguishments	64	84	100	92
Preferred stock conversions	41	58	58	55
Business combinations	30	51	41	39
Stock option tax benefits	45	43	48	49
Public offerings	33	32	63	21
Purchase or retirement of capital stock	17	23	18	17
Warrants issued or exercised	12	19	20	12
Other—Described	41	38	42	42
Charges				
Treasury stock issued for less than cost	72	70	44	56
Purchase or retirement of capital stock	85	63	42	53
Conversion of preferred stock	20	18	25	27
Business combinations	6	6	6	9
Other—Described	37	36	47	28

ALUMINUM COMPANY OF AMERICA (DEC)

NOTES TO FINANCIAL STATEMENTS

(in millions, except share amounts)

G. Additional Capital

Changes in additional capital were:

	1985	1984	1983
Balance at beginning of year	$397.3	$390.8	$328.6
Excess of amounts received over aggregate par value of common stock issued under salaried employees' stock plans (231,360, 201,657 and 444,955 shares, respectively)	7.2	6.5	13.2
Pooling of interests (173,547 shares).	—	—	.1
Excess over par value of common stock issued in exchange for sinking fund debentures (1,395,987 shares)	—	—	48.9
Balance at end of year	$404.5	$397.3	$390.8

PALL CORPORATION

Consolidated Statement of Stockholders' Equity

Years Ended August 3, 1985, July 28, 1984 and July 30, 1983	Common Stock	Capital in Excess of Par Value	Retained Earnings	Equity Adjustment From Foreign Currency Translation	Total Stockholders' Equity
Balance at July 31, 1982	$6,743,000	$ 5,013,000	$100,068,000	$ (7,084,000)	$104,740,000
Net earnings			27,817,000		27,817,000
Cash dividends declared			(6,277,000)		(6,277,000)
Four-for-three stock split (including $28,000 paid for fractional shares)	2,248,000	(2,276,000)			(28,000)
Issuance of stock pursuant to exercise of stock options, 24,182 shares	12,000	434,000			446,000
Foreign currency translation adjustment				(3,029,000)	(3,029,000)
Balance at July 30, 1983	9,003,000	3,171,000	121,608,000	(10,113,000)	123,669,000
Net earnings			30,732,000		30,732,000
Cash dividends declared			(7,026,000)		(7,026,000)
Reduction of par value from $.50 per share to $.25 per share	(4,503,000)	4,503,000			—
Issuance of stock pursuant to exercise of stock options, 17,326 shares	6,000	361,000			367,000
Foreign currency translation adjustment				(3,574,000)	(3,574,000)
Balance at July 28, 1984	4,506,000	8,035,000	145,314,000	(13,687,000)	144,168,000
Net earnings			34,254,000		34,254,000
Cash dividends declared			(8,323,000)		(8,323,000)
Issuance of stock pursuant to exercise of stock options, 52,285 shares	13,000	1,146,000			1,159,000
Issuance of stock in satisfaction of contribution to pension and profit-sharing plans, 76,218 shares	19,000	2,782,000			2,801,000
Foreign currency translation adjustment				(1,182,000)	(1,182,000)
Balance at August 3, 1985	$4,538,000	$11,963,000	$171,245,000	$(14,869,000)	$172,877,000

Common Stock Issued in Preferred Stock Conversions

DI GIORGIO CORPORATION

Consolidated Statements of Stockholders' Equity

(Dollars in thousands, except per share amounts)	Preferred Stock	Common Stock	Additional Paid-in Capital	Equity Adjustment —Foreign Currency	Retained Earnings	Treasury Stock
Balance, December 31, 1982	$11,356	$15,780	$28,118	$(1,594)	$67,682	$(3,921)
Issuance of 15,996 common shares to Stock Ownership Plan			(32)			240
Conversion of 5,067 shares of Series A preferred into 8,357 common shares	(128)	21	107			
Exercise of stock options for 26,650 common shares			(107)			333
Cost of 32,016 common shares						(402)
Earnings for the year					8,110	
Dividends declared:						
On common stock					(3,783)	
On preferred stock					(942)	
Equity adjustment from foreign currency translation				(827)		
Balance, December 31, 1983	11,228	15,801	28,086	(2,421)	71,067	(3,750)
Issuance of 14,507 common shares to Stock Ownership Plan			16			137
Conversion of 6,512 shares of Series A preferred into 10,741 common shares	(165)	27	138			
Conversion of $4 5¾% convertible debentures into 235 common shares		1	3			
Exercise of stock options for 32,877 common shares			(23)			311
Cost of 369 common shares						(5)
Loss for the year					(4,895)	
Dividends declared:						
On common stock					(3,803)	
On preferred stock					(940)	
Equity adjustment from foreign currency translation				(753)		
Balance, December 31, 1984	11,063	15,829	28,220	(3,174)	61,429	(3,307)
Issuance of 10,034 common shares to Stock Ownership Plan			61			94
Conversion of 6,444 shares of Series A preferred and 400,000 shares of $2.25 preferred into 724,927 common shares	(10,163)	1,811	8,078			
Conversion of $32 5¾% convertible debentures into 1,881 common shares		5	27			
Exercise of stock options for 100,725 common shares			327			951
Earnings for the year					11,150	
Dividends declared:						
On common stock					(4,007)	
On preferred stock					(708)	
Equity adjustment from foreign currency translation				1,269		
Balance, December 31, 1985	$ 900	$17,645	$36,713	$(1,905)	$67,864	$(2,262)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Capital Stock

Preferred stock: The Series A Cumulative Convertible Preferred Stock, without par value, is entitled to cumulative dividends of $.88 per share per annum, payable quarterly. The Company may redeem the stock for $32.00 per share. Prior to redemption, each share of the Series A Preferred Stock may be converted into 1.65 shares of Common Stock. In the fourth quarter of 1985, the Company called for redemption all outstanding $2.25 Cumulative Convertible Preferred Stock. As a result, all such Preferred Stock was converted into Common Stock.

Supplementary earnings per share: If the conversion of all outstanding $2.25 Cumulative Convertible Preferred Stock had occurred on January 1, 1985, primary earnings per share (assuming no dilution) would have been $1.63, compared with $1.72 reported in the Consolidated Statement of Earnings.

AMERADA HESS CORPORATION

Statement of Consolidated Changes in Capital Stock and Capital in Excess of Par Value

	$3.50 cumulative convertible preferred stock		Common stock		Capital in excess of par value (thousands)
	Number of shares issued	Amount (thousands)	Number of shares issued	Amount (thousands)	
Balance at December 31, 1982	492,044	$492	82,049,930	$82,050	$217,700
Conversion of $3.50 cumulative convertible preferred stock	(82,141)	(82)	356,854	357	(275)
Employee stock options exercised	—	—	45,838	46	436
Distribution to trustee under executive incentive compensation and stock ownership plan	—	—	183,000	183	4,548
Balance at December 31, 1983	409,903	410	82,635,622	82,636	222,409
Conversion of $3.50 cumulative convertible preferred stock	(43,749)	(44)	190,036	190	(148)
Employee stock options exercised	—	—	111,931	112	1,016
Distribution to trustee under executive incentive compensation and stock ownership plan	—	—	16,000	16	388
Common stock acquired and retired	—	—	(135,000)	(135)	—
Balance at December 31, 1984	366,154	366	82,818,589	82,819	223,665
Conversion of $3.50 cumulative convertible preferred stock	(43,431)	(43)	188,668	189	(146)
Employee stock options exercised	—	—	51,178	51	469
Cancellations under executive incentive compensation and stock ownership plan (net)	—	—	(21,750)	(22)	(804)
Balance at December 31, 1985	322,723	$323	83,036,685	$83,037	$223,184

MARTIN MARIETTA CORPORATION

Statement of Shareowners' Equity (in part)

for years ended December 31

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Common Stock	(add 000) Total Shareowners' Equity
Balance at December 31, 1984	115,000	69,492	572,627	882,410	(1,013,426)	626,113
Net earnings for 1985	—	—	—	249,392	—	249,392
Cash dividends declared on common stock ($.973 a share)	—	—	—	(55,135)	—	(55,135)
Cash dividends declared on preferred stock ($1.219 a share)	—	—	—	(2,803)	—	(2,803)
Stock options exercised, net of stock tendered in payment (389,011 shares from treasury)	—	—	3,116	—	7,475	10,591
Common stock issued under other employee benefit plans (41,462 shares from treasury)	—	—	410	—	819	1,229
Other issuances of common stock	—	2	50	—	—	52
Conversion of preferred stock to common stock, net of expenses, and $27,000 paid for shares redeemed	(115,000)	3,449	111,168	(27)	—	(410)
Issuance of shares to effect 3-for-2 stock split and $383,000 paid in lieu of fractional share interests	—	36,461	—	(36,844)	—	(383)
Common stock purchased for treasury (3,427,500 shares)	—	—	—	—	(120,689)	(120,689)
Balance at December 31, 1985	$ —	$109,404	$687,381	$1,036,993	$(1,125,821)	$707,957

NOTES TO FINANCIAL STATEMENTS

Note H: Shareowners' Equity

All of the 2,300,000 outstanding shares of Martin Marietta's $4.875 Convertible Exchangeable Preferred Stock were converted or redeemed in March, 1985, at a total redemption price of $54.05 per share, including accrued and unpaid dividends of $.15. Each share of preferred stock was convertible into 1.5 shares of common stock of the Corporation at that time. No further shares of the preferred stock without par value will be issued.

In April, 1985, with the approval of shareholders, authorized common stock was increased from 100,000,000 to 250,000,000 shares, and 20,000,000 shares of a new Series Preferred stock with par value of $1 a share was authorized.

In June, 1985, a 3-for-2 split of the common stock in the form of a 50% stock dividend became effective. All references in the consolidated financial statements with regard to the number of shares and per share data have been restated to reflect the split.

A common stock repurchase program of up to 3,000,000 shares was authorized by the Board of Directors in September, 1985, and was completed by December 31, 1985, at a cost of $103,847,000. These treasury shares are available for general corporate purposes. This authorization is in addition to actions taken by the Board of Directors earlier in 1985 to authorize the purchase from time to time of up to 3,300,000 shares of common stock for anticipated exercises under the Corporation's Stock Option Plans. By year-end 427,500 shares had been purchased.

At December 31, 1985, approximately $650,000,000 of retained earnings was available for the payment of dividends under Maryland law.

Common Stock Issued in Debt Conversion/ Extinguishments

FLEMING COMPANIES, INC.

Statements of Shareholders' Equity

For the years ended December 28, 1985, December 29, 1984, and December 31, 1983 (In thousands)

	Shares	Common Stock Amount	Capital in Excess of Par Value	Reinvested Earnings	Total Shareholders' Equity
Balance, December 25, 1982	17,604	$22,005	$ 59,042	$149,411	$230,458
Net earnings	—	—	—	41,710	41,710
Cash dividends paid:					
$.70 per share	—	—	—	(12,468)	(12,468)
2-for-1 stock split	—	22,044	—	(22,044)	—
Shares issued under stock option and stock ownership plans	213	494	2,312	—	2,806
Balance, December 31, 1983	17,817	44,543	61,354	156,609	262,506
Net earnings	—	—	—	49,572	49,572
Cash dividends paid:					
$.84 per share	—	—	—	(15,440)	(15,440)
Sale of common stock	1,800	4,500	45,700	—	50,200
Shares issued under stock option and stock ownership plans	236	590	4,357	—	4,947
Balance, December 29, 1984	19,853	49,633	111,411	190,741	351,785
Net earnings	—	—	—	60,082	60,082
Cash dividends paid:					
$.97 per share	—	—	—	(20,475)	(20,475)
Conversion of debentures into common stock	1,619	4,048	44,523	—	48,571
Shares issued under stock option and stock ownership plans	265	662	6,269	—	6,931
Balance, December 28, 1985	21,737	$54,343	$162,203	$230,348	$446,894

NOTES TO FINANCIAL STATEMENTS

Long-Term Debt (In Part):

In April 1983 the company sold $50 million of 8% convertible subordinated debentures. In June 1985 the company converted all of the debentures into 1.6 million shares of common stock.

LEGGETT & PLATT, INCORPORATED

Consolidated Statements of Changes in Shareholders' Equity

(Dollar amounts in thousands, except per share data)	Common Stock	Additional Contributed Capital	Retained Earnings	Treasury Stock Cost	Treasury Stock Shares
Balances—January 1, 1983	$ 4,988	$ 6,235	$ 67,177	$(9,223)	425,989
4,040,852 shares issued in two-for-one stock split effected in the form of a stock dividend	4,041	(4,041)			47,184
Common stock issued in connection with purchase of company.	146	2,957			
Common stock issued in connection with employees' stock option and benefit plans	12	204			
Treasury stock issued		4,025		8,252	(383,415)
Treasury stock retired	(85)	(836)		921	(85,110)
Purchase of treasury shares by pooled company				(208)	—
Retirement of treasury shares of pooled company			(208)	208	—
Net earnings for the year			17,083		
Cash dividends ($.25 per share)			(2,937)		
Balances—December 31, 1983	9,102	8,544	81,115	(50)	4,648
Common stock issued in connection with employees' stock option and benefit plans	41	546			
Treasury stock purchased				(9,473)	528,563
Treasury stock sold		(101)		1,349	(79,481)
Tax benefit related to stock options		15			
Net earnings for the year			20,771		
Cash dividends ($.293 per share)			(3,976)		
Balances—December 31, 1984	9,143	9,004	97,910	(8,174)	453,730
Conversion of debentures	966	18,331			
Common stock issued in connection with employees' stock option and benefit plans	76	980			
Treasury stock issued and sold		(2,187)		11,128	(597,443)
Treasury stock purchased				(3,653)	174,694
Tax benefit related to stock options		44			
Additional shares issued in three-for-two stock split effected in the form of a stock dividend March 14, 1986	5,093	(5,093)			15,490
Net earnings for the year			23,994		
Cash dividends ($.333 per share)			(4,519)		
Balances—December 31, 1985	$15,278	$21,079	$117,385	$ (699)	46,471

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

D (In Part): Long-Term Debt

Long-term debt at December 31, consists of the following:

(000's)	1985	1984
Revolving bank notes, interest at prime	$ —	$ —
9¾% note payable due in semi-annual installments of $325,000 through July 1, 1991	3,925	4,575
Industrial development bonds with floating interest rates at less than prime and due dates through 2016	20,685	15,130
Industrial development bonds with interest rates ranging from 6% to 9% and due dates through 2007	13,232	16,782
Convertible subordinated debentures, 8⅛%, due June 15, 2001	—	19,944
Other notes, with interest ranging from 5% to 12% and due dates through 2004	9,532	5,891
Capital lease obligations (Note F)	9,233	8,490
	56,607	70,812
Less current maturities	5,216	3,694
	$51,391	$67,118

The revolving bank note agreements provide for a maximum line of credit of $20,000,000 which is convertible as of March 31, 1988 into a term loan payable in ten equal semi-annual installments plus interest at the prime rate. The first installment would be due September 30, 1988. The Company is obligated to pay a commitment fee of ¼ of 1% per annum of the unused credit line.

During 1985, the Company redeemed all of its outstanding convertible debentures for 1,449,180 shares of common stock and $95,000 in cash.

KIDDE, INC.

Consolidated Statements of Paid-In Capital

for the years ended December 31:

(dollars in thousands)	1985	1984	1983
Balance at beginning of year	$200,654	$197,899	$185,672
Face value of convertible subordinated debentures over par value of 596,003 common shares issued upon conversion ..	18,073	—	—
Proceeds from sale of warrants to purchase common shares	—	—	8,906
Cost in excess of par value of 763,704 common shares and 136 preference shares repurchased, less amounts charged to earnings retained in the business	—	—	(4,744)
Stated value of preference shares over par value of common shares issued upon conversion, and other	851	2,755	8,065
Balance at end of year......	$219,578	$200,654	$197,899

NOTES TO FINANCIAL STATEMENTS

Notes Payable and Long-Term Debt (In Part):

During 1985 the 5% Subordinated Convertible Debentures were called for redemption and subsequently $18,800,000 of the amount outstanding was converted into 596,003 Common Shares at the conversion price of $31.57 per share.

Public Offering of Stock

COLLINS INDUSTRIES, INC.

Consolidated Statements of Stockholders' Investment

For the three years ended October 31, 1985

	Common Stock Shares	Amount	Paid-in Capital	Accumulated Earnings (Deficit)
Balance, October 31, 1982	159,082	$ 79,541	$1,008,990	$ (649,481)
Stock split effected in form of a 12.57 for 1	1,840,918	120,459	(120,459)	—
Issuance of common stock in public offering..................................	1,050,000	105,000	4,425,930	—
Issuance of common stock in connection with acquisition....................	42,000	4,200	247,800	—
Net income	—	—	—	808,085
Balance, October 31, 1983	3,092,000	$309,200	$5,562,261	$ 158,604
Issuance of common stock in conjunction with private placement of long-term debt (Note 2)..	103,000	10,300	762,200	—
Issuance of common stock in connection with acquisition....................	65,000	6,500	383,500	—
Net income	—	—	—	1,612,432
Balance, October 31, 1984	3,260,000	$326,000	$6,707,961	$1,771,036
Issuance of common stock and warrants in conjunction with public offering of debentures, stock and warrants (Note 2)	480,001	48,000	3,105,491	—
Net loss..	—	—	—	(3,460,047)
Balance, October 31, 1985	3,740,001	$374,000	$9,813,452	$(1,689,011)

Note 2 (In Part): Capitalized Leases and Long-Term Debt:

In November 1984 the Company completed a public offering ($1,000 units) which included 480,000 shares of common stock, 480,000 warrants to purchase one share of common stock and $13,800,000 of 10½% subordinated debentures. The imputed interest rate on the debentures is 14.12% after giving recognition to original issue discount. The discount is being amortized using the interest method.

The warrants are exercisable until October 15, 1989. The exercise price will be payable in either cash or debentures, or both, at the holder's option. The warrants are redeemable by the Company at $9.75 per warrant at any time if the closing price for the Company's common stock has been at least 150% of the then-prevailing price of the warrants for 20 of 30 consecutive trading days.

The debentures may be redeemed at the option of the Company, in whole or in part, at their principal amount plus accrued interest, at any time on or after October 15, 1989, or at any time prior thereto in the event all the warrants have been exercised or redeemed as described below. Sinking fund payments sufficient to retire annually 20% of the debentures originally issued, commencing October 15, 1990, are calculated to retire approximately 80% of the issue prior to maturity.

The subordinated debt Indenture restricts the payment of dividends or the repurchase of common stock, except as provided by the terms of the Indenture.

LIBBEY-OWENS-FORD COMPANY

Statement of Shareholders' Equity

Period of three years ended December 31, 1985

dollars in thousands, except per share data	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Foreign Currency Translation Adjustments
Balance at January 1, 1983	$39,037	$55,486	$ 12,001	$396,827	$(26,231)
Net income for the year				40,370	
Cash dividends paid					
-Common stock—$1.20 a share				(13,372)	
-Preferred stock—$4.75 a share				(4,812)	
Issuance of 74,185 common shares, net of shares exchanged, under employee stock option plan		371	1,461		
Conversion of 40 preferred shares to 60 common shares	(2)	1	1		
Translation adjustments and gains (losses) from intercompany balances					(8,137)
Balance at December 31, 1983	39,035	55,858	13,463	419,013	(34,378)
Net income for the year				70,626	
Cash dividends paid					
-Common stock—$1.23 a share				(13,857)	
-Preferred stock—$4.75 a share				(4,793)	
Issuance of 107,052 common shares, net of shares exchanged, under employee stock option plan		535	2,745		
Conversion of 16,015 preferred shares to 24,022 common shares	(617)	120	497		
Translation adjustments and gains (losses) from certain hedges and intercompany balances					(21,979)
Allocated income taxes					2,595
Amount transferred to income upon sale of foreign operation					494
Balance at December 31, 1984	38,418	56,513	16,705	470,989	(53,258)
Net income for the year				74,634	
Cash dividends paid					
-Common stock—$1.34 a share				(16,047)	
-Preferred stock—$4.75 a share				(4,734)	
Issuance of 26,443 common shares, net of shares exchanged, under employee stock option plan		132	769		
Conversion of 568 preferred shares to 852 common shares	(21)	4	17		
Translation adjustments and gains (losses) from certain hedges and intercompany balances					17,286
Allocated income taxes					(403)
Issuance of common stock		12,500	102,748		
Balance at December 31, 1985	$38,397	$69,149	$120,239	$524,842	$(36,375)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Capital Stock and Employee Stock Options

On August 26, 1985, the company sold 2,500,000 shares of $5 par value common stock in a public offering. The net proceeds totaling $115,248,000 were used to reduce outstanding short-term debt. Outstanding short-term debt during 1985 varied from $39,968,000 to amounts in excess of $115,248,000 through August 26 and from $39,968,000 to amounts in excess of $115,248,000 during the year ended December 31, 1984. If the net proceeds had been used to reduce short-term debt outstanding or invested when short-term debt balances were less than $115,248,000 during these periods and the 2,500,000 shares had been outstanding at January 1 of each period, pro forma net income per share of common stock would have been $5.29 and $5.24 for the years ended December 31, 1985 and 1984, respectively.

NORTEK, INC.

Consolidated Statement of Stockholders' Investment

For the Three Years Ended December 31, 1986

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Deferred Compensation
		(Amounts in Thousands)			
Balance, December 31, 1982	$4,406	$ 36,051	$32,733	$ (897)	$
2,430,681 shares issued for acquired businesses	2,273	26,895		656	
28,755 net shares issued upon exercise of stock options	29	125			
22,255 shares issued to the Nortek Employees Stock Savings Trust	22	225			
43,942 shares issued upon conversion of debentures	44	552			
Cash dividends of $.08 per share			(439)		
Net earnings			7,100		
Balance, December 31, 1983	6,774	63,848	39,394	(241)	
55,604 shares issued for an acquired business	56	745			
36,332 net shares issued upon exercise of stock options	36	266			
8,539 shares issued upon conversion of debentures.	9	122			
4,500 shares of treasury stock acquired				(62)	
5,000 shares of treasury stock issued to the Nortek Foundation				38	
Cash dividends of $.08 per share			(542)		
Net earnings			16,900		
Balance, December 31, 1984	6,875	64,981	55,752	(265)	
2,100,000 shares issued in connection with a public offering, net of expenses	2,100	26,607			
907,640 shares issued for acquired businesses	908	13,765			
55,182 net shares issued upon exercise of stock options and warrants	55	435			
77,288 shares issued upon conversion of debentures	77	1,100			
273,300 shares of treasury stock acquired				(4,540)	
10,000 shares of treasury stock issued to the Nortek Foundation				77	
232,600 shares of treasury stock sold to an employee benefit plan			(122)	3,770	
Guaranty of indebtedness of employee benefit plans.					(11,000)
Amortization of deferred compensation					336
Cash dividends of $.08 per share			(718)		
Net earnings			17,600		
Balance, December 31, 1985	$10,015	$106,800	$72,512	$ (958)	$(10,664)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Common Stock, Stock Options and Deferred Compensation

In June 1985,the Company sold 2,100,000 shares of its common stock in a public offering. Net proceeds from the sale amounted to $28,707,500, after deducting underwriting commissions of $1,680,000 and direct offering costs of $325,000. Of the net proceeds, $2,100,000 was credited to common stock and $26,607,500 was credited to additional paid-in capital.

Income Tax Benefit from Issuance of Stock to Employees

ALBERTSON'S, INC.

Consolidated Stockholders' Equity

(in thousands)

	Common Stock $1.00 Par Value	Capital in Excess of Par Value	Retained Earnings	Total
Balance at February 3, 1983	$16,298	$85,295	$238,755	$340,348
Exercise of stock options	212	1,012		1,224
Tax benefits related to stock options		1,080		1,080
Cash dividends, $.60 per share			(19,657)	(19,657)
Unrealized loss on noncurrent marketable equity securities			(1,429)	(1,429)
Two-for-one stock split	16,336	(16,336)		
Net earnings			70,281	70,281
Balance at February 2, 1984	32,846	71,051	287,950	391,847
Exercise of stock options	211	866		1,077
Tax benefits related to stock options		2,751		2,751
Cash dividends, $.68 per share			(22,431)	(22,431)
Change in unrealized loss on noncurrent marketable equity securities			1,429	1,429
Net earnings			79,746	79,746
Balance at January 31, 1985	33,057	74,668	346,694	454,419
Exercise of stock options	192	1,675		1,867
Tax benefits related to stock options		2,540		2,540
Cash dividends, $.76 per share			(25,227)	(25,227)
Net earnings			85,110	85,110
Balance at January 30, 1986	$33,249	$78,883	$406,577	$518,709

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stock Options

Proceeds from the sale of newly issued stock to employees under the company's stock option plans are credited to common stock to the extent of par value and the excess to capital in excess of par value. With respect to nonqualified stock options, the difference between the option exercise price and market value at date of grant is charged to operations over the exercise period. Income tax benefits attributable to stock options exercised are credited to capital in excess of par value.

TASTY BAKING COMPANY

Consolidated Statements of Changes in Capital Accounts

	Dec. 28, 1985		Dec. 29, 1984		Dec. 31, 1983	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock:						
Balance, beginning of year	2,880,400	$ 1,440,200	2,873,650	$ 1,436,825	2,861,900	$ 1,430,950
Management Stock Purchase Plan issuance	4,250	2,125	6,750	3,375	11,750	5,875
Balance, end of year	2,884,650	$ 1,442,325	2,880,400	$ 1,440,200	2,873,650	$ 1,436,825
Capital in Excess of Par Value of Stock:						
Balance, beginning of year		$17,897,792		$17,803,206		$17,686,530
Management Stock Purchase Plan issuance		60,208		73,688		101,094
Tax benefits related to Management Stock Purchase Plan		41,421		20,898		15,582
Balance, end of year		$17,999,421		$17,897,792		$17,803,206
Treasury Stock:						
Balance, beginning of year	264,283	$ 3,102,623	262,310	$ 3,081,677	256,027	$ 3,010,598
Management Stock Purchase Plan:						
Reissued	(7,250)	(95,011)	—	—	(4,500)	(58,062)
Reacquired	1,984	18,621	1,973	20,946	10,783	129,141
Balance, end of year	259,017	$ 3,026,233	264,283	$ 3,102,623	262,310	$ 3,081,677
Management Stock Purchase Plan Receivables and Deferrals:						
Balance, beginning of year		$ 859,404		$ 939,983		$ 991,522
Common stock issued		157,344		77,063		165,031
Common stock repurchased		(12,184)		(14,403)		(101,576)
Note payments and amortization of deferred compensation		(136,833)		(143,239)		(114,994)
Balance, end of year		$ 867,731		$ 859,404		$ 939,983

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Management Stock Purchase Plan:

The Management Stock Purchase Plan provides that common shares may be sold to management employees from time to time at prices designated by the Board of Directors (not less than 50% of the fair market value at date of grant) and under certain restrictions and obligations to resell to the company. During 1985 and 1984, a total of 11,500 and 6,750 shares of common stock was sold at 50% of fair market value at date of grant. The aggregate sales price of these shares was $157,344 and $77,063, respectively, for which collateral judgment notes were obtained to be paid in equal quarterly installments (not to exceed 40) with interest on the unpaid balance at 5¼% and 4¾% in 1985 and 5½% and 6½% in 1984. At December 28, 1985, a total of 331,224 common shares was authorized under the plan, of which 100,261 shares remain available for issuance.

For accounting purposes, the difference between the fair market value of the stock at the date of grant and the purchase price represents compensation. The compensation is deferred and, together with the notes receivable, is shown as a deduction from shareholders' equity. The deferred compensation is amortized over a ten year period or the period the employees perform services, whichever is less. Amortization charged to income amounted to $55,916, $69,059 and $49,534 in 1985, 1984 and 1983, respectively.

In accordance with an Internal Revenue Service regulation, the company includes both the dividends paid on shares restricted under the plan, and the difference between the purchase price of the stock at the date of the grant and the fair market value at the date the plan restrictions lapse as employee compensation for federal income tax purposes. The tax benefits relating to the difference between the amounts deductible for federal income taxes over the amounts charged to income for book purposes has been credited to capital in excess of par value of stock.

Warrants Exercised

COMPUGRAPHIC CORPORATION

Consolidated Statement of Stockholders' Investment

(Dollars in thousands) For the three years ended December 28, 1985	Common stock	Common stock purchase warrants	Capital in excess of par value	Cumulative translation adjustment	Retained earnings	Common stock in treasury	Total stock-holders' investment
Balance at January 1, 1983	$402	$180	$67,909	$(1,013)	$ 72,439	$ —	$139,917
Net income	—	—	—	—	16,903	—	16,903
Translation adjustments	—	—	—	(416)	—	—	(416)
Exercise of employee stock options	4	—	1,036	—	(63)	—	977
Tax benefit from stock option transactions	—	—	71	—	—	—	71
Dividends paid ($.10 per share)	—	—	—	—	(810)	—	(810)
Balance at December 31, 1983	406	180	69,016	(1,429)	88,469	—	156,642
Net income	—	—	—	—	24,390	—	24,390
Translation adjustments	—	—	—	(460)	—	—	(460)
Transfers from cumulative translation adjustment included in the determination of net income	—	—	—	164	—	—	164
Exercise of employee stock options	4	—	1,205	—	(106)	—	1,103
Tax benefit from stock option transactions	—	—	287	—	—	—	287
Dividends paid ($.55 per share)	—	—	—	—	(4,443)	—	(4,443)
Purchase of treasury stock	—	—	—	—	—	(4,917)	(4,917)
Balance at December 29, 1984	410	180	70,508	(1,725)	108,310	(4,917)	172,766
Net income	—	—	—	—	21,797	—	21,797
Translation adjustments	—	—	—	174	—	—	174
Transfers from cumulative translation adjustment included in the determination of net income	—	—	—	1,661	—	—	1,661
Exercise of employee stock options	—	—	543	—	(1,863)	2,477	1,157
Tax benefit from stock option transactions	—	—	226	—	—	—	226
Dividends paid ($.60 per share)	—	—	—	—	(4,888)	—	(4,888)
Exercise of common stock purchase warrants	9	(180)	1,971	—	—	—	1,800
Balance at December 28, 1985	$419	$ —	$73,248	$ 110	$123,356	$(2,440)	$194,693

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Stock Options and Warrants

Warrants

In connection with the 1975 sale of 11 percent subordinated notes by Graphic Credit Corporation, now known as Compugraphic Financial Corporation, the Company sold warrants to purchase 240,000 shares of the Company's common stock for $10 per share. Warrants for the purchase of 60,000 common shares had been exercised in fiscal 1979. The remaining warrants were exercised during fiscal 1985.

FUQUA INDUSTRIES, INC.

Consolidated Statements of Stockholders' Equity

(In thousands except per share amounts)

	Series B Preferred Stock	Common Stock	Additional Capital	Retained Earnings	Treasury Stock	Total
Balance, January 1, 1983	$292	$ 4,671	$ 2,843	$ 84,732	$(17,275)	$ 75,263
Net income for the year				41,692		41,692
Cash dividends on Common Stock, $.35 per share				(3,012)		(3,012)
Cash dividends on Preferred Stock, $1.25 per share				(318)		(318)
Common Stock dividend		4,724		(4,724)	—	
Common Stock issued in acquisition of American Seating			8,584		7,724	16,308
Common Stock issued in acquisition of Triton			1,298		1,061	2,359
Shares exchanged for Common Stock	(83)	108	(25)			—
Common Stock issued under employee stock options		5	97		803	905
Common Stock issued on exercise of Warrants		157	2,303			2,460
Balance, December 31, 1983	209	9,665	15,100	118,370	(7,687)	135,657
Net income for the year				37,494		37,494
Cash dividends on Common Stock, $.37 per share				(3,250)		(3,250)
Cash dividends on Preferred Stock, $1.25 per share				(250)		(250)
Repurchase of Common Stock					(1,322)	(1,322)
Shares exchanged for Common Stock	(19)	30	(11)			—
Common Stock issued under employee stock options			(12)		449	437
Common Stock issued on exercise of Warrants		57	709			766
Balance, December 31, 1984	190	9,752	15,786	152,364	(8,560)	169,532
Net income for the year				33,221		33,221
Cash dividends on Common Stock, $.40 per share				(3,849)		(3,849)
Cash dividends on Preferred Stock, $.3125 per share				(10)		(10)
Redemption of Preferred Stock	(38)		(960)			(998)
Shares exchanged for Common Stock	(152)	240	(88)			—
Common Stock issued under employee stock options		10	136		572	718
Common Stock issued on exercise of Warrants		545	6,039			6,584
Balance, December 31, 1985	$ —	$10,547	$20,913	$181,726	$ (7,988)	$205,198

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Capital Stock (In Part)

Common Stock: There are 30,000,000 authorized shares of Common Stock, $1 par value. At December 31, 1985, 1984 and 1983 there were 9,677,788, 8,797,863 and 8,696,000 shares outstanding, respectively, after deducting 869,443, 954,224 and 969,367 treasury shares, respectively.

Fuqua had reserved the shares of Common Stock listed below for possible future issuance as of December 31:

	1985	1984
Stock options	646,203	741,458
Preferred Stock	—	300,412
Warrants	760,349	1,305,643
Restricted stock plan	71,900	71,900
	1,478,452	2,419,413

Warrants: There were 328,294 and 567,509 warrants outstanding for the purchase of Common Stock at December 31, 1985 and 1984, respectively. The warrants expire on June 30, 1988 and allow the holder to purchase 2.28 shares of Common Stock at $13.50 per share in cash or face amount of 7% Subordinated Debentures. During the periods from February 14, to March 15, 1985 and October 21, 1985 to February 7, 1986, Fuqua reduced the warrant exercise price from $13.50 to $12.00 per share of Common Stock.

Treasury Stock Transactions

AMERICAN MEDICAL INTERNATIONAL, INC.

Consolidated Statements of Shareholders' Equity

For the Three Years Ended August 31, 1985	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Translation Adjustment
Balance, August 31, 1982	46,530,000	$46,530,000	$255,757,000	$243,100,000	$(15,828,000)
Translation adjustments	—	—	—	—	(17,830,000)
Stock options exercised	931,000	931,000	9,567,000	—	—
Conversion of debentures	4,848,000	4,848,000	70,301,000	—	—
Sale of common stock	307,000	307,000	7,275,000	—	—
Cash dividends	—	—	—	(29,460,000)	—
Stock splits	26,938,000	26,938,000	(26,877,000)	—	—
Net income	—	—	—	129,341,000	—
Balance, August 31, 1983	79,554,000	79,554,000	316,023,000	342,981,000	(33,658,000)
Translation adjustments	—	—	—	—	(18,770,000)
Stock options exercised	1,030,000	1,030,000	11,491,000	—	—
Conversion of debentures	2,128,000	2,128,000	26,364,000	—	—
Cash dividends	—	—	—	(44,502,000)	—
Repurchase of common stock	(937,000)	(937,000)	(20,813,000)	—	—
Business acquisitions and other	30,000	30,000	341,000	(2,639,000)	—
Net income	—	—	—	137,062,000	—
Balance, August 31, 1984	81,805,000	81,805,000	333,406,000	432,902,000	(52,428,000)
Translation adjustments	—	—	—	—	4,364,000
Stock options exercised	248,000	248,000	4,146,000	—	—
Conversion of debentures	3,917,000	3,917,000	66,304,000	—	—
Sale of common stock	4,600,000	4,600,000	111,415,000	—	—
Cash dividends	—	—	—	(57,575,000)	—
Repurchase of common stock	(3,950,000)	(3,950,000)	(83,089,000)	—	—
Business acquisitions and other	25,000	25,000	669,000	—	—
Net income	—	—	—	163,792,000	—
Balance, August 31, 1985	86,645,000	$86,645,000	$432,851,000	$539,119,000	$(48,064,000)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Stock (In Part)

During fiscal 1985, the Company purchased and retired approximately 3,950,000 shares of its common stock at an average price of $22 per share.

BORG-WARNER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Capital Stock (In Part):

Capital stock activity is detailed below:

(number of shares)	Issued	In Treasury
Common stock $2.50 par value authorized 250,000,000		
Balance January 1, 1983	85,906,616	2,365,392
Conversions from preferred shares		(135,230)
Purchases of Treasury shares		240,774
Conversions of adjustable rate convertible notes	737,576	
Shares issued under employee benefit plans	57,052	(489,213)
Shares issued under stock option plans		(610,643)
Shares issued as stock incentive rights under stock option plans		(135,166)
Balance December 31, 1983	86,701,244	1,235,914
Conversions from preferred shares	27,250	(1,770)
Purchases of Treasury shares		2,590,973
Conversions of adjustable rate convertible notes	4,525,317	
Exchange of $6.0 million in debt	314,144	
Shares issued under employee benefit plans	257,013	(486,152)
Shares issued under stock option plans		(455,194)
Shares issued as stock incentive rights under stock options plans		(40,329)
Shares awarded		(9,700)
Balance December 31, 1984	91,824,968	2,833,742
Conversions from preferred shares		(1,580)
Purchases of Treasury shares		3,068,572
Shares issued under employee benefit plans		(592,019)
Shares issued under stock option plans		(199,264)
Shares issued as stock incentive rights under stock option plans		(26,636)
Balance December 31, 1985	91,824,968	5,082,815

Capital in Excess of Par Value

Capital in excess of par value for the years ended December 31, is summarized as follows:

(millions of dollars)	1985	1984	1983
Capital in excess of par value at January 1	$151.3	$106.4	$101.4
Transfer to common stock to effect two-for-one stock split	—	—	(107.5)
Conversions of adjustable rate convertible notes	—	33.9	5.8
Exchange of $6.0 million debt for equity	—	5.2	—
Excess of proceeds over cost of shares issued under employee investment plans	1.3	6.9	5.6
Excess of cost over proceeds on shares issued under stock option plans	(1.7)	(3.1)	(3.0)
Excess of market price over cost on shares issued as stock incentive rights under stock option plans	.1	.4	1.7
Tax benefits arising from exercise of non-qualified stock options	.5	1.6	2.4
Capitalization of retained earnings	—	—	100.0
Capital in excess of par value at December 31	$151.5	$151.3	$106.4

COLT INDUSTRIES INC.

Consolidated Statement of Capital in Excess of Par Value

For the three years ended December 31, 1985

	(In thousands) 1985	1984	1983
Balance, beginning of period...	$142,321	$140,909	$139,935
Excess of cost of treasury stock issued over proceeds from exercise of stock options....	(4,451)	(2,242)	(3,343)
Income tax benefit from the exercise of stock options....	3,312	2,381	3,626
Excess of market value over cost of treasury stock issued to employee benefit plans...	2,366	1,273	691
Balance, end of period..........	$143,548	$142,321	$140,909

NOTES TO FINANCIAL STATEMENTS

7. Common Stock

Changes in common stock for 1983, 1984, and 1985 were:

	Shares Issued $1 Par Value	Treasury Stock Shares	Cost ($000)
Balance at January 1, 1983	$27,616,918	(3,655,352)	$ (89,454)
Purchase of treasury stock.	—	(734,713)	(39,292)
Exercise of stock options...	—	496,597	12,462
Stock issued to employee benefit plans.............	—	30,660	866
Balance at December 31, 1983.......................	27,616,918	(3,862,808)	(115,418)
Purchase of treasury stock.	—	(4,470,653)	(213,173)
Exercise of stock options...	—	160,826	5,700
Stock issued to employee benefit plans.............	—	112,318	4,268
Balance at December 31, 1984.......................	27,616,918	(8,060,317)	(318,623)
Purchase of treasury stock.	—	(628,001)	(38,797)
Exercise of stock options...	—	327,012	13,311
Stock issued to employee benefit plans.............	—	117,543	4,809
Balance at December 31, 1985.......................	$27,616,918	(8,243,763)	$(339,300)

At December 31, 1985, 935,891 shares of common stock were reserved for issuance under stock options.

Purchase Method Acquisitions

FREEPORT-McMoRAN INC.

Statement of Stockholders' Equity

Years Ended December 31,	1985	1984	1983
	(amounts in thousands)		
Common stock, par value $1:			
Balance at beginning of year.....	$ 73,673	$ 73,488	$ 69,824
Acquisition of The Stone Exploration Corporation.................	62	—	3,120
Exercise of stock options.........	194	179	538
Other................................	4	6	6
Balance at end of year............	73,933	73,673	73,488
Capital in excess of par value of common stock:			
Balance at beginning of year.....	157,819	155,193	79,389
Acquisition of The Stone Exploration Corporation.................	998	—	68,540
Distribution of Freeport-McMoRan Oil and Gas Royalty Trust......	—	—	2,106
Exercise of stock options.........	2,440	2,581	4,653
Other................................	(355)	45	505
Balance at end of year............	160,902	157,819	155,193
Retained earnings:			
Balance at beginning of year.....	558,443	507,005	586,071
Net income..........................	111,456	94,150	93,472
Cash dividends on common stock	(40,556)	(42,712)	(42,603)
Distribution of Freeport-McMoRan Oil and Gas Royalty Trust......	—	—	(129,935)
Distribution of Freeport-McMoRan Energy Partners, Ltd. and Freeport-McMoRan Gold Company.............................	(25,151)	—	—
Balance at end of year............	604,192	558,443	507,005
Less, common stock held in treasury:			
Balance at beginning of year.....	98,752	539	154
Purchases—1,152,132 shares in 1985 and 5,966,500 shares in 1984............................	21,958	97,826	—
Other................................	93	387	385
Balance at end of year............	120,803	98,752	539
Total stockholders' equity.........	$718,224	$691,183	$735,147

NOTES TO FINANCIAL STATEMENTS

2 (In Part): Acquisitions

The Stone Exploration Corporation (Stonex). On September 30, 1983, Stonex, whose principal assets are producing oil and gas properties, was merged into a subsidiary of the Company. The acquisition was valued at $112 million, consisting of 3.1 million shares of the Company's common stock with an aggregate market value of $72 million issued in exchange for all outstanding shares of Stonex common stock and the assumption of $40 million of debt. To the extent that an additional 37.5 bcf of gas and gas equivalents net to the Company's interest are proved within a period of five years after the merger, up to 1.5 million shares of the Company's common stock, plus additional shares related to future values of .3 million units of the Freeport-McMoRan Oil and Gas Royalty Trust, will be issued pro rata to former Stonex shareholders. In 1985, 62,455 shares were issued pursuant to this agreement.

The merger was accounted for as a purchase and, accordingly, Stonex operating results were included in the Company's statements of income beginning in the fourth quarter of 1983.

KUHLMAN CORPORATION

Consolidated Statements of Stockholders' Investment

For the Three Years Ended December 31, 1985
(In thousands of dollars, except for share data)

	Common Stock Shares	Amount	Paid-In Capital	Retained Earnings	Treasury Stock
Balance—December 31, 1982	2,046,000	$2,046	$3,120	$27,347	$(204)
Net earnings	—	—	—	3,926	—
Cash dividends ($.356 per share)	—	—	—	(1,631)	—
Exercise of stock options	—	—	(40)	—	119
Balance—December 31, 1983	2,046,000	$2,046	$3,080	$29,642	$(85)
Three-for-two stock split	1,036,494	1,034	(1,034)	—	—
Net earnings	—	—	—	5,434	—
Cash dividends ($.467 per share)	—	—	—	(2,160)	—
Cost of treasury stock acquired	—	—	—	—	(511)
Exercise of stock options	23,991	24	289	—	351
Balance—December 31, 1984	3,104,485	$3,104	$2,335	$32,916	$(245)
Three-for-two stock split	1,624,869	1,625	(1,625)	—	—
Net earnings	—	—	—	6,345	—
Cash dividends ($.40 per share)	—	—	—	(1,956)	—
Cost of treasury stock acquired	—	—	—	—	(407)
Exercise of stock options	95,253	96	849	—	515
Shares issued in connection with acquisition (Note 3)	117,302	117	1,883	—	—
Balance—December 31, 1985	4,941,909	$4,942	$3,442	$37,305	$(137)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Acquisition

On March 7, 1985, the Company acquired Borse Plastic Products Corp. for cash, notes and common stock totaling $10 million. Borse manufactures custom blow molded plastic products. The acquisition was accounted for as a purchase, and accordingly, the results of operations of Borse subsequent to the date of acquisition are included in the 1985 consolidated statement of earnings.

SPENCER COMPANIES, INC.

Consolidated Statements of Changes in Stockholders' Equity

Years Ended June 1, 1985, June 2, 1984 and May 28, 1983

	Common Stock $1 Par Value	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Account Receivable E.S.O.T.	Net
Balance, May 29, 1982	$2,069,013	$6,036,390	$11,709,825	$ (265,531)	$(2,462,371)	$17,087,326
Purchase of 137,000 shares of common stock (Note 19)	—	—	—	(898,720)	—	(898,720)
Net income	—	—	803,968	—	—	803,968
Cash dividends on common stock ($.11 per share)	—	—	(205,825)	—	—	(205,825)
Add amount received from employee stock ownership trust (Note 20)	—	—	—	—	80,995	80,995
Balance, May 28, 1983	2,069,013	6,036,390	12,307,968	(1,164,251)	(2,381,376)	16,867,744
Issuance of 6,920 shares of common stock (Note 11)	6,920	48,148	—	—	—	55,068
Net income	—	—	1,284,929	—	—	1,284,929
Cash dividends on common stock ($.17 per share)	—	—	(299,070)	—	—	(299,070)
Add amount received from employee stock ownership trust (Note 20)	—	—	—	—	89,298	89,298
Balance, June 2, 1984	2,075,933	6,084,538	13,293,827	(1,164,251)	(2,292,078)	17,997,969
Issuance of 17,000 shares of common stock (Note 11)	17,000	117,131	—	—	—	134,131
Net loss	—	—	(5,657,370)	—	—	(5,657,370)
Cash dividends on common stock ($.24 per share)	—	—	(444,553)	—	—	(444,553)
Issuance of 108,028 shares of treasury stock (Note 23)	—	747,022	—	708,664	—	1,455,686
Add amount received from employee stock ownership trust (Note 20)	—	—	—	—	98,450	98,450
Balance, June 1, 1985	$2,092,933	$6,948,691	$ 7,191,904	$ (455,587)	$(2,193,628)	$13,584,313

Note 23: Purchase of Fashion World, Inc.

On July 24, 1984, Fashion Gallery, Inc., a subsidiary of Spencer Companies, Inc. purchased substantially all of the assets of Fashion World, Inc. ("Fashion World"), a retailer of "off-price" women's apparel pursuant to a plan of reorganization confirmed and approved by the Bankruptcy Court. Fashion World had encountered certain financial difficulties and on April 2, 1984 filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code and had continued to operate its business as a debtor-in-possession pursuant to the Bankruptcy Code.

The purchase price was $1,755,686, with $300,000 paid in cash and the balance $1,455,686, paid through the issuance of 108,028 shares of Spencer Companies, Inc. treasury stock. The acquisition was accounted for as a purchase and, accordingly, Fashion World's results of operations from the date of acquisition were included in the Company's consolidated statement of income for the fiscal year ending in 1985. Supplemental pro forma information reflecting the operations of Fashion World for the period June 2, 1984 to July 24, 1984 and for the prior year has not been included because reliable financial information for such periods was not readily available.

Reorganization

AMERICAN BUILDING MAINTENANCE INDUSTRIES INC. (OCT)

Consolidated Statement of Shareholders' Equity

Years Ended October 31, 1983, 1984 and 1985
(in thousands of shares and dollars)

	Common Stock Shares	Common Stock Amount	Additional Capital	Retained Earnings
Balance October 31, 1982	3,368	$ 997	$ 8,227	$38,715
Net income				7,764
Dividends ($.74 per common share)				(2,567)
Stock issued under employees' stock option & purchase plans	127	38	1,718	
Balance October 31, 1983	3,495	1,035	9,945	43,912
Net income				7,493
Dividends ($.82 per common share)				(2,908)
Stock issued under employees' stock option & purchase plans	100	30	1,835	
Balance October 31, 1984	3,595	1,065	11,780	48,497
Net income				4,995
Dividends ($.86 per common share)				(3,136)
Stock reacquired	(23)	(4)	(781)	
Stock issued under employees' stock option & purchase plans	87	17	1,630	
Reclassification due to reorganization		(1,041)	1,041	
Balance October 31, 1985	3,659	$ 37	$13,670	$50,356

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Capital Stock

On April 2, 1985, the shareholders approved a reorganization in which the Company's state of incorporation was changed from California to Delaware effective May 1, 1985. As a result of this reorganization, all of the previously authorized and outstanding no par value shares of preferred and common stock of ABMI California were converted into the same number of shares of $.01 par value preferred stock and $.01 par value common stock of ABMI Delaware.

FOREIGN CURRENCY TRANSLATION

Effective for fiscal years beginning on or after December 15, 1982, *Statement of Financial Accounting Standards No. 52* supersedes *Statement of Financial Accounting Standards No. 8* as the authoritative pronouncement on foreign currency translation. *SFAS No. 52* requires translation adjustments to be reported separately and accumulated in a separate component of equity; whereas, *SFAS No. 8* required translation adjustments to be included in determining net income. Examples of foreign currency translation disclosures follow.

AIR PRODUCTS AND CHEMICALS, INC.

Changes in Shareholders' Equity

	(number of shares)		(in thousands of dollars)		
	Common Stock $1 Par Value	Capital in Excess of Par Value	Retained Earnings	Cumulative Translation Adjustments	Treasury Stock
Balance, Beginning of Year 1983	29,717,601	$192,354	$ 736,396	$(33,858)	$ (1,152)
Net income			106,358		
Cash dividends-Common Stock, $.90 per share			(27,720)		
Original shares issued for:					
Employees Savings and Stock Ownership Plans	163,988	5,085			
Stock Option and Award Plans	25,094	687			
Common Stock sale	1,250,000	49,396			
Purchase of 1,234 Treasury Shares					(26)
Other		(13)			
Translation adjustments, net of income taxes of $2,469				(8,866)	
Balance, Beginning of Year 1984	31,156,683	247,509	815,034	(42,724)	(1,178)
Net income			140,618		
Cash dividends-Common Stock, $1.05 per share			(32,428)		
Original shares issued for Stock Option and Award Plans	25,265	607			
Issuance of 7,223 Treasury Shares for Stock Option and Award Plans		96			134
Purchase of 329,900 Treasury Shares					(14,374)
Translation adjustments, net of income taxes of $3,375				(25,677)	
Balance, Beginning of Year 1985	31,181,948	248,212	923,224	(68,401)	(15,418)
Net income			143,484		
Cash dividends-Common Stock $1.27 per share			(38,081)		
Issuance of 74,042 Treasury Shares for Stock Option and Award Plans		161			3,138
Issuance of 93,127 Treasury Shares for Employees Savings and Stock Ownership Plans		195			3,864
Purchase of 1,552,200 Treasury Shares					(76,025)
Translation adjustments, net of income taxes of $(3,899)				7,443	
Balance, End of Year 1985	31,181,948	$248,568	$1,028,627	$(60,958)	$(84,441)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Major Accounting Policies

Foreign Currency Translation

The value of the U.S. dollar rises and falls day to day on foreign currency exchanges. Since the company does business in many foreign countries, these fluctuations affect the company's financial position and results of operations.

Generally, foreign subsidiaries translate their assets and liabilities into U.S. dollars at current exchange rates—that is, the rates in effect at the end of the fiscal period. The gains or losses that result from this process are shown in the cumulative translation adjustments account in the shareholders' equity section of the balance sheet.

The revenue and expense accounts of foreign subsidiaries are translated into U.S. dollars at the average exchange rates that prevailed during the period. Therefore, the U.S. dollar value of these items on the income statement fluctuates from period to period depending on the value of the dollar against foreign currencies.

Some transactions of the company and its subsidiaries are made in currencies different from their own. Gains and losses from these transactions are included in income as they occur. However, certain transactions are used to hedge, or protect the value of the investments in foreign subsidiaries. Gains or losses from these hedges are not included in the income statement but are shown in the cumulative translation adjustments account.

12 (In Part): Supplementary Information

Other Income, net

This table gives a breakdown of the items included in other income (expense):

(in thousands)	1985	1984	1983
Writedown of methanol plant	$(10,000)	$ —	$ —
Settlement of litigation	13,000	—	—
Foreign exchange	(2,213)	(3,193)	(3,142)
Interest income	8,071	6,108	6,567
Gain on sale of assets	3,629	7,383	1,794
Royalty and technology income	4,788	3,274	4,184
Income from unconsolidated affiliates	7,250	6,823	4,825
Sale of tax benefits	—	—	27,635
Miscellaneous	5,612	1,672	112
	$30,137	$22,067	$41,975

AMERON, INC.

Consolidated Statements of Stockholders' Equity

	Common Stock Shares Outstanding	Amount	Additional Paid in Capital	Retained Earnings	Cumulative Foreign Currency Translation Adjustments
Balance, November 30, 1982	2,364,011	$11,820,000	$6,060,000	$ 97,375,000	$
Net income—1983				8,403,000	
Exercise of stock options	2,800	14,000	39,000		
Dividends—					
Preferred stock				(920,000)	
Common stock				(3,784,000)	
Repurchase of preferred stock			418,000		
Balance, November 30, 1983	2,366,811	11,834,000	6,517,000	101,074,000	
Net income—1984				9,548,000	
Exercise of stock options and other	7,265	36,000	149,000		
Dividends on common stock				(3,796,000)	
Foreign currency translation adjustments					
Initial adjustment (net of deferred income taxes of $662,000)					(631,000)
Current year (net of deferred income taxes of $916,000)					(874,000)
Balance, November 30, 1984	2,374,076	11,870,000	6,666,000	106,826,000	(1,505,000)
Net income—1985				12,551,000	
Exercise of stock options and other	17,783	89,000	399,000		
Dividends on common stock				(3,812,000)	
Foreign currency translation adjustments (net of deferred income taxes of $366,000)					349,000
Balance, November 30, 1985	2,391,859	$11,959,000	$7,065,000	$115,565,000	$(1,156,000)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Foreign Currency Translation

The functional currency for the majority of the Company's foreign operations is the applicable local currency. The translation of the applicable foreign currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. The gains or losses, net of applicable deferred income taxes, resulting from such translation are included in stockholders' equity.

Gains or losses resulting from foreign currency transactions are included in results of operations and amounted to a $318,000 loss and a $619,000 gain for the years ended November 30, 1985 and 1984, respectively. In 1983 such amounts were not material.

BRUNSWICK CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

15. Translation of Foreign Currencies

The Company's primary functional currency is the U.S. dollar, therefore, most foreign entities translate monetary assets and liabilities at year-end exchange rates and inventories, property and nonmonetary assets and liabilities at historical rates. Income and expense accounts are translated at the average rates in effect during the year, except that depreciation and cost of sales are translated at historical rates. The remaining foreign entities translate all assets and liabilities at year-end exchange rates, all income and expense accounts at average exchange rates and record adjustments resulting from the translation in a separate section of common shareholders' equity.

The following is an analysis of the cumulative translation adjustments reflected in common shareholders' equity:

(dollars in thousands)	1985	1984
Balance at January 1	$(1,742)	$ (499)
Translation and other	2,291	(1,678)
Allocated income taxes	(1,222)	435
Balance, December 31	$ (673)	$(1,742)

Earnings before income taxes include currency gains (losses) of $(1.7) million, $1.3 million and $.3 million in 1985, 1984 and 1983, respectively.

CORNING GLASS WORKS (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per-share amounts.)

1 (In Part): Summary of Significant Accounting Policies

Translation of Foreign Currencies

Except for subsidiaries operating in hyperinflationary economies, balance-sheet accounts are translated at current exchange rates and income-statement accounts are translated at average exchange rates for the year. Translation gains and losses generally are accumulated in a separate component of Stockholders' Equity. Foreign currency transaction gains and losses affecting cash flows generally are included in current earnings.

6 (In Part): Supplemental Income Statement Data

Other, Net

Included in the 1985 other income (expense) was an essentially tax-free gain of $20.2 million relating to the formation of a 50%-owned equity venture, Ciba Corning Diagnostics Corp. Corning transferred net assets to the equity venture, including $53 million of inventory and $23 million of accounts receivable.

Gains resulting from the disposition of properties and other assets were $8.2 million ($8.0 million after tax) in 1985, $1.1 million in 1984 ($0.8 million after tax) and $12.4 million ($8.5 million after tax) in 1983.

Also included in other expense, net, were amortization expenses of $2.2 million, $2.4 million and $5.0 million in 1985, 1984 and 1983, respectively.

Total foreign-exchange gains included in income, including amounts arising from consolidated operations, were $0.2 million in 1985, $0.3 million in 1984 and $1.2 million in 1983.

9. Foreign Currency Translation

An analysis of the changes during 1985 and 1984 in the translation-adjustments component of stockholders' equity for cumulative foreign currency translation adjustments follows:

	1985	1984
Beginning balance	$(70.1)	$(49.3)
Translation adjustments	27.4	(19.8)
Translation gains and losses excluded from net income	1.5	(1.4)
Sale or liquidation of investment	0.3	(0.3)
Tax benefit	(0.4)	0.7
Ending balance	$(41.3)	$(70.1)

GENERAL REFRACTORIES COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. International Operations

Summarized financial information relating to foreign operations (principally European) included in the consolidated financial statements follows:

	1985	1984	1983
	(dollars in thousands)		
Net assets	$ 28,000	$ 25,000	$ 26,000
Net sales	$205,000	$202,000	$198,000
Net income (loss) (1)	$ 2,364	$ 3,257	$ (83)

(1) Includes a provision of $1,525,000 for separation pay in 1985 (Note 4).

A summary of the activity in the foreign currency transaction adjustment account included in shareholders' equity follows:

	1985	1984	1983
	(dollars in thousands)		
Balance at beginning of year	$(6,493)	$(3,327)	$ 894
Effect of changes in exchange rates	3,461	(3,166)	(3,724)
Amount applicable to affiliate sold	—	—	(497)
Balance at end of year	$(3,032)	$(6,493)	$(3,327)

The translation adjustment does not include an allocation for income taxes, since the investments in foreign subsidiaries are considered to be permanent. Foreign currency transaction gains and losses are included in nonoperating expenses.

Many of the Company's foreign subsidiaries are prohibited by law or are restricted under loan agreements from paying dividends in excess of specified amounts or making loans or other advances to their parent companies or other affiliates. At December 31, 1985, substantially all of the net assets of foreign subsidiaries are restricted.

9. Other Income, Net

	1985	1984	1983
	(dollars in thousands)		
Interest and royalties	$2,299	$2,954	$2,174
Equity in the earnings of associated companies	1,077	687	526
Net gain on disposal of fixed assets (1)	1,179	1,900	1,450
Foreign currency gains (losses)	276	200	(256)
Other	2,578	1,986	801
	$7,409	$7,727	$4,695

(1) Includes $1,400,000 (1985), $1,500,000 (1984) and $800,000 (1983) from the sale of excess land in the United States and Europe.

THE GILLETTE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Foreign Currency Translation

Net exchange gains or losses resulting from the translation of assets and liabilities of foreign subsidiaries, except those in highly inflationary economies, are accumulated in a separate section of stockholders' equity titled "Cumulative foreign currency translation adjustments." An analysis of this account follows.

	(Millions of dollars)		
	1985	1984	1983
Balance at beginning of year	$(231.5)	$(178.9)	$(129.5)
Translation adjustments	13.5	(49.3)	(52.0)
Related income tax effect	11.6	(3.3)	2.6
Balance at end of year	$(206.4)	$(231.5)	$(178.9)

Included in other charges were net exchange losses of $42.8 million, $34.8 million and $27.8 million for 1985, 1984 and 1983, respectively, primarily relating to translation of the assets and liabilities of subsidiaries in Argentina, Brazil and Mexico.

McCORMICK & COMPANY, INCORPORATED (NOV)

NOTES TO FINANCIAL STATEMENTS

7. Foreign Currency Translation:

In accordance with Statement of Accounting Standards No. 52, the Company has included in net income all foreign exchange gains and losses arising from foreign currency transactions and the effects of foreign exchange rate fluctuations on subsidiaries and affiliates operating in highly inflationary economies. The aggregate foreign exchange gains, (losses) included in net income were $668,000 in 1985; ($737,000) in 1984, and ($883,000) in 1983. Effects of foreign exchange rate fluctuations for other foreign Company operations are included in the foreign currency translation adjustments account within stockholders' equity. Changes in that account during the three years ending November 30, 1985, follow:

	1985	1984	1983
	(Dollars in thousands)		
Balance at beginning of year	$(6,261)	$(5,043)	$(2,073)
Translation adjustments during year	1,419	(1,234)	(3,095)
Income taxes applicable to aggregate adjustments	91	16	125
Balance at end of year	$(4,751)	$(6,261)	$(5,043)

PFIZER INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated International Subsidiaries

Subsidiaries operating outside the United States generally are included in the consolidated financial statements on a fiscal year basis ending November 30. At December 31, 1985, 1984 and 1983, the retained earnings of such subsidiaries approximated $1,531, $1,506 and $1,282 million, respectively. Substantially all of the international subsidiaries' unremitted earnings are free from legal or contractual restrictions. Additional information is shown on page 32.

Exchange gains/(losses), included in "Other deductions" in the Consolidated Statement of Income, were $2.8, $(2.2) and $(4.6) million in 1985, 1984 and 1983, respectively.

Effective January 1, 1983, the Company adopted the provisions of Statement of Financial Accounting Standards No. 52 "Foreign Currency Translation" in reporting its foreign currency transactions and in translating its financial statements. The effect of the change on the Consolidated Balance Sheet at January 1, 1983 is shown in the Consolidated Statement of Shareholders' Equity as the cumulative currency translation adjustment.

Changes in the currency translation adjustment included in shareholders' equity are shown below:

(millions of dollars)	1985	1984	1983
Currency translation adjustment January 1	$(211.7)	$(132.8)	$ (66.5)
Translation adjustments and gains and losses from certain hedges and intercompany balances	99.0	(79.6)	(68.3)
Income taxes allocated to translation adjustments and hedges	.7	(1.1)	2.0
Liquidation of investment	—	1.8	—
Currency translation adjustment December 31	$(112.0)	$(211.7)	$(132.8)

REXNORD INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands except per share data)

Translation of Foreign Currencies

Foreign currency assets and liabilities are translated into United States Dollars at the rate of exchange existing at year end. Income amounts are translated at the average of the monthly exchange rates. Gains and losses resulting from the translation of foreign currency financial statements and certain forward contracts and foreign currency intercompany transactions are deferred and classified as a separate component of shareholders' ownership.

An analysis of the cumulative foreign currency translation loss account for 1985 and 1984 follows:

	1985	1984
Beginning of year deferred loss	$33,146	$23,311
Translation adjustments resulting from exchange rate changes, hedge contracts and certain intercompany transactions	3,717	9,964
Previously deferred translation loss reflected in income	(1,333)	(260)
Income taxes related to deferred translation adjustments	(2,961)	131
End of year deferred loss	$32,569	$33,146

The effects of foreign currency fluctuations related to Brazil, a hyper-inflationary country, and certain intercompany items, are reflected in the accompanying statements of income as follows:

	1985	1984	1983
Increase in cost of sales	$2,497	$2,352	$2,957
Miscellaneous other expense	5,727	2,553	3,833
Net foreign currency losses	$8,224	$4,905	$6,790

SQUARE D COMPANY

Consolidated Statements of Shareholders' Equity

(Dollars in thousands, except per share)

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Cumulative Translation Adjustments
Balance, January 1, 1983	27,639,987	$46,067	$55,340	$400,541	$(23,251)
Issued in purchase acquisition	713,915	1,190	23,083		
Pooling adjustment	135,132	225	(180)	422	
Exercise of stock options	54,047	90	918		
Conversion of subordinated notes	26,692	44	890		
Conversion of stock appreciation rights	19,270	32	633		
Effect of foreign currency translation—net of taxes of $133					(10,611)
Net earnings				62,911	
Cash dividends ($1.84 per share)				(52,374)	
Balance, December 31, 1983	28,589,043	47,648	80,684	411,500	(33,862)
Issued in purchase acquisition	76,798	128	2,915		
Exercise of stock options	25,826	43	711		
Conversion of subordinated notes	28,352	47	945		
Conversion of stock appreciation rights	28,445	48	985		
Effect of foreign currency translation—net of taxes of $280					(14,038)
Net earnings				106,153	
Cash dividends ($1.84 per share)				(52,744)	
Balance, December 31, 1984	28,748,464	47,914	86,240	464,909	(47,900)
Issued restricted stock	21,050	35	34		
Exercise of stock options	21,145	35	450		
Conversion of subordinated notes	31,374	52	1,046		
Conversion of stock appreciation rights	41,727	70	1,596		
Effect of foreign currency translation—net of taxes of $0					17,551
Net earnings				87,188	
Cash dividends ($1.84 per share)				(53,081)	
Balance, December 31, 1985	28,863,760	$48,106	$89,366	$499,016	$(30,349)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share)

J. Supplementary Earnings Statement Information

	1985	1984	1983
Non-Operating Income:			
Interest income	$ 9,421	$10,323	$ 7,558
Gain on sale of property	—	1,126	5,016
Other	3,472	1,267	5,908
Total	$12,893	$12,716	$18,482
Research and Development	$41,394	$40,049	$34,941
Maintenance and Repairs	37,333	37,508	28,527
Rents	16,893	16,739	15,491
Advertising	16,654	15,269	12,066
Foreign Currency Transaction Gain	2,628	466	4,183
Capitalized Interest	1,465	1,395	2,104

Section 5: Statement of Changes in Financial Position

This section reviews the format and content of the Statement of Changes in Financial Position. *APB Opinion No. 19—Reporting Changes in Financial Position* states: "When financial statements purporting to present both financial position (balance sheet) and results of operations (statement of income and retained earnings) are issued, a statement summarizing changes in financial position should also be presented as a basic financial statement for each period for which an income statement is presented." The Statements appearing as examples in this section have been edited to show, if not already so shown in the annual report, all dollar amounts in thousands or millions. Except for several examples at the end of this section, disclosures of changes in elements of working capital (required by *Opinion No. 19*) have been omitted to emphasize other information contained within the statement.

The Financial Accounting Standards Board has issued an exposure draft *Statement of Cash Flows.* This statement will supersede *Opinion No. 19* and will require a Statement of Cash Flows in place of a Statement of Changes in Financial Position.

PRESENTATION IN ANNUAL REPORT

Table 5-1 shows the placement of The Statement of Changes in Financial Position in relation to other financial statements. As shown in Table 5-1, the statement of changes is usually presented in an annual report as the last financial statement or after the income statement and balance sheet but before the statement of stockholders' equity.

TABLE 5-1: PRESENTATION IN ANNUAL REPORT

	1985	1984	1983	1982
Final statement	373	379	387	386
Follows income statement and balance sheet	172	162	154	151
Between income statement and balance sheet	51	51	52	56
First statement	2	3	5	5
Other	2	5	2	2
Total Companies	**600**	**600**	**600**	**600**

TITLE

Paragraph 8 of *Opinion No. 19* states:

> The Board also concludes that the statement summarizing changes in financial position should be based on a broad concept embracing all changes in financial position and that the title of the statement should reflect this broad concept. The Board therefore recommends that the title be Statement of Changes in Financial Position (referred to below as "the Statement"). The Statement of each reporting entity should disclose all important aspects of its financing and investing activities regardless of whether cash or other elements of working capital are directly affected. For example, acquisitions of property by issuance of securities or in exchange for other property, and conversions of long-term debt or preferred stock to common stock, should be appropriately reflected in the Statement.

Practically all the survey companies use the recommended title.

FORMAT

Paragraph 11 of *Opinion No. 19* states:

> Provided that these guides are met, the Statement may take whatever form gives the most useful portrayal of the financing and investing activities and the changes in financial position of the reporting entity. The Statement may be in balanced form or in a form expressing the changes in financial position in terms of cash, of cash and temporary investments combined, of all quick assets, or of working capital. The Statement should disclose all important changes in financial position for the period covered; accordingly, types of transactions reported may vary substantially in relative importance from one period to another.

Prior to 1981, it was rare to see a change in working capital or in cash and cash equivalents presented in terms other than total sources and total uses. In 1981 the survey companies began to present a change in working capital or in cash and cash equivalents in terms of fund flows associated with operating, investing, and financing activities. The number of survey companies using this form was 74 in 1981, 169 in 1982, 227 in 1983, 267 in 1984, and 292 in 1985. This form of presentation is discussed in the *FASB Discussion Memorandum-Reporting Fund Flows, Liquidity and Financial Flexibility* which has been incorporated into an FASB study on Cash Flow Reporting.

SOURCES AND USES

Sources Equal Uses

BAIRD CORPORATION (SEP)

Consolidated Statements of Changes in Financial Position

	1985	1984 ($000)	1983
Funds provided:			
Net income	$ 444	$ 970	$ 734
Add charges against income not requiring funds:			
Depreciation and amortization	1,239	943	800
Deferred income taxes	63	102	157
Working capital provided from operations	1,747	2,017	1,691
Issuance of common stock		15	26
Increase in other long term liabilities	340		
Effect of foreign currency translation on property, plant and equipment	(112)	223	305
	$1,975	$2,256	$2,023
Funds used:			
Decrease in long-term debt	$ 1	$ 661	$ 128
Decrease in subordinated long-term debt	187	187	187
Additions to property, plant and equipment net of book value of minor disposals	2,105	1,307	1,258
Other increases (decreases), net	105	(111)	44
Cash paid in lieu of fractional shares of stock dividend		11	13
Purchase of treasury stock	99		
Equity adjustment from foreign currency translation	(263)	338	347
Increase (decrease) in working capital	(260)	(138)	43
	$1,975	$2,256	$2,023

TABLE 5-2: FORMAT

	1985	1984	1983	1982
Changes in Working Capital				
Sources equal uses	25	31	39	46
Increase (decrease) in working capital	156	176	199	250
Ending working capital	39	37	48	50
Changes in Cash				
Sources equal uses	8	5	7	5
Increase (decrease) in cash or cash and cash equivalent	223	206	175	145
Ending cash or cash and cash equivalent	149	145	132	104
Total Companies	600	600	600	600

FOOTE MINERAL COMPANY (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984 (In Thousands)	1983
Source of Funds:			
Net income (loss)	$(31,914)	$ 330	$(3,800)
Items not requiring funds:			
Depreciation and amortization	7,251	7,953	8,783
Deferred income taxes	(589)	(687)	(2,371)
Equity in net (income) loss of foreign partnership and amortization of capitalized interest	(154)	—	—
Graham plant closing	9,822	—	—
Keokuk property writedown	9,355	—	—
Funds (used in) provided from operations	(6,229)	7,596	2,612
Increase in long-term debt	—	9,800	—
Property, plant and equipment retired and sold	710	31	59
Plant writedown amounts not affecting working capital	2,092	—	—
Decrease (increase) in other assets	2,302	(2,703)	(750)
	$ (1,125)	$14,724	$1,921
Application of Funds:			
Additions to property, plant and mine development	$ 2,331	$ 9,770	$1,074
Investment in Sociedad Chilena de Litio, Ltda.	—	3,295	3,376
Reduction of long-term debt	8,486	6,800	3,800
Dividends	—	330	—
Decrease in working capital	(11,942)	(5,471)	(6,329)
	$ (1,125)	$14,724	$1,921

Increase (Decrease) in Working Capital or Cash

CAESARS WORLD, INC. (JUL)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
	(In Thousands)		
Sources of cash			
Income (loss) from continuing operations	$31,812	$18,840	$ (8,639)
Items not affecting working capital			
Depreciation and amortization	34,555	28,599	31,469
Valuation allowance for interest differential on CRDA bonds	4,756	—	—
Deferred income taxes	1,503	(687)	3,914
Working capital provided by continuing operations	72,626	46,752	26,744
Working capital used in discontinued operations	—	—	(1,278)
Changes in working capital generated (used) by operations			
Inventories	(2,593)	(860)	276
Prepaid expenses and other	3,016	(1,486)	430
Receivables, net	(1,422)	18,200	27,424
Accounts payable and accrued expenses	(7,783)	14,894	11,775
Income taxes	(7,107)	20,387	(20,472)
Cash provided by operations	56,737	97,887	44,899
Additions to long-term debt and obligations under capital leases	454	92,732	5,425
Working capital used in extraordinary loss, net	—	—	(2,752)
Disposals of property and equipment, net	1,034	2,038	7,920
Change in net assets of discontinued operations	—	—	11,578
Issuance of common stock	—	35,753	—
Disposition of investments held in trust	—	—	17,439
Other, net	2,822	(37)	2,350
Total sources of cash	61,047	228,373	86,859
Uses of cash			
Purchases of property and equipment	88,471	90,705	50,465
Reductions in long-term debt and obligations under capital leases	23,471	25,183	33,293
Deposits for CRDA bonds	5,961	—	—
Net (increase) decrease in short-term borrowings	(3,100)	36,794	6,606
Total uses of cash	114,803	152,682	90,364
Increase (decrease) in cash and short-term investments	$(53,756)	$75,691	$ (3,505)

CLARK EQUIPMENT COMPANY (DEC)

Statement of Changes in Financial Position

	1985	1984	1983
	Amounts in thousands		
Cash was provided by:			
Net income (loss)	$ (85,472)	$ 24,971	$ 12,414
Add non-cash charges (deduct credits) to income:			
Restructuring and revitalization program costs	66,157	—	(7,700)
Depreciation	33,808	37,264	38,093
Write-down of property, plant and equipment—restructuring	19,600	—	—
Deferred and recoverable income taxes	569	49	15,400
Treasury Stock issued under employee benefit programs	3,916	2,598	10,162
Equity in unremitted earnings of unconsolidated subsidiaries and associated companies	(1,682)	(16,468)	22,103
Cash provided by operations	36,896	48,414	90,472
(Increase) decrease in operating working capital (See detail below)	(34,467)	27,623	(37,887)
Net cash available from operations	2,429	76,037	52,585
Issuance of capital stock	—	29,518	47,236
Addition to long-term borrowings	97,959	39,336	92,973
Proceeds from sale of stock under option plans	858	1,648	1,583
Sales of properties	7,147	9,847	7,472
Increase in accrued items	3,525	3,146	5,770
Decrease (increase) in other assets	1,491	(5,953)	(3,501)
Changes in exchange rates	3,503	(3,656)	(1,639)
Total cash provided	116,912	149,923	202,479
Cash was used for:			
Additions to property	34,754	32,445	25,572
Cash dividends	18,206	17,279	15,599
Increase in investment and advances to finance subsidiaries and associated companies	816	62,125	30,051
Long-term borrowings paid or becoming current liabilities	9,420	40,262	97,734
Decrease in revitalization program accrued liabilities, non-current	—	—	20,175
Total cash used	63,196	152,111	189,131
Increase (decrease) in cash and cash equivalents	$ 53,716	$ (2,188)	$ 13,348

KNAPE & VOGT MANUFACTURING COMPANY (JUN)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		($000)	
Funds Provided By:			
Net income	$5,183	$4,673	$2,871
Add items not requiring funds:			
Depreciation	1,640	1,472	1,419
Supplemental retirement benefits	104	85	97
Deferred income taxes	379	203	41
Total derived from operations	7,307	6,434	4,429
Sale of investments	115		10
Life insurance proceeds	305		185
Sale of treasury stock	285		
Total	8,012	6,434	4,625
Funds Used For:			
Cash dividends	1,842	1,671	1,450
Additions to property and equipment	3,452	2,852	3,570
Acquisition of treasury stock			1,014
Increase (decrease) in:			
Inventories	1,163	1,807	(1,272)
Accounts receivable	840	1,559	961
Prepaid expenses	36	60	21
Invested in life insurance	106	34	77
Decrease (increase) in:			
Accounts payable	532	(1,326)	(659)
Accruals	127	73	(863)
Foreign currency translation	123	267	(159)
Total	8,226	6,999	4,139
Increase (Decrease) in Cash	$ (214)	$ (565)	$ 486

TEMPLE-INLAND INC. (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		(in thousands)	
Working Capital Sources			
Net income	$ 85,090	$102,677	$ 48,179
Items not affecting working capital:			
Depreciation, amortization and depletion	66,445	63,093	63,838
Amortization of intangibles	208	140	515
Deferred taxes and deferred tax credits	30,915	12,284	15,525
Unremitted earnings of affiliated companies	(20,971)	(21,528)	(16,457)
Total from Operations	161,687	156,666	111,600
Disposition of property and equipment	12,182	4,400	4,545
Decrease (increase) in construction funds held by trustees	19,735	(32,274)	9,818
Issuance of long-term debt	—	51,981	149,474
Change in other assets and liabilities	9,048	3,147	9,458
Issuance of common stock	1,695	1,509	—
Other	1,401	5,886	234
Total Working Capital Sources	205,748	191,315	285,129
Working Capital Uses			
Capital expenditures	183,688	129,765	53,006
Dividends paid to shareholders	15,466	12,061	—
Additional investment in affiliated companies	13,573	1,261	—
Dividends to Time Inc.	—	—	169,937
Purchases of treasury stock	278	431	—
Reduction of long-term debt	3,558	9,372	21,165
Total Working Capital Uses	216,563	152,890	244,108
Increase (Decrease) in Working Capital	$ (10,815)	$ 38,425	$ 41,021

End of Year Working Capital or Cash

AEL INDUSTRIES, INC. (FEB)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
	Dollars in thousands		
Source:			
Income from continuing operations before extraordinary credit	$ 7,354	$ 4,395	$ 2,237
Items not affecting working capital:			
Depreciation and amortization	1,705	1,443	1,247
Provision for deferred income taxes	652	258	1,668
Share in net income of unconsolidated subsidiary	(1,983)	(921)	(354)
Working capital provided by continuing operations before extraordinary credit	7,728	5,175	4,798
Extraordinary credit-benefit of net operating loss carryforwards		2,500	
Gain on sale of discontinued business, net of income taxes	36,240		
Repayment of advances by discontinued business		14,053	
Conversion of subordinated sinking fund debentures		987	35
Management fee from unconsolidated subsidiary	493		
Long-term borrowings	5,385	1,468	1,674
Other	262	205	200
	50,108	24,388	6,707
Application:			
Redemption of preferred stock	15,000		
Liquidation of net liabilities of discontinued business	9,731		
Additions to property, plant and equipment	4,147	2,314	2,498
Purchase of additional shares of unconsolidated subsidiary	4,111		
Reduction of long-term debt	2,049	2,929	2,043
Working capital absorbed by discontinued business		4,099	5,948
Dividends paid on preferred stock	1,500	1,200	936
Purchase of treasury stock	529		
Other	16	10	179
	37,083	10,552	11,604
Increase (decrease) in working capital	13,025	13,836	(4,897)
Working capital at beginning of period	21,473	7,637	12,534
Working capital at end of period	$34,498	$21,473	$ 7,637

DOW JONES & COMPANY, INC. (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		(in thousands)	
Sources of Cash:			
Net income	$138,608	$129,140	$114,224
Add, Items not affecting funds:			
Depreciation	52,079	43,323	37,383
Equity in earnings of associated companies	(14,404)	(8,082)	(5,220)
Provision for deferred taxes	22,439	8,603	876
Amortization of excess of cost over net assets of businesses acquired	1,329	1,149	1,123
Other, principally provision for noncurrent liabilities	3,465	2,341	3,683
Cash provided by operations	203,516	176,474	152,069
Increase in long-term debt	271,000	9,120	
Distribution of earnings from associated companies	10,818	3,857	5,383
Proceeds from sale under stock purchase plans	5,748	6,115	6,740
Disposition of plant and property	3,247	2,620	5,249
Disposition of investments		1,428	272
Decrease (increase) in other current assets	1,101	(4,316)	(1,293)
Increase in accounts payable and accrued liabilities	11,566	9,576	14,542
Increase (decrease) in federal and state income taxes	756	(14,986)	10,455
Increase in unexpired subscriptions	15,666	4,981	9,036
Other, net	1,281	(2,406)	(742)
Total sources of cash	524,699	192,463	201,711
Uses of Cash:			
Cash dividends	50,228	46,232	38,377
Investments in associated companies	294,914	2,110	5,012
Additions to plant and property	154,589	142,792	84,948
Reduction of long-term debt	45,529	3,290	20,213
Business acquired, net of cash received		12,378	
Increase in accounts receivable—trade	11,179	10,219	13,758
Increase (decrease) in inventories	4,129	4,855	(3,757)
Total uses of cash	560,568	221,876	158,551
Increase (decrease) in cash and marketable securities	(35,869)	(29,413)	43,160
Cash and marketable securities at beginning of year	69,571	98,984	55,824
Cash and marketable securities at end of year	$ 33,702	$ 69,571	$ 98,984

THE TIMKEN COMPANY (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
	(Thousands of dollars)		
Source of Cash			
From operations:			
Net income (loss)	$ (3,903)	$ 46,057	$ 530
Non-cash charges to income:			
Depreciation and amortization	77,682	76,839	71,210
Deferred income taxes	(39,390)	5,592	14,457
Amortization of deferred gain on pension termination/reestablishment	(7,838)	-0-	-0-
Other—net	27	98	8
Total from operations before extraordinary item	$ 26,578	$128,586	$86,205
Extraordinary item	(3,063)	-0-	-0-
Total from operations	23,515	128,586	86,205
Decrease in working capital:			
Decrease in current assets:			
Trade receivables		8,611	
Refundable income taxes	17,609	16,424	9,420
Inventories	16,581		
Increase in current liabilities:			
Accounts payable, accrued payroll and other liabilities	36,085	39,694	4,646
Income taxes payable	4,941		3,345
Commercial paper		65,722	64,611
Foreign currency translation adjustment relating to working capital items	3,380		
Issuance of long-term debt	82,694	50,318	25,436
Proceeds from pension termination/reestablishment	100,423		
Decrease in other assets	7,311	13,937	
Increase in equity:			
Issuance of Common Stock	16,939	5,411	25,815
Issuance of Treasury Stock	420	33	41
Total	$309,898	$328,736	$219,519
Use of Cash			
Increase in working capital:			
Increase in current assets:			
Trade receivables	$ 2,129		$ 44,901
Inventories		$ 53,191	4,753
Decrease in current liabilities:			
Commercial paper	79,619		
Income taxes payable		4,639	
Foreign currency translation adjustment relating to working capital items		9,134	5,228
Payments and current portion of long-term debt	13,325	9,972	629
Property, plant and equipment additions—net	190,689	237,342	154,188
Increase in other assets			24,733
Payment of dividends	21,688	23,546	20,710
Total	$307,450	$337,824	$255,142
Increase (Decrease) in cash and short-term investments	$ 2,448	$ (9,088)	$ (35,623)
Cash and short-term investments beginning of year	8,612	17,700	53,323
Cash and short-term investments end of year	$ 11,060	$ 8,612	$ 17,700

OPERATING, INVESTING, AND FINANCING ACTIVITIES

BOISE CASCADE CORPORATION (DEC)

Statements of Changes in Financial Position

	1985	1984	1983
	(expressed in thousands)		
Cash provided by operations			
Net income	$104,290	$ 69,610	$ 60,380
Items in income not (providing) using cash			
Depreciation and cost of company timber harvested	176,320	147,220	152,420
Deferred income tax provision (benefit)	29,254	(14,191)	15,410
Provision for restructuring operations (noncurrent items)	—	39,497	—
Amortization and other	9,718	8,016	16,325
Gain on sales of operating assets	(31,485)	—	—
Receivables	11,284	(17,835)	(69,245)
Inventories	37,807	(8,395)	(58,419)
Other current assets	(2,165)	1,681	(2,149)
Accounts payable and accrued liabilities	(110,444)	108,621	120,235
Current and deferred income taxes	(5,437)	5,911	3,715
Cash provided by operations	219,142	340,135	238,672
Cash provided by (used for) financing			
Notes payable	(33,000)	44,000	(10,000)
Additions to (payments of) long-term debt, net	(21,094)	298,683	(103,444)
Issuance of restricted common stock	—	37,791	—
Issuance of preferred stock	—	—	96,650
Cash provided by (used for) financing	(54,094)	380,474	(16,794)
Cash provided by (used for) investment			
Sales of operating assets	196,346	—	—
Expenditures for property and equipment	(330,192)	(413,715)	(141,764)
Expenditures for timber and timberlands	(6,558)	(15,869)	(3,493)
Purchase of partner's interest in Boise Southern	—	(195,175)	—
Purchases of common stock	(13,807)	(27,940)	(109)
All other, net	14,959	(5,700)	19,788
Cash used for investment	(139,252)	(658,399)	(125,578)
Cash dividends paid			
Common stock	(51,912)	(50,638)	(50,732)
Preferred stock	(10,218)	(10,228)	(7,742)
	(62,130)	(60,866)	(58,474)
Increase (decrease) in cash and short-term investments	(36,334)	1,344	37,826
Balance at beginning of the year	73,865	72,521	34,695
Balance at end of the year	$ 37,531	$ 73,865	$ 72,521

HARRIS CORPORATION (JUN)

Consolidated Statement of Changes in Financial Position

	1985	1984	1983
		(In thousands)	
Source (Use) of Funds:			
Operations			
Income from continuing operations	$ 80,287	$ 80,410	$ 63,819
Add items not affecting funds:			
Depreciation of plant and equipment	84,229	65,955	58,418
Depreciation of rental equipment	30,852	34,838	31,868
Non-current deferred income taxes	36,347	(16,045)	(40,991)
Equity income	(8,659)	(6,718)	(1,931)
Other	1,882	1,549	3,248
Total from Continuing Operations	224,938	159,989	114,431
Income from discontinued operations, net of items not affecting funds	—	—	15,517
	224,938	159,989	129,948
Working capital items other than cash equivalents	(74,938)	(56,261)	53,029
Additions net of normal disposals of:			
Plant and equipment	(153,145)	(137,683)	(90,820)
Rental equipment	(31,709)	(45,364)	(47,437)
Total Before Financing and Investment Activity	(34,854)	(79,319)	44,720
Financing and Investment Activity			
Increase in long-term debt	109,420	3,883	68,944
Decrease in long-term debt	(132,005)	(47,690)	(66,526)
Proceeds from sale of common stock and conversion of debentures	6,755	11,522	7,360
Common stock transactions of pooled company prior to merger	—	2,083	897
Cash dividends	(35,395)	(33,309)	(27,685)
Cash dividends of pooled company prior to merger	—	(1,517)	(5,765)
Investment in and advances to unconsolidated subsidiary and joint ventures	3,974	(19,061)	(3,021)
Decrease in investment in discontinued operations	—	—	220,546
Other	(5,701)	(1,911)	3,799
	(52,952)	(86,000)	198,549
Net Increase (Decrease) in Cash and Short-Term Securities	$ (87,806)	$(165,319)	$243,269

SAFEWAY STORES, INCORPORATED (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		(in thousands)	
Cash provided from operations:			
Net income	$231,300	$185,011	$183,303
Charges (credits) to income not requiring (providing) cash:			
Depreciation and amortization	333,398	295,290	264,553
Gain on sale of Australian operations	(48,296)		
Equity in earnings of affiliates	(8,100)	(1,890)	(140)
Deferred income taxes	29,830	34,128	20,194
LIFO charge (credit)	(5,566)	29,275	(444)
Accrued claims and other liabilities	8,531	9,608	(11,035)
(Increase) decrease in current assets:			
Receivables	(9,233)	(13,524)	(18,537)
Inventories at FIFO cost	(59,815)	(159,265)	(94,820)
Prepaid expenses and other current assets	(8,978)	12,689	7,349
Increase (decrease) in current liabilities:			
Payables and accruals	230,035	42,424	93,761
Income taxes payable	11,510	(22,650)	31,824
Total cash provided from operations	704,616	411,096	476,008
Investment activities:			
Additions to property	(621,758)	(701,678)	(541,238)
Retirements or sales of property	131,079	113,091	90,296
Proceeds from sale of foreign operations:			
Net working capital	(26,611)		
Other net assets, at fair value	135,220		
Investments in affiliated companies	(104,272)	(2,265)	(2,432)
Exchange rate effects on property and investments	11,051	57,211	27,308
Cumulative translation adjustments	(28,056)	(41,907)	(18,045)
Other	(9,185)	6,806	(9,691)
Net investment activities	(512,532)	(568,742)	(453,802)
Financing activities:			
Additions to long-term debt	167,500	323,625	205,935
Payments on long-term debt	(174,871)	(104,008)	(266,876)
Increase (decrease) in notes payable	39,900	(5,243)	(37,872)
Exchange rate effects on long-term debt	(6,000)	(14,576)	(7,576)
Increase in current maturities of long-term debt	2,582	23,137	11,155
Cash dividends on common stock	(98,135)	(90,371)	(80,961)
Proceeds from issuance of common stock	28,467	25,936	168,962
Other	(1,355)	(1,986)	(3,207)
Net financing activities	(41,912)	156,514	(10,440)
Increase (decrease) in cash and short-term investments	150,172	(1,132)	11,766
Cash and short-term investments:			
Beginning of year	74,442	75,574	63,808
End of year	$224,614	$ 74,442	$ 75,574

OAK INDUSTRIES INC. (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
	(Dollars in thousands)		
Increase (Decrease) in Cash and Marketable Securities From:			
Operations:			
Continuing Operations:			
Loss from continuing operations	$(37,576)	$(95,524)	$(65,555)
Add (deduct) non-cash items:			
Depreciation and amortization	16,512	22,643	26,212
Deferred taxes on income	1,447	(336)	40
Minority interest in earnings of consolidated subsidiaries	1,419	541	477
Equity in net (income) of affiliated companies	(512)	(139)	(351)
Other	2,314	717	937
	$(16,396)	$(72,098)	$(38,240)
Discontinued Operations:			
Loss from discontinued operations	$ —	$(53,726)	$(56,558)
Add (deduct) non-cash items:			
Depreciation and amortization	—	17,463	26,718
Deferred taxes on income	—	—	55
Minority interest in earnings of consolidated subsidiaries	—	—	(175)
Equity in net loss of affiliated companies	—	9,340	13,078
Other	—	—	2,803
	$ —	$(26,923)	$(14,079)
Working Capital Changes:			
Receivables	$ 7,795	$ 36,703	$ 37,160
Inventories	12,197	14,787	18,031
Accounts payable and accrued liabilities	(35,350)	(13,566)	26,786
Other	2,290	6,382	(14,508)
	$(13,068)	$ 44,306	$ 67,469
Other operating assets and liabilities changes	$ (9,583)	$ 6,472	$13,094
Net funds from (used in) operations	$(39,047)	$(48,243)	$28,244
Investments and Other Expenditures:			
Additions to plant and equipment—			
Continuing operations	$ (9,498)	$(17,318)	$(17,843)
Discontinued operations	—	(548)	(2,252)
Dispositions of plant and equipment—			
Continuing operations	7,742	2,661	10,469
Discontinued operations	—	3,412	12,101
Change in investments in and advances to affiliated companies	4,919	6,671	(6,846)
Change in minority interests	1,397	(440)	(9,046)
Change in intangible assets	493	49,916	(12,667)
Change in stockholders' investment resulting from:			
Exchange rate changes	(76)	4,803	(933)
Notes receivable on sale of common stock	613	—	—
Dividends	—	(23)	(984)
Decrease (increase) in net assets of discontinued operations—			
Sale of TV Station KBSC	30,000	—	—
Other	(4,848)	(6,587)	—
Net funds from (used for) investments and other expenditures	$30,742	$42,547	$(28,001)
Financing:			
Changes in debt:			
Short-term, net	$ (1,659)	$ (1,679)	$ (5,358)
Long-term borrowing	9,225	1,503	1,339
Long-term repayments and conversions	(4,609)	(6,280)	(14,177)
Issuance of common stock in conjunction with debt exchange	8,757	—	—
Issuance of common stock to noteholders in lieu of cash interest payments	17,240	—	—
Net funds from (used for) financing	$28,954	$ (6,456)	$(18,196)
Cash and Marketable Securities:			
Net change during year	$20,649	$(12,152)	$(17,953)
Balance, beginning of year	15,813	27,965	45,918
Balance, end of year	$36,462	$15,813	$27,965

THE STANDARD OIL COMPANY (DEC)

Statement of Changes in Financial Position

	1985	1984	1983
	Millions of Dollars		
Cash Was Provided From (Used For)			
Operations			
Net income	$ 308	$1,488	$1,512
Non-cash charges to net income			
Depreciation, depletion and amortization	927	796	767
Amortization of unproved oil and gas properties	459	266	431
Dry hole costs expended in prior years	131	21	13
Deferred income taxes	119	447	234
Unusual items	1,550	90	48
Other—net	77	(89)	(46)
Working capital provided from operations	3,571	3,019	2,959
(Increase) decrease in operating working capital (Note O)	(97)	164	(13)
Cash provided from operations	3,474	3,183	2,946
Dividends	(657)	(639)	(641)
Investment Activities			
Capital expenditures	(2,144)	(2,329)	(2,298)
Less dry hole costs expended in current year	202	116	80
	(1,942)	(2,213)	(2,218)
Acquisition of certain Gulf refining and marketing operations			
Property, plant and equipment	(340)	—	—
Inventories	(273)	—	—
Sale of long-term marketable securities	462	6	614
Change in investment working capital	(7)	(26)	196
Other	62	72	182
Cash used for investments	(2,038)	(2,161)	(1,226)
Financing Activities			
Issuance of long-term debt	408	—	151
Reduction of long-term debt	(668)	(259)	(482)
Purchase of common stock for treasury	(32)	(561)	(6)
Changes in financing working capital			
Sale of accounts receivable to finance subsidiary	(411)	376	(399)
(Decrease) increase in short-term notes payable	(265)	312	(211)
Increase (decrease) in current maturities of long-term obligations	203	(3)	(169)
Other	4	(2)	(35)
Cash used for financing	(761)	(137)	(1,151)
Increase (Decrease) in Cash and Short-Term Marketable Securities	$ 18	$ 246	$ (72)

WORKING CAPITAL OR CASH PROVIDED FROM OR USED IN OPERATIONS

Paragraph 10 of *Opinion No. 19* states:

The ability of an enterprise to provide working capital or cash from operations is an important factor in considering its financing and investing activities. Accordingly, the Statement should prominently disclose working capital or cash provided from or used in operations for the period, and the Board believes that the disclosure is most informative if the effects of extraordinary items . . . are reported separately from the effects of normal items. The Statement for the period should begin with income or loss before extraordinary items, if any, and add back (or deduct) items recognized in determining that income or loss which did not use (or provide) working capital or cash during the period. Items added and deducted in accordance with this procedure are not sources or uses of working capital or cash, and the related captions should make this clear, e.g., "Add—Expenses not requiring outlay of working capital in the current period." An acceptable alternative procedure, which gives the same result, is to begin with total revenue that provided working capital or cash during the period and deduct operating costs and expenses that required the outlay of working capital or cash during the period. In either case the resulting amount of working capital or cash should be appropriately described, e.g., "Working capital provided from (used in) operations for the period, exclusive of extraordinary items." This total should be immediately followed by working capital or cash provided or used by income or loss from extraordinary items, if any; extraordinary income or loss should be similarly adjusted for items recognized that did not provide or use working capital or cash during the period.

Table 5-3 shows those items most frequently included in the calculation of working capital or cash provided from (or used in) operations. Examples of the aforementioned calculation follow.

TABLE 5-3: WORKING CAPITAL OR CASH PROVIDED FROM OPERATIONS—COMPONENTS

	Number of Companies			
	1985	1984	1983	1982
Net income/loss	412	448	441	453
Income/loss from continuing operations	101	80	74	76
Income/loss before extraordinary items	55	55	64	40
Depreciation and/or amortization and/or depletion	600	600	600	600
Deferred taxes and/or deferred investment credit	493	497	407	515
Equity in earnings/losses of investees	170	183	191	182
Minority interest	35	38	42	49

Net Income/Loss

ADDSCO INDUSTRIES, INC. (JUN)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		($000)	
Financial Resources Provided by Operations:			
Net income (loss)	$(1,138)	$(4,576)	$2,008
Items which did not require outlay of working capital during the year:			
Depreciation	2,001	2,119	2,133
(Income) Loss from unconsolidated affiliated companies	(32)	135	384
Accrued pension cost not to be funded currently		(251)	97
Increase (decrease) in accrued workmen's compensation claims	(1,549)	(140)	967
Increase (decrease) in estimated liability for damage claims	(15)	(667)	(1,546)
Deferred income taxes—non-current	663	684	425
Working capital provided by operations	(70)	(2,696)	4,470
Net decrease in cash value of life insurance	155	175	
Net book value of assets sold	21	4	3
Decrease (increase) in restricted cash and investments	142	(37)	64
Dividend received from affiliate		215	
Other	2	1	10
	251	(2,337)	4,549
Financial Resources Applied To			
Additions to property, plant and equipment	147	1,923	2,466
Cash dividends declared			1,027
Current maturities and retirements of deferred compensation	22	146	93
Current maturities and retirements of long-term debt		163	702
Other			29
	169	2,233	4,319
Increase (Decrease) in Working Capital	$ 82	$(4,570)	$ 230

BECOR WESTERN INC. (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		($000)	
Source of Working Capital			
From operations:			
Net earnings (loss)	$ 3,043	$ 8,151	$(133,002)
Charges (credits) not affecting working capital:			
Depreciation, amortization and write-down of fixed assets	20,370	41,364	61,679
Increase (decrease) in deferred liabilities	(24,226)	8,740	36,594
Equity in earnings of Bucyrus Europe Limited	(853)	(1,343)	(205)
Write-down of investment in Bucyrus Europe Limited			18,991
Total working capital provided from (used in) operations	(1,665)	56,912	(15,944)
Dividends received from Bucyrus Europe Limited			52
Disposals of property, plant and equipment	12,926	18,233	3,091
Decrease in noncurrent portion of notes receivable	728	2,937	2,582
Effect of exchange rate changes on working capital	1,464	(3,998)	(792)
Consolidation of Bucyrus Europe Limited	17,953		
Issuance of common shares	694	133	2
Miscellaneous	41	24	73
Decrease in working capital		8,968	137,789
	$32,143	$83,210	$126,856
Application of Working Capital			
Additions to property, plant and equipment	$18,703	$16,018	$ 14,924
Cash dividends paid	7,205	8,537	11,228
Reductions in long-term debt	4,430	2,003	100,703
Purchase of common stock		56,652	
Increase in working capital	1,804		
	$32,143	$83,210	$126,856

BARCO OF CALIFORNIA (JUN)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		($000)	
Source of Funds:			
Net earnings (loss)	$(179)	$ 278	$ 760
Items not requiring outlay of working capital:			
Depreciation and amortization	454	387	287
Loss on Investment in Joint Venture			80
Funds provided from operations	275	665	1,127
Sale of property, plant and equipment	70		
Increase in long-term debt	62		
Decrease (increase) in cash value of officers' life insurance policies	58	287	(98)
Other		23	
	465	975	1,029
Application of Funds:			
Increase in long-term notes receivable and deposits	271		
Purchase of property, plant and equipment	229	449	236
Decrease (increase) in borrowings against cash value of officers' life insurance policies	116	275	(81)
Deferred charges incurred	56	171	43
Payments and current maturities on long-term debt	76	43	31
Dividends paid		252	252
	748	1,190	481
Increase (Decrease) in Working Capital	$(283)	$ (215)	$ 548

GTI CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		(thousands of dollars)	
Working Capital Provided From:			
Net income (loss)	$ (679)	$ 410	$ 19
Items not requiring on outlay of working capital—			
Depreciation and amortization	1,249	1,145	804
Deferred income taxes	180	(21)	(12)
Working capital provided from operations	750	1,534	811
Additions to long-term debt	1,463	139	2,000
Sales and retirements of property, plant and equipment	17	84	10
Issuance of common stock for patent and license rights	—	—	1,850
Sale of investments	—	—	300
Increase in other liabilities	109	205	146
Issuance of common stock under stock option plans and warrants redeemed	—	3	35
	2,339	1,965	5,152
Working Capital Used For:			
Patents and license rights purchased	—	—	2,000
Additions to property, plant and equipment	1,475	1,982	1,305
Deferred product enhancement costs incurred	422	120	—
Cumulative translation adjustments	(534)	198	140
Reduction in long-term debt	239	670	1,112
Treasury stock purchased	85	—	—
	1,687	2,970	4,557
Increase (Decrease) in Working Capital	$ 652	$(1,005)	$ 595

McDONALD'S CORPORATION (DEC)

Consolidated Statement of Changes in Financial Position

	1985	1984	1983
		(In thousands of dollars)	
Source of working capital			
Net income	$ 433,039	$ 389,089	$ 342,640
Items not involving working capital			
Depreciation and amortization	234,286	210,245	185,538
Deferred income taxes	80,193	65,893	55,128
Other—net	10,704	7,689	(3,540)
Total from operations	758,222	672,916	579,766
Long-term debt	1,376,376	1,016,364	735,484
Property, equipment and other asset disposals (gains and losses included in operations)	75,746	63,732	63,193
Notes receivable due after one year	62,997	33,299	84,905
Stock option exercises	20,078	15,031	13,403
Security deposits by franchisees	7,772	6,173	7,493
Preferred stock issuance		64,961	
Other	56,890	28,227	19,946
Total source of working capital	2,358,081	1,900,703	1,504,190
Use of working capital			
Long-term debt	1,146,018	906,238	694,201
Property and equipment additions	806,667	663,416	522,737
Treasury stock acquisitions	166,335	113,482	63,848
Cash dividends	80,327	70,006	58,036
Noncurrent assets, less long-term debt, of businesses purchased	45,984	20,636	108,271
Notes receivable due after one year	42,024	60,809	52,734
Other investments	12,159	81,235	
Other	92,846	46,079	24,657
Total use of working capital	2,392,360	1,961,901	1,524,484
Decrease in working capital	$ 34,279	$ 61,198	$ 20,294

Income or Loss From Continuing Operations

CHICAGO PNEUMATIC TOOL COMPANY (DEC)

Statement of Changes in Financial Position

	1985	1984	1983
	(Dollar amounts in thousands)		
Financial Resources were provided from:			
Continuing operations:			
Earnings (loss) before extraordinary gains	$ (8,178)	$14,113	$ (3,292)
Items not affecting financial resources:			
Business restructuring costs	27,400	—	—
Depreciation and amortization	6,701	7,446	7,779
Equity in net income of companies not consolidated	(1,304)	(851)	(804)
Minority interest in net earnings	—	352	402
Deferred income taxes	(10,573)	2,919	168
Total from continuing operations	14,046	23,979	4,253
Discontinued operations:			
Loss from discontinued operations	(619)	(26)	(12,468)
Items not affecting financial resources	—	—	3,458
Total from discontinued operations	(619)	(26)	(9,010)
Total from operations	13,427	23,953	(4,757)
Extraordinary gains (less applicable taxes)	—	2,485	253
Disposals of property, plant and equipment	451	3,125	550
Increase in long-term debt and capital lease obligations	22,763	10,630	956
Treasury stock issued under employee benefit and stock option plans	1,834	1,459	758
Effect of foreign exchange rate changes	5,610	(8,459)	(4,730)
(Increase) decrease in working capital:			
Accounts and notes receivable (net)	779	3,160	7,834
Inventories	4,415	(2,695)	41,555
Refundable income taxes	(4,000)	6,508	5,229
Deferred income taxes	(52)	(1,082)	(3,100)
Accounts payable	(73)	8,866	(2,704)
Payroll, taxes and other accrued expenses	1,015	(2,523)	4,480
Other (excluding cash, temporary investments and short-term debt)	621	4,655	(6,278)
Other (net)	518	2,659	567
Total	47,308	52,741	40,613
Financial Resources were used for:			
Purchase of common stock	22,451	—	—
Reduction in long-term debt and capital lease obligations	6,177	27,885	30,700
Capital expenditures	10,790	3,609	2,464
Dividends	1,718	—	—
Investments in companies not consolidated	475	2,300	500
Decrease (increase) in pension liability	193	4,790	(411)
Dilution and deconsolidation of CP India excluding reduction in working capital of $6,394	—	3,825	—
Total	41,804	42,409	33,253
Net change in cash, temporary investments and short-term debt	$ 5,504	$10,332	$ 7,360

COLLINS INDUSTRIES, INC. (OCT)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		($000)	
Working capital was provided (applied) by:			
Income (loss) from continuing operations	$ (2,222)	$ 1,227	$ 520
Charges not affecting working capital—			
Depreciation and amortization	2,598	987	645
Provision for deferred income taxes		89	
Total from continuing operations	$ 375	$ 2,303	$1,165
Income (loss) from discontinued operations, including estimated loss on disposal and from operations during the phase-out period	(1,237)	34	(78)
Extraordinary item		350	366
Total from operations	$ (861)	$ 2,688	$1,453
Issuance of common stock	3,153	1,162	4,782
Retirement of property and equipment	60	16	28
Increase in long-term debt and leases	11,767	12,625	
Total working capital provided	$14,119	$16,492	$6,264
Working capital was applied to:			
Purchase of property and equipment	$ 2,270	$ 3,470	$1,030
Reduction of long-term debt and leases	7,575	179	2,335
Reduction of deferred income taxes	209		14
Acquisition of noncurrent assets of subsidiaries	9,593	1,715	1,383
Other changes, net	957	462	58
Investment in unconsolidated subsidiary	92	485	16
Total working capital applied	$20,698	$ 6,312	$4,839
Increase (decrease) in working capital	$ (6,579)	$10,180	$1,425

CHOCK FULL O'NUTS CORPORATION (JUL)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		($000)	
Financial resources provided by:			
Income/(loss) from continuing operations	$ 242	$ (483)	$ 4,461
Items not affecting working capital:			
Depreciation and amortization of property, plant and equipment	1,161	1,162	1,054
Amortization of deferred charges	971	846	557
Other	157	890	392
Working capital provided by continuing operations, exclusive of extraordinary credit	2,533	2,415	6,465
Discontinued operations	(201)	354	(787)
Items not affecting working capital:			
Depreciation and amortization of property, plant and equipment		35	416
Loss on disposition of fixed assets		197	70
Working capital (used for) provided by discontinued operations	(201)	587	(300)
Working capital provided by operations, exclusive of extraordinary credit	2,331	3,003	6,164
Extraordinary credit arising from utilization of net operating loss carryforwards			950
Working capital provided by operations	2,331	3,003	7,114
Shares issued in connection with acquisition of coffee plant			1,802
Shares to be issued in connection with real estate agreements			1,670
Increase in long-term debt	19,447	12,000	
Property, plant and equipment disposed	2,659		1,536
Other, net	406		91
Total	24,844	15,003	12,215
Financial resources used for:			
Reduction of long-term debt and capital lease obligations	12,962	196	364
Cash dividends paid		1,177	2,260
Reclassification of marketable equity security to noncurrent		1,334	
Additions to property, plant and equipment	4,460	3,229	3,933
Contribution to stock bonus plan and trust			1,400
Purchase of treasury stock		12,012	152
Reduction in other noncurrent liabilities		622	
Increase in notes receivable, other assets and deferred charges	2,921	547	3,881
Total	20,345	19,120	11,992
Increase (decrease) in working capital	4,499	(4,117)	223
Working capital at beginning of year	16,129	20,246	20,023
Working capital at end of year	$20,628	$16,129	$20,246

GULF RESOURCES & CHEMICAL CORPORATION (DEC)

Statements of Changes in Financial Position

	1985	1984	1983
		($000)	
Source of funds:			
Operations—			
Income (loss) from continuing operations	$ (7,031)	$ 7,177	$10,069
Charges (credits) against income not affecting working capital:			
Depreciation, depletion and amortization	29,857	31,514	26,830
Deferred income taxes	(8,118)	629	864
Settlement of severance benefits agreements (non-current)			6,840
Write-down of assets and provision for additional liabilities	10,412		
Other	(631)	237	255
Funds provided by continuing operations	$ 24,489	$ 39,558	$44,860
Income from discontinued operations	$ 66,012	$ 4,892	$ 2,246
Charges (credits) against income not affecting working capital:			
Depreciation, depletion and amortization	2,530	6,226	8,630
Gain on sales of discontinued operations	(93,501)	(13,352)	
Deferred income taxes	28,549	520	520
Write-down of assets and provisions for additional liabilities	20,098	9,898	
Extraordinary item	(20,712)	(1,496)	
Other	85	159	115
Funds provided by discontinued operations	$ 3,061	$ 6,849	$11,511
Total funds provided by operations	$ 27,550	$ 46,407	$56,372
Proceeds from sale of discontinued operations	150,000	45,000	
Additions to long-term debt		7,200	17,200
Increase (decrease) in stockholders' investment due to:			
Exercise of stock options including tax benefit	28	1,329	536
Conversions of preferred stock	26	26	39
Conversions of common stock warrants		576	
Foreign currency translation adjustments	748	(785)	(854)
Other assets, net	1,060	1,133	235
Total source of funds	$179,414	$100,886	$73,529
Application of funds:			
Additions to property, plant and equipment, net	$ 21,476	$ 47,438	$43,371
Other changes in net assets of discontinued operations	3,049	2,777	12,769
Payments and change in current installments on long-term debt	67,809	55,758	19,394
Dividends on stock	495	496	505
Reduction in debt due to conversion of common stock warrants		576	
Increase (decrease) in working capital	86,583	(6,160)	(2,511)
Total application of funds	$179,414	$100,886	$73,529

Income/Loss Before Extraordinary Item

THETFORD CORPORATION (SEP)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		($000)	
Working capital provided:			
Operations—			
Income before extraordinary credit	$2,178	$2,679	$2,350
Charges (credits) against operations not involving working capital in the current year:			
Depreciation	1,229	1,219	1,334
Amortization	17	73	17
Deferred income taxes	71	(14)	3
Working capital provided by operations before extraordinary credit	3,496	3,958	3,705
Extraordinary credit	35	226	1,200
Working capital provided by operations	3,532	4,184	4,905
Increase in long-term debt	1,900		
Other	(38)	55	104
Total working capital provided	5,393	4,240	5,009
Working capital applied:			
Reduction of long-term debt	174	4,384	877
Additions to property, plant and equipment (net of retirements of $13 in 1985, $88 in 1984 and $83 in 1983)	1,656	1,503	861
Purchase of common stock for treasury	1,232		
Foreign currency translation adjustment	(442)	488	
Total working capital applied	2,622	6,376	1,738
Increase (decrease) in working capital	$2,771	$(2,136)	$3,271

ANALOGIC CORPORATION (JUL)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		($000)	
Source of funds:			
Operations:			
Income before extraordinary credit	$ 9,498	$16,444	$14,171
Items not requiring (providing) funds:			
Equity in loss of affiliate		561	819
Gain on sale of long-term investment		(2,242)	
Compensation from stock grants	255	228	
Depreciation and amortization	5,682	4,480	3,243
Deferred income taxes (noncurrent portion)	1,181	1,169	647
Other	(26)	198	(191)
Funds provided by operations, exclusive of extraordinary credit	16,592	20,839	18,691
Working capital provided by extraordinary credit	441		
Income tax reduction relating to stock options credited to capital in excess of par value	94	606	901
Issuance of common stock under stock option plans	299	572	841
Proceeds from long-term debt			2,869
Indebtedness to related parties	487		964
Proceeds from sale of property and equipment	131	21	61
Decrease in other assets		64	
Proceeds from sale of common stock, net of related expenses			27,079
Proceeds from sale of long-term investment		2,513	
	$18,046	$24,618	$51,408
Application of funds:			
Additions to property, plant and equipment	$ 6,131	$11,424	$12,779
Payments and current maturity of long-term debt and indebtedness to related parties	997	562	213
Investment in affiliated companies			2,550
Increase in other assets	303		196
Purchase of common stock for treasury		1,586	
Increase in working capital	10,614	11,044	35,669
	$18,046	$24,618	$51,408

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC. (FEB)

Statement of Changes in Consolidated Financial Position

	1985	1984	1983
		(Dollars in thousands)	
Source of funds:			
From operations:			
Income before extraordinary credits	$ 50,779	$ 31,401	$ 21,361
Expenses not requiring working capital:			
Depreciation and amortization	66,242	54,205	49,870
Charge in lieu of current U.S. income tax	30,000	16,150	9,850
Deferred income taxes	2,400	3,403	4,394
Working capital provided from operations before extraordinary credits	149,421	105,159	85,475
Extraordinary credit—utilization of tax loss carryforward	30,000	16,150	9,850
Extraordinary credit not providing working capital	(30,000)	(16,150)	(9,850)
Extraordinary credit—pension	135,000	—	—
Total working capital provided from operations	284,421	105,159	85,475
Conversion of prepaid pension upon plan termination	130,000	—	—
Disposition of property	5,980	7,936	22,739
Obligations under capital leases	12,617	3,185	(4,508)
Decrease in property due to foreign currency translation	4,466	756	3,980
Decrease (increase) in noncurrent notes receivable	485	2,225	(2,908)
Total	437,969	119,261	104,778
Disposition of funds:			
Increase in marketable investment securities and other investments	244,899	—	—
Acquisition of Kohl's (excludes working capital acquired)	—	21,019	—
Expenditures for property	112,695	72,564	33,128
Property leased under capital leases	12,616	10,007	5,787
Decrease in obligations under capital leases	17,282	5,616	6,307
Decrease in cumulative translation adjustment	9,672	1,844	4,061
Current maturities and repayment of long term debt	11,517	11,741	11,859
Other, net	25,377	15,158	34,329
Total	434,058	137,949	95,471
Increase (decrease) in working capital	3,911	(18,688)	9,307
Working capital—beginning of year	166,381	185,069	175,762
Working capital—end of year	$170,292	$166,381	$185,069

McDERMOTT INTERNATIONAL, INC. (MAR)

Consolidated Statement of Changes in Financial Position

	1985	1984	1983
		(In thousands)	
Source of Funds:			
Operations:			
Income before extraordinary items	$ 18,980	$120,856	$ 50,522
Charges (credits) not affecting working capital:			
Depreciation and amortization	148,946	180,985	141,380
Deferred income taxes	70,823	26,908	20,832
Equity in earnings of joint venture companies, net of dividends received of $5,835,000 in 1985, $4,260,000 in 1984, and $399,000 in 1983	1,347	1,042	2,310
Tax benefit of operating loss carryforwards	1,725	—	5,142
Other—net	(38,464)	(3,634)	8,593
Working capital provided from operations excluding extraordinary gain	203,357	326,157	228,779
Extraordinary gain	9,962	—	—
Issuance of common stock	798	916	644
Proceeds from sale and exchange of property, plant and equipment	39,428	16,863	32,671
Issuance of common stock warrants	—	—	25,100
Debentures issued in retirement of preferred stock	—	—	124,125
Gain on exchange by subsidiary of debentures for preferred stock	—	—	38,538
Long-term borrowing (including fluctuations under the revolving credit agreement)	431,183	175,506	162,528
Reduction in non-current assets and liabilities resulting from exchange rate changes	16,035	21,643	—
Other—net	13,695	36,967	41,261
	714,458	578,052	653,646
Application of Funds:			
Purchase of government obligations—net	80,727	167,661	688,585
Additions to property, plant and equipment	172,349	147,875	190,177
Exchange by subsidiary of debentures for preferred stock	—	—	188,814
Premium on exchange of common stock in reorganization	—	—	11,186
Reduction of long-term debt (including fluctuations under the revolving credit agreement)	343,585	80,187	180,826
Reduction of non-current income taxes	23,327	2,268	52,045
Cash dividends	66,473	66,379	63,215
Foreign currency translation adjustments	14,409	25,721	—
Acquisition of Coutinho:			
Non-current assets, principally property, plant and equipment and goodwill	99,690	—	—
Non-current liabilities, principally long-term debt and pension liability	(36,775)	—	—
	763,785	490,091	1,374,848
Net Increase (Decrease) in Working Capital	$ (49,327)	$ 87,961	$ (721,202)

Income Before Cumulative Effect of Accounting Change

MUNSINGWEAR, INC. (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
	(Amounts in thousands)		
Funds provided:			
Earnings before extraordinary items and cumulative effect of a change in accounting principle.	$ 2,340	$ 95	$ 1,671
Items which do not use (provide) working capital:			
Depreciation and amortization of property, plant and equipment	1,693	1,712	1,859
(Gain) loss on sale of facilities and lease rights.............	(3,590)	(14)	38
Working capital provided before extraordinary items....	443	1,793	3,568
Extraordinary items:			
Exchange of common stock for trademark rights less income taxes of $1,146............		2,850	
Recognition of tax loss carryforward benefit	529	1,048	1,042
Cumulative effect on prior years of a change in accounting principle relating to pensions less income taxes of $156.........	151		
Total working capital provided by operations	1,123	5,691	4,610
Deferred pension plan termination	(640)	1,547	
Proceeds from long-term note receivable.........................			1,000
Proceeds from issuance of long-term debt.......................	3,082		
Proceeds from sale of common stock............................	200	40	40
Proceeds from sale of property, plant and equipment, net	4,340	284	267
Other...............................	46	375	(167)
Total funds provided...........	8,151	7,937	5,750
Funds used:			
Acquisition of business excluding net current assets acquired of $4,310	1,852		
Purchase of treasury stock		4,000	
Additions to property, plant and equipment, net.................	1,417	672	291
Current installments and repayment of long-term debt	2,864	3,325	2,200
Non-current installments from land and building sales.........		150	
Total funds used...............	6,133	8,147	2,491
Increase (decrease) in working capital	2,018	(210)	3,259
Working capital at beginning of year............................	27,486	27,696	24,437
Working capital at end of year...	$29,504	$27,486	$27,696

SOURCES AND USES

Paragraph 14 of *Opinion No. 19* states:

In addition to working capital or cash provided from operations (see paragraph 10) and changes in elements of working capital (see paragraph 12), the Statement should clearly disclose:

a. Outlays for purchase of long-term assets (identifying separately such items as investments, property, and intangibles).

b. Proceeds from sale (or working capital or cash provided by sale) of long-term assets (identifying separately such items as investments, property, and intangibles) not in the normal course of business, less related expenses involving the current use of working capital or cash.

c. Conversion of long-term debt or preferred stock to common stock.

d. Issuance, assumption, redemption, and repayment of long-term debt.

e. Issuance, redemption, or purchase of capital stock for cash or for assets other than cash.

f. Dividends in cash or in kind or other distributions to shareholders (except stock dividends and stock split-ups as defined in *ARB No. 43* Chapter 7B—Stock Dividends and Stock Split-Ups).

Table 5-4 summarizes sources and uses most frequently disclosed in the statements of the survey companies.

Examples of presentations of such sources and uses follow.

TABLE 5-4: SOURCES AND USES

	Number of Companies			
	1985	1984	1983	1982
Sources				
Issuance of long-term debt .	456	453	456	485
Issuance of capital stock....	404	425	413	358
Sale, disposal, or retirement of property	402	409	397	418
Investments	122	123	116	109
Capitalized leases...........	38	43	51	51
Noncurrent receivables......	60	57	53	46
Uses				
Property	594	595	596	598
Dividends	502	510	518	527
Long-term Debt	507	531	538	530
Investments	196	184	213	207
Purchase, redemption, or retirement of capital stock .	282	262	217	226
Decrease in capitalized leases......................	43	.60	74	84
Noncurrent receivables......	45	50	61	59
Intangibles	50	47	37	43

Property

AMERADA HESS CORPORATION (DEC)

Statement of Changes in Consolidated Financial Position

	1985	1984	1983
	(thousands of dollars)		
Source of Working Capital			
Working capital provided from operations			
Net income (loss)	$(260,409)	$170,455	$205,347
Add: Charges not affecting working capital			
Exploratory dry hole costs	137,461	122,344	84,457
Depreciation, depletion, amortization and lease impairment	484,031	445,377	405,764
Special charge	458,070	—	—
Deferred income taxes and other items	(58,055)	17,606	61,391
Working capital provided from operations	761,098	755,782	756,959
Long-term borrowings	418	409,400	446,030
Disposal of equipment	23,451	25,641	88,222
Other sources	29,624	81,827	26,417
Total source of working capital	814,591	1,272,650	1,317,628
Disposition of Working Capital			
Capital expenditures			
Exploration and production	611,848	585,367	592,665
Refining, marketing and transportation	86,906	311,347	133,383
Other	528	3,405	317
Total capital expenditures	699,282	900,119	726,365
Reduction in long-term debt and capitalized lease obligations	198,437	369,406	351,615
Cash dividends	92,329	92,397	92,302
Other dispositions	24,495	10,086	11,319
Total disposition of working capital	1,014,543	1,372,008	1,181,601
Increase (Decrease) in Working Capital	(199,952)	(99,358)	136,027

CHAMPION INTERNATIONAL CORPORATION (DEC)

Consolidated Changes in Financial Position

	1985	1984	1983
	(In thousands of dollars)		
Source of Funds:			
Net income (loss)	$ 163,139	$ (5,968)	$ 82,160
Items not requiring outlay of working capital:			
Depreciation and cost of timber harvested	263,206	203,709	186,702
Deferred income taxes	41,639	(65,107)	5,207
All other—net	(4,512)	23,915	23,086
Working capital provided from operations	462,472	156,549	297,155
Issuance of common stock for acquisition of St. Regis	—	767,463	—
Retirements and sales of property, plant and equipment	330,307	63,411	8,815
Addition to current portion of operations held for disposition	297,110	—	—
Proceeds from long-term debt	161,401	413,754	68,982
Decrease (Increase) in funds held for construction	30,008	41,662	(49,469)
Total funds provided	1,282,298	1,442,839	325,483
Application of Funds:			
St. Regis' noncurrent assets acquired (adjusted in 1985)	209,629	2,446,559	—
St. Regis' noncurrent liabilities assumed (adjusted in 1985)	(190,204)	(883,636)	—
Expenditures for property, plant and equipment	442,816	404,563	201,937
Timber and timberlands expenditures	42,915	33,941	30,831
Decrease in long-term debt	357,897	128,355	94,726
Increase (Decrease) in equity in and advances to unconsolidated affiliates	121,358	(731)	(64,682)
Cash dividends declared	57,912	40,995	37,167
All other—net	94,495	(61,120)	(14,921)
Total funds applied	1,136,818	2,108,926	285,058
Increase (Decrease) in Working Capital	$ 145,480	$ (666,087)	$ 40,425

SPARTON CORPORATION (JUN)

Consolidated Statement of Changes in Financial Position

	1985	1984	1983
		($000)	
Sources of funds:			
Continuing operations:			
Income (loss) from continuing operations	$(4,394)	$ 7,782	$ 8,402
Items not affecting working capital:			
Depreciation and depletion	4,678	2,897	3,148
Lease cancellations and abandonments	3,346	1,403	973
Deferred income taxes	(1,149)	374	(260)
Provision for deferred compensation	140	185	214
Loss from disposal of property and equipment	175	72	11
	2,798	12,715	12,490
Net working capital effect of discontinued operations	—	6	833
Total from operations	2,798	12,722	13,323
Proceeds from sale of property and equipment	249	12	31
Exercise of stock options	48	167	62
Capitalized lease obligation	—	725	—
Proceeds from sale of discontinued operations, less net current assets of $1,170	—	325	—
	3,096	13,953	13,416
Disposition of funds:			
Additions to property, plant and equipment:			
Nonproducing oil and gas properties—net	1,329	1,189	
Producing oil and gas properties	2,833	3,095	1,568
Manufacturing and other	2,293	2,842	3,101
Current portion of deferred compensation net of deferred taxes of $380		420	
Dividends	3,575	3,086	2,152
Increase (decrease) in other assets	(129)	278	327
Payment of deferred compensation	75	400	
	9,978	11,312	7,151
Increase (decrease) in working capital	$(6,882)	$ 2,641	$ 6,265

UNITED FOODS, INC. (FEB)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		($000)	
Source of Working Capital:			
Income before extraordinary item	$ 1,325	$ 2,275	$ 3,919
Items not requiring (providing) working capital:			
Depreciation, including amortization of capital leases	3,415	3,445	3,257
Other amortization	41	41	60
Provision for loss on disposal of non-operating properties	844		133
Deferred income taxes—noncurrent	(310)	(64)	54
Property and equipment donated or abandoned		249	
Total provided by operations	5,315	5,947	7,425
Extraordinary item			2,545
Long-term borrowings	21,733	26,552	60,402
Book value of property and equipment sold (losses of $152 and $29 and gain of $219 included in operations)	836	129	799
Decrease (increase) in other assets	217	(395)	1,034
Exercise of stock options	99	106	
Totals	28,202	32,340	72,207
Use of Working Capital:			
Cash dividends	677	977	1,382
Reduction of long-term debt	21,795	40,352	26,926
Additions to property and equipment, including capital leases	5,126	3,981	16,275
Construction funds held by trustee	(5,614)	7,269	
Repurchase of common stock			992
Totals	21,985	52,581	45,575
Increase (Decrease) in Working Capital	$ 6,217	$(20,241)	$26,632

Capital Stock

SAB HARMON INDUSTRIES, INC. (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
	(Thousands of Dollars)		
Sources of working capital:			
Net earnings	$ 3,221	$ 2,437	$ 1,102
Items which do not use (provide) funds:			
Depreciation and amortization	1,775	1,353	1,082
Deferred income tax expense (benefit)	(8)	184	130
Working capital provided by operations	4,988	3,974	2,314
Decrease in construction fund	828	—	—
Retirement of property, plant and equipment	80	13	39
Proceeds from long-term debt	24,536	5,993	1,041
Issuance of common stock:			
Private placement	9,629	634	—
Public offering	8,113	—	—
Increase in deferred liability	115	115	—
Decrease in working capital	2,408	—	—
	$50,697	$10,729	$ 3,394
Uses of working capital:			
Additions to property, plant and equipment	$ 2,919	$ 1,467	$ 1,082
Increase in construction fund	—	1,070	—
Acquisition of net assets of subsidiary, excluding working capital acquired	—	2,485	—
Current installments and retirement of long-term debt	24,684	3,272	408
Redemption of common stock	21,971	—	—
Dividends declared	533	417	349
Increase in working capital	—	1,860	1,458
Other	590	158	97
	$50,697	$10,729	$ 3,394

TYSON FOODS, INC. (SEP)

Consolidated Statement of Changes in Financial Position

	1985	1984	1983
		($000)	
Working Capital Provided:			
Net income	$ 34,830	$18,164	$11,069
Items not affecting working capital:			
Depreciation and amortization	29,664	14,414	11,525
Contribution of treasury shares to profit-sharing plan			549
Loss (gain) on sale of non-current assets	618	547	(254)
Non-current deferred income taxes	1,166	2,191	941
Working Capital Provided from Operations	66,281	35,316	23,830
Common stock sold in public offering	40,104		
Long-term borrowings	35,873	13,609	2,088
Prior year's cash advance used in business acquisition		9,076	
Sale of property, plant and equipment	2,983	347	1,572
Other	1,771	430	648
	$147,013	$58,781	$28,139
Working Capital Used:			
Non-current assets and liabilities of business acquired:			
Property, plant and equipment	71,524		
Intangibles and other assets	5,491		
Long-term debt	(27,122)		
Additions to property, plant and equipment	56,624	36,376	19,862
Repayments and current maturities of long-term debt	32,078	7,794	5,968
Cash advanced in connection with purchase agreement			9,076
Other	4,546	4,556	908
	143,142	48,728	35,816
Increase (Decrease) in Working Capital	3,871	10,053	(7,677)
Working Capital—Beginning of Year	40,500	30,447	38,124
Working Capital—End of Year	$ 44,371	$40,500	$30,447

Debt

GIANT FOOD INC. (FEB)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
	Thousands of dollars		
Source of Funds:			
Net income	$45,221	$40,511	$37,213
Items not involving working capital:			
Depreciation	27,166	24,097	21,866
Amortization of capital leases	4,311	4,195	3,532
Increase (decrease) in:			
Noncurrent deferred income taxes	3,985	1,867	4,138
Provision for insurance claims.	(532)	3,303	(4,739)
Other	2,124	794	24
Gain on disposition of store property and equipment			(1,286)
Working capital provided from operations	82,275	74,767	60,748
Proceeds from disposition of store property and equipment, net of related expenses of $976,000			1,772
Decrease in real estate for future development			581
Additions to:			
Notes and mortgages	10,602		2,670
Obligations under capital leases	204	790	2,015
Issuance of common stock under employee benefit plans	1,632	854	1,008
	94,713	76,411	68,794
Application of Funds:			
Increase in real estate for future development	2,272	1,091	
Purchase of:			
Property, plant and equipment	59,464	47,336	40,917
Treasury stock	223	1,566	2,692
Capitalization of leased property under capital leases	204	790	2,015
Reduction of:			
Notes and mortgages	4,803	3,915	3,351
Obligations under capital leases	1,798	2,188	1,797
Cash dividends	11,868	8,787	6,960
Other	2,635	905	2,632
	83,267	66,578	60,364
Increase in Working Capital	$11,446	$ 9,833	$ 8,430

ROWE FURNITURE CORPORATION (NOV)

Statement of Changes in Consolidated Financial Position

	1985	1984	1983
	($ thousands)		
Working Capital Provided			
Net earnings	$ 3,516	$ 3,655	$2,361
Items not requiring (providing) working capital			
Depreciation and amortization	2,064	1,839	1,801
Gain on sale of investment property		(329)	
Other—net	489	261	360
Working capital provided from operations	6,069	5,426	4,522
Proceeds from sale of property	398	666	58
Proceeds from life insurance loans		180	233
Proceeds from United States Treasury issues	1,987	1,830	1,600
Proceeds from long-term debt	1,051	3,240	
Proceeds from sale of common stock	15	27	349
Other—net	659		
	10,179	11,369	6,762
Working Capital Used			
Property additions	4,531	5,672	1,632
Purchase of United States Treasury issues		1,978	1,805
Dividends	543	420	193
Current maturities of long-term liabilities	1,047	624	562
Payment of life insurance loans	2,026		
Purchase of Treasury Stock	650		
Other—net		1,097	234
	8,797	9,791	4,426
Increase (decrease) in working capital	$ 1,382	$ 1,578	$2,336

STONE CONTAINER CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
	(dollars in thousands)		
Cash provided by operations:			
Net income (loss)	$ 3,778	$ 33,657	$ (2,922)
Charges (credits) to income not currently involving cash:			
Depreciation and amortization	67,807	64,375	34,213
Deferred taxes	(3,943)	17,771	(4,558)
Other—net	770	1,117	(225)
Funds provided by operations	68,412	116,920	26,508
Changes in non-cash components of working capital:			
Accounts and notes receivable—net	(4,081)	(8,849)	(65,944)
Inventories	4,311	(41,133)	(68,906)
Other current assets	(1,562)	(14,945)	(18,311)
Notes payable—banks	1,000	49,000	(8,000)
Current maturities of long-term debt	(5,575)	922	4,967
Accounts payable and other current liabilities	5,326	10,403	56,844
Net (increase) in non-cash components of working capital	(581)	(4,602)	(99,350)
Net cash provided by operations	67,831	112,318	(72,842)
Investments:			
Property, plant and equipment:			
Additions	(47,090)	(41,917)	(21,028)
Dispositions	2,047	11,331	249
Long-term assets of businesses acquired and acquisition costs	(10,866)	—	(452,246)
Equity investment in non-consolidated affiliate	(3,316)	—	—
Other—net	(5,723)	(529)	560
Net investments	(64,948)	(31,115)	(472,465)
Financial transactions:			
Senior long-term debt reduction	(340,594)	(68,498)	(109,670)
Proceeds from public offering of subordinated notes, net of issuance costs	336,645	—	—
Long-term debt incurred or assumed:			
In connection with acquisitions	1,141	—	519,282
Other	825	1,948	—
Common stock issuance	3,907	288	137,989
Other—net	(500)	—	(388)
Net financial transactions	1,424	(66,262)	547,213
Cash dividends	(8,716)	(8,656)	(7,009)
Net increase (decrease) in cash	(4,409)	6,285	(5,103)
Cash balance, beginning of period	8,285	2,000	7,103
Cash balance, end of period	$ 3,876	$ 8,285	$ 2,000

Bracketed amounts denote a use of cash, increase in a non-cash asset or decrease in a liability balance.

TENNECO INC. (DEC)

Statement of Changes in Financial Position

	1985	1984	1983
			(Millions)
Source of Funds:			
Income from continuing operations	$ 431	$ 631	$ 685
Items which did not affect working capital:			
Depreciation, depletion and amortization	1,154	1,121	965
Deferred federal income taxes	214	391	367
Undistributed earnings of affiliated companies	(35)	(11)	(76)
Writedown of certain petrochemical operations	—	76	—
Other	70	29	30
Funds provided from continuing operations	1,834	2,237	1,971
Income (loss) from discontinued operations	(259)	—	31
Items which did not affect working capital	261	28	18
Total funds provided from operations	1,836	2,265	2,020
Long-term debt incurred	1,445	910	1,314
Commercial paper designated as long-term debt	400	—	—
Short-term debt refinanced	—	—	(150)
Common stock issued	41	228	110
Preference stock issued	168	—	—
Disposal of properties	87	86	49
Change in stockholders' equity resulting from exchange rate changes	27	(70)	(40)
Other (net)	37	(42)	(61)
	4,041	3,377	3,242
Use of Funds:			
Natural gas pipeline cash refunds	162	319	62
Amount reflected in other working capital accounts	(162)	(319)	(62)
	—	—	—
Capital expenditures for plant, property and equipment	1,719	1,748	1,609
Acquisition of natural gas businesses by insurance company	457	—	—
Reduction of investment in affiliated companies to reflect consolidation of natural gas businesses purchased	(457)	—	—
Other net assets acquired	636	249	171
Working capital of acquired companies	341	(58)	(15)
Reduction of long-term debt	631	925	1,025
Dividends	483	459	437
Investments and other assets	63	285	74
Preference stock purchased by a subsidiary	51	5	—
Change in plant, property and equipment resulting from exchange rate changes	69	(60)	(43)
	3,993	3,553	3,258
Increase (Decrease) in Working Capital	$ 48	$ (176)	$ (16)

Dividends

AMOCO CORPORATION

Consolidated Statement of Changes in Financial Position

	1985	1984	1983
	millions of dollars		
Source of funds			
Net income	$1,953	$2,183	$1,868
Items not affecting working capital			
Depreciation, depletion, amortization, and retirements and abandonments	2,059	2,090	1,767
Deferred income taxes (non-current) and other items	477	559	495
Funds provided from operations	4,489	4,832	4,130
New long-term obligations	334	37	460
Dispositions of property	159	327	357
Effect of distribution of Cyprus Minerals Company (less working capital of $84 million)			
Properties (net)	1,524	—	—
Long-term obligations	(124)	—	—
Other non-current assets and liabilities	(276)	—	—
Other sources	77	(10)	62
	6,183	5,186	5,009
Application of funds			
Capital expenditures	3,881	3,344	2,954
Dividends paid			
Cash	872	856	819
Distribution of Cyprus Minerals Company	1,208	—	—
Reduction of long-term obligations	439	602	517
Increase in investments and related advances	23	59	59
Increase (decrease) in long-term receivables and other assets	11	(122)	144
Increase in treasury shares held—net.	806	1,191	9
Businesses acquired, less working capital	—	—	38
Increase (decrease) in non-cash working capital	(629)	31	(365)
	6,611	5,961	4,175
Increase (decrease) in cash and marketable securities	(428)	(775)	834
Cash and marketable securities—beginning of year	1,419	2,194	1,360
Cash and marketable securities—end of year	$ 991	$1,419	$2,194

NIKE, INC. (MAY)

Consolidated Statement of Changes in Financial Position

	1985	1984	1983
		(in thousands)	
Financial resources provided by:			
Net income	$10,270	$40,690	$ 57,004
Income charges (credits) not affecting working capital—			
Depreciation	11,964	10,632	9,421
Minority interest	(3,502)	164	197
Other	1,161	70	(188)
Working capital provided by operations	19,893	51,556	66,434
Purchased tax benefits becoming current	—	1,716	14,270
Additions to long-term debt	3,725	1,363	4,135
Disposal of property, plant and equipment	1,309	1,186	584
Unrealized gain (loss) from translation of statements of foreign operations, including minority interest	1,413	787	(31)
Net proceeds from sale of Class B Common Stock	—	—	51,442
Proceeds from exercise of stock options	750	—	100
Increase in non-current portion of purchased tax benefits	7,350	—	—
	34,440	56,608	136,934
Financial resources were used for:			
Additions to property, plant and equipment	21,724	15,224	21,031
Dividends—Common and Preferred Stock	14,974	7,484	30
—minority shareholder	51	195	—
Goodwill	1,866	5,439	—
Long-term debt becoming current	4,553	2,785	2,368
Additions to other assets	1,352	1,005	527
Purchase of tax benefits	—	—	15,277
Purchase of barter credits	6,418	—	—
	50,938	32,132	39,233
Increase (decrease) in working capital	$(16,498)	$24,476	$ 97,701

VF CORPORATION (DEC)

Statements of Changes in Consolidated Financial Position

	1985	1984 ($000)	1983
Operations			
Net earnings	$139,417	$124,746	$119,401
Add items not requiring cash:			
Depreciation	40,238	24,998	20,091
Amortization of intangibles and goodwill	9,837	1,844	
Deferred taxes and other charges	12,070	4,503	422
Funds provided by operations	201,562	156,091	139,914
Cash provided (used) by the change in:			
Accounts receivable, net	(12,401)	25,179	(17,776)
Inventories	(32,420)	62,943	(42,416)
Other current assets	857	(907)	(2,058)
Accounts payable	6,681	(19,248)	2,310
Federal and state income taxes	(19,388)	(16,202)	(6,704)
Other current liabilities	1,457	(8,704)	5,294
Effect of foreign exchange rate changes	5,988	(3,892)	(3,272)
Net cash provided by operations	152,336	195,260	75,292
Investments			
Acquisitions:			
Net current assets acquired	(405)	(73,012)	
Property, plant and equipment	(55)	(142,509)	
Intangible assets and goodwill	(64)	(117,722)	
	(524)	(333,243)	
Purchase of treasury shares		(47,940)	
Capital expenditures	(53,142)	(30,714)	(59,643)
Other changes, net	9,567	731	(2,575)
Net cash invested	(44,099)	(411,116)	(62,218)
Financing			
Increase (decrease) in short-term borrowings	(63,178)	64,643	357
Additions to long-term debt	14,819	123,453	23,593
Reductions in long-term debt	(13,836)	(20,545)	(3,510)
Proceeds from sale of Common Stock under stock option plans	3,940	1,692	3,056
Net increase (decrease) in cash from financing	(58,255)	169,243	23,496
Cash Dividends	(36,026)	(32,607)	(27,881)
Net Change in Cash and Short-Term Investments	13,956	(79,270)	8,689
Cash and short-term investments—beginning	54,527	133,797	125,108
Cash and Short-Term Investments—Ending	$ 68,483	$ 54,527	$133,797

Purchase Method Business Combination

HUGHES TOOL COMPANY (DEC)

Statements of Changes in Consolidated Financial Position

	1985	1984 (In thousands)	1983
Working Capital Provided			
Operations:			
Net income (loss)	$ 4,089	$(133,839)	$ (90,873)
Add items not requiring current use of working capital:			
Depreciation and amortization	121,347	126,162	131,780
Deferred income taxes	(10,325)	(656)	21,198
Provision for loss on noncurrent assets		31,912	
Minority interest	(2,683)		
Loss (gain) on disposal of property	(92)	(4,069)	4,178
Write-off of goodwill			41,292
Other	6,620	11,395	5,738
Working capital provided by operations	118,956	30,905	113,313
Proceeds from long-term debt	10,084	45,423	28,230
Common stock issued under stock option and stock purchase plans	444	5,699	5,504
Proceeds from disposal of property	16,036	26,159	15,878
Net assets contributed by minority partner	96,969		
Net proceeds from formation of partnership			39,255
Other	2,543	16,096	8,485
Total working capital provided	245,032	124,282	220,665
Working Capital Applied			
Property additions	71,063	45,681	71,266
Acquisitions of businesses (net of working capital acquired of $31,160 in 1985; $5,273 in 1984):			
Property	80,373	50,303	1,200
Excess of cost over values assigned	284	1,101	5
Other assets	439	7,603	1,045
Investment in and advances to affiliates		(11,932)	
Long-term debt	(6,291)	(12,112)	
Other long-term liabilities		(3,700)	
Cash dividends	26,799	36,747	46,438
Reduction of long-term debt and reclassification to current maturities	54,638	170,136	229,690
Other	4,388	17,104	594
Total working capital applied	231,693	300,931	350,238
Increase (Decrease) in Working Capital	$ 13,339	$(176,649)	$(129,573)

CONAGRA, INC. (MAY)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
	Dollars in thousands		
Funds provided			
Continuing operations			
Income from continuing operations	$ 91,728	$ 65,208	$ 50,384
Items which do not use (provide) working capital			
Depreciation and amortization	45,923	33,983	24,128
Increase in noncurrent deferred income taxes	35,808	3,587	3,825
Equity in earnings of unconsolidated subsidiaries	(1,878)	(18,116)	(4,918)
Other	—	—	130
Working capital provided—continuing operations	171,581	84,662	73,549
Discontinued operations			
Loss from discontinued operations	—	(4,106)	(2,614)
Depreciation and amortization not requiring working capital	—	339	450
Loss on disposal net of $7,407 property write downs	—	(547)	—
Working capital used—discontinued operations	—	(4,314)	(2,164)
Extraordinary credit	—	9,500	—
Proceeds from issuance and assumption of long-term debt	84,423	118,842	77,575
Proceeds from sale of property, plant and equipment	10,717	22,360	45,070
Fair market value of common and preferred stock (including $10,000 of Banquet Foods Corporation) issued in connection with acquisitions	—	102,000	107,332
Issuance of common stock in connection with the management incentive plans	375	1,031	692
Proceeds from exercised contracts and contracts to sell common shares under executive stock purchase plan	613	858	35
Proceeds from exercise of employee stock options	1,016	549	377
Issuance of common stock for conversion of preferred stock—contra below	1,804	1,303	581
Other items	5,240	—	—
Total working capital provided	275,769	336,791	303,047

	1985	1984	1983
Funds used			
Additions to property, plant and equipment	59,364	38,945	83,138
Increase in investment in unconsolidated subsidiaries	20,774	38,845	16,363
Increase in trademarks	—	18,750	—
Cash dividends	30,311	24,730	19,753
Repayment and current maturities of long-term debt	83,830	160,534	33,735
Redemption of Banquet Foods Corporation preferred stock	5,000	5,000	—
Conversion of preferred stock—contra above	1,804	1,303	581
Treasury stock purchases	12,283	—	—
Acquisition of businesses, less net current assets acquired of 1985, $113,835; 1984, $95,378; and 1983, $104,210			
Property, plant and equipment	38,161	101,377	115,866
Goodwill	11,871	609	743
Reduction in investment in unconsolidated subsidiaries upon acquisition and consolidation of previously partially owned companies	(52,262)	—	—
Long-term liabilities assumed	(23,536)	(76,517)	(62,742)
Other, net	2,548	1,610	5,633
Other items	—	2,913	9,590
Total working capital used	190,148	318,099	222,660
Net increase in working capital	$ 85,621	$ 18,692	$ 80,387

MONSANTO COMPANY (DEC)

Statement of Changes in Consolidated Financial Position

	1985	1984	1983
	(Dollars in millions)		
Sources (Uses) of Funds			
Operations:			
Income (loss) before extraordinary items	$ (128)	$ 439	$369
Charges not using (credits not providing) funds:			
Depreciation and amortization	599	503	523
Deferred income taxes	93	103	71
Other	(16)	(37)	(15)
Restructuring cost—net (after tax)	341		
Funds provided from operations, before changes in working capital and extraordinary items	889	1,008	948
Investment and Other Transactions:			
Extraordinary items	30		33
Working capital changes:			
Trade receivables	2	37	(39)
Inventories	(54)	(61)	46
Other current assets	(258)	(16)	(65)
Accounts payable and accrued liabilities	28	(42)	147
Short-term debt	(108)	24	122
Total working capital changes	(390)	(58)	211
Foreign currency adjustments on working capital	69	(58)	(47)
Property, plant and equipment additions	(645)	(614)	(560)
Net proceeds from investment and property disposals (gross proceeds of $1,612 in 1985)	1,402	39	39
Repayment of short-term acquisition debt	(1,154)		
Acquisitions and investments (other than Searle)	(78)	(94)	(208)
Other	82	60	49
	(684)	(725)	(483)
Acquisition of Searle:			
Acquisition financing	2,754		
Searle assets and liabilities acquired:			
Current assets, excluding cash	(549)		
Intangible assets	(2,166)		
Other noncurrent assets	(1,023)		
Current liabilities	828		
Noncurrent liabilities	372		
Searle cash, time deposits and certificates of deposit at acquisition	216		
Financial Transactions:			
Long-term financing	415	12	49
Long-term debt reduction	(723)	(127)	(87)
Treasury stock purchases	(91)	(184)	(14)
Dividends	(188)	(182)	(170)
	(587)	(481)	(222)
Increase (Decrease) in Funds	$ (166)	$ (198)	$243
Increase (Decrease) in Elements of Funds:			
Cash, time deposits and certificates of deposit	$ 46	$ (15)	$ 21
Short-term securities	(212)	(183)	222
Increase (Decrease) in Funds	$ (166)	$ (198)	$243

PENTRON INDUSTRIES, INC. (JUN)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		($000)	
Working capital was provided by (used to finance):			
Continuing operations:			
Loss from continuing operations	$ (864)	$(1,718)	$(2,231)
Add (deduct) charges which did not affect working capital:			
Depreciation and amortization	465	325	400
Gain on sale of houseware products lines	(284)		
(Gain) loss on sale of assets	6	(2)	36
Deferred pension and compensation	(9)	(2)	111
Minority interest in earnings of subsidiary	42		
Total used to finance continuing operations	(643)	(1,398)	(1,683)
Discontinued operations:			
Loss from discontinued operations			(46)
Add (deduct) charges which did not affect working capital:			
Depreciation			188
Amortization and goodwill			112
Gain on disposal of assets			(149)
Total from discontinued operations			104
Total used for operations	(643)	(1,398)	(1,578)
Proceeds from issuance of convertible preferred stock	867		
Proceeds from exercise of stock options		596	
Proceeds from long-term debt, including refinancings	1,645	3,350	
Proceeds from sale of houseware product lines	489		
Proceeds from sale of assets	334	9	1,090
Reclassification of "net assets held for resale" to current		295	
Pension contributions deferred		260	
Receipt of long-term note receivable		174	
Other, net	3		6
Total working capital provided (used)	2,696	3,288	(481)
Working capital was used for:			
Acquisition of business:			
Property, plant and equipment	561		
Trademarks and patents	1,587		
Excess of consideration paid over net assets acquired	2,492		
Organizational costs	243		
Other assets	82		
Long-term debt assumed	(488)		
Long-term debt issued	(8,998)		
Capital expenditures	202	229	244
Reduction of long-term debt, including refinancing	4,467	1,780	802
Increase in other assets	104		
Total working capital used	255	2,010	1,047
Increase (decrease) in working capital	$2,441	$1,278	$(1,528)

Investments

CURTISS-WRIGHT CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
	(In thousands)		
Sources of Working Capital:			
Earnings (loss) from operations	$(42,361)	$ 1,886	$18,503
Items which reduced (increased) earnings but did not affect working capital:			
Loss on investment in Western Union	59,828	11,500	
Depreciation and amortization	7,330	6,657	5,834
Deferred federal and foreign income taxes	2,318	1,876	1,119
Other, net	(92)	(127)	41
Working capital provided from operations	27,023	21,792	25,497
Proceeds from sale of investment in Western Union	57,366		
Proceeds from sale of investment in associated company (Lynch Corporation)	3,276		
Additions to long-term debt	3,918	552	29,325
Dividends received from Western Union		4,643	
Decrease (increase) in restricted cash and investments (included in other assets)	4,543	7,221	(8,877)
Other changes, net	2,066	1,635	1,628
Total sources of working capital	98,192	35,843	47,573
Uses of Working Capital:			
Additions to property, plant and equipment	19,600	9,471	28,525
Dividends	5,825	5,803	5,791
Reduction of long-term debt	7,305	3,044	21,007
Total uses of working capital	32,730	18,318	55,323
Increase (decrease) in working capital	$65,462	$17,525	$(7,750)

SPECTRUM CONTROL, INC. (NOV)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
	($000)		
Financial Resources Were Provided By:			
Net income	$2,668	$2,267	$1,689
Add charges (deduct credits) to operations not affecting working capital:			
Depreciation	901	838	737
Amortization	128	78	80
Deferred income taxes	725	884	534
Gain from sale of land and building.			(16)
Loss from unconsolidated partnership interest	184	221	131
Working capital provided from operations	4,608	4,291	3,157
Proceeds from long-term borrowings		2,789	2,545
Proceeds from sale of land and building			147
Decrease in investments	1,110		
Common stock issued by exercise of stock options	79	26	26
Working capital provided	5,798	7,106	5,875
Financial Resources Were Applied To:			
Additions to property, plant and equipment	1,417	3,024	2,342
Increase in investments		1,382	3,372
Payments and transfers to current maturities of long-term debt	3,248	140	144
Dividends paid	319	265	265
Increase in other assets	248	132	347
Working capital applied	5,234	4,944	6,472
Increase (Decrease) in Working Capital	$ 564	$2,162	($ 597)

Leases

SUPER VALU STORES, INC. (FEB)

Changes in Financial Position

	1985	1984	1983
		($000)	
Sources of funds:			
Continuing operations:			
Earnings from continuing operations	$ 83,262	$ 70,916	$ 63,880
Charges not involving use of funds:			
Depreciation and amortization of property and intangibles	55,016	43,671	36,158
Amortization of capital leases	5,029	4,641	4,339
Deferred income taxes	4,434	3,971	2,180
	147,741	123,199	106,557
Less equity in net earnings (loss) of unconsolidated subsidiaries	(1,093)	(1,161)	228
Working capital provided from continuing operations	148,834	124,360	106,329
Discontinued operations:			
Earnings from operation of County Seat Stores, Inc.	377	5,816	4,151
Charges not involving use of funds:			
Depreciation and amortization of property	1,035	4,247	4,289
Amortization of capital leases	53	237	
Deferred income taxes	51	77	(89)
Gain on disposal of County Seat Stores, Inc., no effect on funds			
Total working capital provided from operations	150,350	134,737	114,680
Proceeds on sale of discontinued operations, less working capital	42,232		
Additional long-term obligations under capital leases	32,495	4,895	10,214
Additional long-term borrowings	29,565	20,200	2,000
Disposals of property, plant and equipment	14,995	5,025	1,002
Decrease in direct finance leases		4,907	5,412
Decrease in advances to unconsolidated subsidiaries		5,154	
Disposals of leased assets	8,995	3,491	2,831
Sale of common stock under option plans and ESOP	1,713	1,786	2,459
Other		1,543	
	280,345	181,738	138,598
Applications of funds:			
Property, plant and equipment additions	153,333	101,960	90,822
Leased asset additions	32,495	4,895	10,214
Cash dividends declared	24,426	21,771	19,831
Assets of acquired companies, less working capital	17,253	5,799	15,540
Increase in direct finance leases	12,721		
Increase in long-term notes receivable	8,745	851	326
Reduction of long-term notes payable	8,343	5,042	10,815
Increase in advances to unconsolidated subsidiary	4,000		
Reduction in obligations under capital leases	1,574	12,695	13,038
Increase in net long-term assets of discontinued operations		5,137	3,075
Other	3,598		4,405
	266,488	158,150	168,066
Increase (decrease) in working capital	$ 13,857	$ 23,588	$ (29,468)

Conversion of Preferred Stock

JAMES RIVER CORPORATION OF VIRGINIA (APR)

Consolidated Statement of Changes in Financial Position

	1985	1984	1983
		(in thousands)	
Sources of working capital:			
Net income	$101,351	$ 97,995	$ 55,148
Charges (credits) to income not affecting working capital:			
Depreciation and cost of timber harvested	66,432	53,064	32,096
Deferred income taxes	55,650	46,012	23,273
Amortization and other	(5,002)	(3,791)	1,083
Working capital from operations	218,431	193,280	111,600
Issued or assumed in connection with acquisitions:			
Long-term debt and other long-term liabilities	10,521	48,022	366,866
Common stock		19,567	57,766
Preferred stock		66,200	
Preferred stock of a subsidiary			39,000
Common stock of a subsidiary			2,000
Net working capital acquired	(1,425)	54,513	193,313
Increase in long-term debt, net of expenses	144,400	52,000	
Preferred stock issued		39,000	
Common stock issued:			
Public offerings, net of expenses			76,040
Conversion of preferred stock	11,486	11,100	45,421
Conversion of subordinated notes	26,260	11,542	4,250
Exercise of stock options	472	456	584
Decrease in working capital		11,494	
Total sources	$410,145	$507,174	$896,840

Applications of working capital:			
Net additions to property, plant and equipment	$218,221	$132,988	$ 77,043
Reduction of long-term debt	35,431	80,262	62,652
Assets purchased in acquisitions	25,120	206,378	476,541
Excess of fair value over cost of assets acquired			(15,908)
Retirement of minority interest in a subsidiary		39,000	
Common and preferred stock cash dividends	18,452	13,274	8,315
Conversion and redemption of preferred stock	11,726	16,340	46,673
Other, net	3,484	18,932	(1,929)
Increase in working capital	97,711		243,453
Total applications	$410,145	$507,174	$896,840

Foreign Currency Translation Effect

AMPCO-PITTSBURGH CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984 ($000)	1983
Financial resources were provided by:			
Income (loss) from continuing operations	$ 3,434	$ 11,655	$ (1,540)
Charges (credits) not affecting working capital—			
Depreciation	12,702	10,590	8,499
Gain on sale of stock investment and other assets	(1,857)	(4,474)	(3,531)
Reduction in unfunded pension liabilities			(3,478)
Amortization of unfunded pension liabilities	(1,217)	(2,886)	(2,339)
Equity in Finance Subsidiary net income	(430)	(1,571)	(2,181)
Deferred taxes	(1,083)	(2,504)	4,726
Provision for plant closings			1,263
Other—net	(253)	82	
Working capital provided by continuing operations	11,295	10,891	1,417
Working capital (used for) provided by discontinued operation		(2,531)	253
Working capital provided by operations	11,295	8,359	1,670
Net distribution from Finance Subsidiary		1,910	8,916
Working capital from acquired companies		49,181	
Proceeds from issuance of common stock	11	84,097	22,873
Proceeds from sale of stock investment	7,653		
Proceeds from sale of assets	1,727	18,954	16,371
Advances from (to) Finance Subsidiary	714	(1,240)	(5,723)
Increase in long-term obligations		4,383	632
	21,402	165,645	44,740
Financial resources were used for:			
Acquisition of companies		85,229	
Reduction of long-term obligations	6,402	24,396	24,404
Liquidation of liability for Contested Shares			21,431
Investment in common stock		5,796	
Cash dividends to shareholders	2,864	2,323	1,288
Purchase of property, plant and equipment	12,015	9,975	1,945
Adjustment for foreign currency rate changes—			
Cumulative translation adjustment	480	1,106	146
Non-current items included above	(16)	(604)	14
Increase (decrease) in other—net	2,623	2,501	(783)
	24,368	130,724	48,449
Increase (decrease) in working capital	$ (2,966)	$ 34,921	$ (3,709)

PACCAR INC. (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984 (thousands of dollars)	1983
Source of Funds			
Net income	$72,919	$125,310	$40,042
Items included in net income not affecting working capital:			
Depreciation	21,084	19,806	19,135
Equity in net income of unconsolidated companies	(14,758)	(8,621)	(12,979)
Deferred income taxes	2,764	(6,087)	7,710
Total from Operations	82,009	130,408	53,908
Dividends from unconsolidated companies	2,494	83	12,850
Increase in long-term debt			4,259
Advances repaid by unconsolidated companies		40,698	
Proceeds from exercise of stock options	84		
Other	92	(2,126)	156
	84,679	169,063	71,173
Use of Funds			
Net additions to property, plant and equipment	33,452	14,458	25,698
Cash dividends	39,904	39,902	19,043
Reduction of long-term debt	1,735	258	2,955
Increase in long-term receivables		5,118	
Investments in and advances to unconsolidated companies	5,778	28,652	41,386
	80,869	88,388	89,082
Foreign currency translation adjustments:			
Reduction of property, plant and equipment (net)	(266)	(2,276)	(1,315)
Reduction of equity in unconsolidated companies	(397)	(1,011)	(128)
Reduction of stockholders' equity	3,492	4,858	860
	2,829	1,571	(583)
	83,698	89,959	88,499
Increase (Decrease) in Working Capital	$ 981	$ 79,104	$(17,326)

RAYTHEON COMPANY (DEC)

Statements of Changes in Financial Position

	1985	1984	1983
		(In thousands)	
Resources provided			
Income from continuing operations	$375,905	$340,094	$308,584
Items not affecting working capital			
Depreciation and amortization of property, plant and equipment	209,629	173,630	148,010
Working capital provided from continuing operations	585,534	513,724	456,594
Working capital provided from discontinued operations, net of items not affecting working capital			
Discontinued operations	—	20,124	9,609
Disposal of discontinued operations, net of loss on disposal	—	60,432	—
Working capital provided from discontinued operations	—	80,556	9,609
Increase in long-term debt	1,596	240	41,849
Disposal of property, plant and equipment, net	14,893	34,765	23,439
Effect of changes in foreign exchange rates on foreign property, plant and equipment, net	—	15,838	13,061
Proceeds under common stock option plans	12,233	4,703	7,095
Treasury shares acquired on exercise of stock options	(945)	—	(217)
Foreign exchange adjustment	24,663	—	—
Total resources provided	637,974	649,826	551,430
Resources applied			
Additions to property, plant and equipment	341,471	413,505	253,907
Effect of changes in foreign exchange rates on foreign property, plant and equipment, net	15,773	—	—
Dividends declared	129,180	122,658	118,391
Increase (decrease) in other assets			
Long-term receivables	(3,690)	60,348	135,183
Other	66,887	(4,078)	6,014
Decrease in long-term debt	12,308	13,820	10,679
Purchase of treasury shares	332,897	16,353	—
Foreign exchange adjustment	—	17,172	12,979
Total resources applied	894,826	639,778	537,153
Increase (decrease) in working capital	$(256,852)	$ 10,048	$ 14,277

Tax Benefit from Stock Options

ALPHA INDUSTRIES, INC. (MAR)

Consolidated Statement of Changes in Financial Position

	1985	1984	1983
		(In thousands)	
Working Capital Provided from:			
Net income	$ 3,689	$5,554	$ 5,213
Add (deduct) items not affecting working capital:			
Contribution of treasury stock to Employee Stock Ownership Trust (ESOT)	195	—	371
Depreciation and amortization	3,390	2,636	2,113
Deferred income taxes	(131)	704	630
Working capital provided from operations	7,143	8,894	8,327
Proceeds from long-term notes payable	9,246	46	1,954
Exercise of stock options	339	410	152
Tax benefit from stock option transactions	164	182	95
Provided by ESOT for debt reduction	—	44	43
Total working capital provided	16,892	9,576	10,571
Working Capital Used for:			
Additions to property, plant, and equipment	21,432	4,829	6,595
Decrease in long-term notes payable	324	324	256
Long-term investments	1,100	—	—
Deferred charges related to Industrial Revenue Bonds	540	—	—
Cash dividends	354	351	349
Other	77	12	96
Total working capital used	23,827	5,516	7,296
Increase (decrease) in working capital	$ (6,935)	$4,060	$ 3,275

Prior Period Adjustment

STEWART SANDWICHES, INC. (JUN)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		($000)	
Source of working capital:			
Net income	$ 32	$ 949	$ 110
Charges (credits) to income not affecting working capital:			
Depreciation and amortization	2,541	2,689	2,729
Deferred income taxes	(62)	73	(143)
(Gain) loss on disposition of property, plant and equipment exclusive of unusual items	(164)	(179)	(50)
Loss from unusual items	613		
Working capital provided by operations	2,961	3,532	2,646
Proceeds from:			
Additional long-term debt	681	414	1,036
Disposition of property, plant and equipment	543	258	176
Decrease in other assets	62		
Income tax reduction from loss and tax credits carryforward of acquired subsidiary (note 9)	93	113	10
	4,341	4,319	3,870
Application of working capital:			
Property, plant and equipment additions	2,937	2,255	2,184
Repayment and reclassification of long-term debt	1,198	1,004	1,528
Loan to officer		457	
Cash dividends	275	279	284
Increase in intangible assets	105	375	
Increase in other assets		15	106
Acquisition of treasury stock	21	73	
Acquisition of treasury stock (working capital exchanged $59):			
Property, plant and equipment—net			(56)
Intangible assets—net			(52)
Treasury stock acquired			168
Acquisition of assets from an unrelated company (working capital obtained $39):			
Property, plant and equipment		165	
Long-term debt assumed		(125)	
	4,538	4,501	4,163
Decrease in working capital	$ (197)	$ (182)	$ (293)

Note 9 (In Part): Federal and State Income Taxes

A subsidiary, Landshire Minnesota, Inc., had net operating loss, investment and jobs credit carryforwards from taxable periods prior to its acquisition by the Company. Utilization of these carryforwards resulted in income tax benefits of $93,024, $113,800 and $10,808 for the years ended June 28, 1985, June 29, 1984 and June 24, 1983, respectively. These amounts have been reflected in the financial statements as an adjustment of the acquisition cost of the subsidiary.

Reclassification of Noncurrent Assets

THE AMERICAN SHIP BUILDING COMPANY (SEP)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
	(Amounts in Thousands)		
Source of Funds:			
Income (Loss) from continuing operations	$ 7,640	$ 2,696	$(9,208)
Add—expenses not requiring outlay of working capital in current period:			
Depreciation and amortization	3,862	2,722	2,844
Non-current deferred income taxes	5,894	3,554	(4,213)
Provision for shipyard closings	—	—	11,254
Gain on disposition of shipyards	(1,043)	—	(287)
Funds provided from continuing operations	16,353	8,972	390
Income (Loss) from discontinued operations	—	219	(385)
Extraordinary item	—	1,910	—
Funds provided from operations	16,353	11,101	5
Proceeds from disposition of shipyards	1,384	—	637
Reclassification of net assets of discontinued operations	—	—	6,864
Reclassification of funds held by trustee, net	—	—	3,825
Reclassification of other assets to property, plant and equipment	7,229	—	—
Current maturities of notes receivable	436	—	—
Increase in long-term capital lease obligations	—	267	—
Recovery of cost of property, plant and equipment sold	—	218	229
Proceeds from exercise of stock options	—	6	—
Increase in deferred revenues	—	17,466	—
Decrease in other assets	587	—	—
Other, net	27	—	—
Total funds provided	26,016	29,058	11,560
Application of Funds:			
Cash dividends	3,593	4,789	4,788
Increase in assets under capital leases	—	267	—
Purchase of fixed assets	10,891	17,506	7,230
Decrease in other long-term liabilities	—	951	37
Increase in notes receivable	622	5,416	275
Reclassification of other assets to property, plant and equipment	7,229	—	—
Reduction in long-term debt	175	1,265	4,580
Reduction in long-term capital lease obligations	484	480	383
Increase in other assets	—	1,494	724
Decrease in deferred revenues	12,645	—	—
Total funds applied	35,639	32,168	18,017
Net Decrease in Working Capital	$(9,623)	$(3,110)	$(6,457)

CASH FLOW

Paragraph 15 of *Opinion No. 19* states

The amount of working capital or cash provided from operations is not a substitute for or an improvement upon properly determined net income as a measure of results of operations and the consequent effect on financial position. Terms referring to "cash" should not be used to describe amounts provided from operations unless all non-cash items have been appropriately adjusted. The adjusted amount should be described accurately, in conformity with the nature of the adjustments, e.g., "Cash provided from operations for the period," or "Working capital provided from operations for the period" as appropriate. The Board strongly recommends that isolated statistics of working capital or cash provided from operations, especially per-share amounts, not be presented in annual reports to shareholders. If any per-share data relating to flow of working capital or cash are presented, they should as a minimum include amounts for inflow from operations, inflow from other sources, and total outflow, and each per-share amount should be clearly identified with the corresponding total amount shown in the Statement.

Accounting Series Release No. 142 issued in March 1973 by the Securities and Exchange Commission, states that a company should avoid presenting per share cash flow data in reporting financial results.

TABLE 5-5: ANALYSIS OF CHANGES IN WORKING CAPITAL ELEMENTS—PRESENTATION

	1985	1984	1983	1982
Analysis included as part of statement of changes in financial position	309	289	254	210
Analysis presented in a tabulation at bottom of statement of changes in financial position	263	286	315	368
Analysis presented in a tabulation apart from statement of changes in financial position	28	25	31	22
Total Companies	**600**	**600**	**600**	**600**

TABLE 5-6: TITLES IDENTIFYING ANALYSIS OF WORKING CAPITAL ELEMENTS

	1985	1984	1983	1982
Change in working capital	166	178	201	236
Increase (decrease) in working capital	87	102	106	118
Other titles	38	31	39	36
Subtotal	**291**	**311**	**346**	**390**
Analysis included within statement of changes in financial position	309	289	254	210
Total Companies	**600**	**600**	**600**	**600**

ANALYSIS OF CHANGES IN WORKING CAPITAL ELEMENTS

Paragraph 12 of *Opinion No. 19* states:

Whether or not working capital flow is presented in the Statement, net changes in each element of working capital (as customarily defined) should be appropriately disclosed for at least the current period, either in the Statement or in a related tabulation.

a. If the format shows the flow of cash, changes in other elements of working capital (e.g., in receivables, inventories, and payables) constitute sources and uses of cash and should accordingly be disclosed in appropriate detail in the body of the Statement.

b. If the format shows the flow of working capital and two-year comparative balance sheets are presented, the changes in each element of working capital for the current period (but not for earlier periods) can be computed by the user of the statements. Nevertheless, the Board believes that the objectives of the Statement usually require that the net change in working capital be analyzed in appropriate detail in a tabulation accompanying the Statement, and accordingly this detail should be furnished.

Table 5-5 shows the manner in which the survey companies disclosed details of this information. Table 5-6 summarizes the titles or introductory phrases used for the schedule of changes in working capital elements when such data is not contained within the main body of the statement of changes in financial position.

Examples of tabulations analyzing changes in working capital elements follow. Such data has been omitted from previous examples in this section in order to emphasize other information contained within the statement of changes in financial position.

JOHN FLUKE MFG. CO., INC. (SEP)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		(In thousands)	
Cash Provided			
Net income	$15,200	$18,983	$ 9,585
Items not affecting cash			
Depreciation	8,787	7,664	7,220
Deferred income taxes	(591)	(1,921)	948
Accrued pension expense	(154)	—	863
Stock awards	324	267	75
Total From Operations	23,566	24,993	18,691
Proceeds from exercise of stock options	37	239	1,144
Proceeds from employee stock purchase plan	—	—	330
Other	3,063	155	849
	3,100	394	2,323
From changes in			
Accounts receivable	2,301	—	—
Inventories	512	—	—
Prepaid expenses	—	14	—
Short-term debt	—	781	—
Accounts payable	—	1,578	359
Accrued liabilities	—	4,631	3,701
Income taxes payable	—	345	1,338
Current maturities of long-term debt	—	2	5
	2,813	7,351	5,403
Total Cash Provided	29,479	32,738	26,417
Cash Used			
Additions to property, plant and equipment	11,100	12,356	9,541
Reduction of long-term debt	5,632	2,821	2,712
Purchase of treasury shares	8,356	—	—
Deferred sales tax	249	187	125
	25,337	15,364	12,378
From changes in			
Accounts receivable	—	7,401	435
Inventories	—	5,403	6,450
Prepaid income taxes	21	231	228
Prepaid expenses	1,724	—	298
Short-term debt	684	—	1,772
Accounts payable	2,243	—	—
Accrued liabilities	1,750	—	—
Income taxes payable	3,139	—	—
Current maturities of long-term debt	682	—	—
	10,243	13,035	9,183
Total Cash Used	35,580	28,399	21,561
Increase (Decrease) in Cash	(6,101)	4,339	4,856
Cash at Beginning of Year	16,083	11,744	6,888
Cash at End of Year	$ 9,982	$16,083	$11,744

THE STOP & SHOP COMPANIES, INC. (JAN)

Consolidated Statements of Changes in Financial Position

	1986	1985	1984
		(Dollars in thousands)	
Cash provided (used) by operations			
Net earnings	$ 30,300	$ 54,845	$50,801
Non-cash charges (credits) to earnings			
Depreciation and amortization of property, plant and equipment and lease acquisition costs	66,649	53,130	42,260
Deferred federal income taxes	904	(885)	3,013
Net earnings and non-cash charges	97,853	107,090	96,074
Accounts receivable	(2,976)	(13,028)	(5,884)
Inventories	(71,520)	(69,833)	(88,441)
Prepaid expenses	(3,763)	(1,413)	(4,621)
Accounts payable	23,962	49,805	51,909
Accrued expenses	4,117	5,230	2,644
Accrued federal and state income taxes	(22,249)	(875)	6,815
Cash provided by operations	25,424	76,976	58,496
Cash provided (used) by financing and investing activities			
Cash dividends	(14,817)	(11,036)	(7,707)
Sale of notes, due 1995	125,000	—	—
Sale of common stock	—	—	57,500
Common stock issued under employee stock option plans	361	658	1,941
Treasury stock activity, net	996	1,114	631
Increase in obligations under capital leases	34,321	11,531	17,356
Additions to other long-term debt	7,500	27,703	13,292
Current maturities and repayments of other long-term debt	(10,925)	(5,868)	(14,192)
Additions to property under capital leases, net of book value of disposals	(49,467)	(20,048)	(25,183)
Additions to property, plant and equipment, net of book value of disposals	(104,326)	(85,011)	(94,246)
Lease acquisition costs	(27,018)	(13,278)	(28,812)
Other	(711)	(1,876)	1,357
Cash used by financing and investing activities	(39,086)	(96,111)	(78,063)
Decrease in cash and marketable securities	(13,662)	(19,135)	(19,567)
Cash and marketable securities			
Beginning of year	48,720	67,855	87,422
End of year	$ 35,058	$ 48,720	$67,855

Analysis Presented in a Tabulation at Bottom of Statement

CYCLOPS CORPORATION (DEC)

Consolidated Statement of Changes in Financial Position

	1985	1984	1983
	Dollars in Thousands		
Financial Resources Were Provided By:			
Operations:			
Income (loss) before extraordinary gain	$24,462	$18,434	$ (2,190)
Charges not requiring working capital:			
Depreciation	17,496	17,731	17,849
Deferred income taxes	1,787	6,762	845
Working capital provided by operations before extraordinary gain	43,745	42,927	16,504
Extraordinary gain (less applicable taxes of $1,262)	1,766	—	—
Working Capital provided by operations	45,511	42,927	16,504
Proceeds from long-term debt	—	15,000	32,425
Proceeds from issuance of Common stock	910	7,039	—
Net book value of property, plant and equipment sold or retired	3,703	3,565	2,738
Other—Net	5,900	(1,484)	(2,900)
	56,024	67,047	48,767
Financial Resources Were Used For:			
Expenditures for property, plant and equipment	23,067	24,878	21,223
Cash dividends	4,478	4,405	4,222
Reduction in long-term debt	51,965	8,754	4,167
	79,510	38,037	29,612
Increase (Decrease) in Working Capital	$(23,486)	$29,010	$ 19,155
Increases (Decreases) in Components of Working Capital:			
Cash	$ (1,358)	$ 2,190	$ (960)
Receivables, net	(9,433)	19,063	27,211
Refundable income taxes	—	(3,614)	(12,858)
Inventories	27,134	32,238	43,714
Prepaid expenses and income taxes	(7,096)	2,266	3,378
Total current assets	9,247	52,143	60,485
Short-term loans and current portion of long-term debt	17,368	(8,352)	9,428
Accounts payable and employment costs	8,403	19,513	28,871
Deferred service revenue	1,165	2,424	1,879
Taxes other than income taxes	1,536	1,511	353
Other	4,261	8,037	799
Total current liabilities	32,733	23,133	41,330
Increase (decrease) in Working Capital	$(23,486)	$29,010	$19,155

MET-PRO CORPORATION (JAN)

Statement of Changes in Financial Position

	Years Ended January 31, 1986	1985	1984
		($000)	
Source of Funds:			
From operations:			
Net income	$1,534	$1,526	$1,043
Charges (credits) not affecting working capital:			
Depreciation and amortization	942	750	604
Loss on sales and disposals of equipment			6
Deferred income taxes	81	66	55
Funds provided from operations	2,558	2,343	1,709
Issuance of common stock in connection with acquisition of Dean Brothers Pumps, Inc.		1,598	
Proceeds from long-term debt		1,206	
Reduction of restricted cash used to construct new plant		500	
Proceeds from exercise of stock options	81		132
Total source of funds	2,640	5,649	1,841
Application of funds:			
Purchase of Dean Brothers Pumps, Inc.:			
Property, plant and equipment		1,457	
Other assets		42	
Long-term debt		(553)	
Other acquisitions of plant and equipment, net	676	1,442	422
Reductions of long-term debt	587	604	208
Payment of dividends	288	263	260
Reduction of capital lease obligation		21	36
Increase in other assets	19	29	33
Other reductions in stockholders' equity			
Total application of funds	1,573	3,308	962
Increase in working capital	$1,067	$2,341	$ 879
Changes in components of working capital:			
Increase (decrease) in current assets:			
Cash and short-term investments	$ 485	($ 329)	$201
Accounts receivable	(689)	1,953	108
Inventories	364	2,474	94
Prepaid and refundable income taxes	216	(125)	125
Prepaid expenses, deposits and other current assets	65	58	25
	442	4,032	555
Increase (decrease) in current liabilities:			
Current portion of long-term debt	(97)	317	(66)
Current obligation under capital lease	(21)	(10)	4
Accounts payable	(100)	728	(200)
Accrued salaries, wages and expenses	(110)	441	(60)
Payroll and other taxes payable	(9)	9	
Income taxes payable	(291)	291	(7)
Customers' advances	7	(86)	7
	(625)	1,691	(324)
Increase in working capital	$1,067	$2,341	$ 879

INTEL CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
		(Thousands)	
Working capital provided by operations:			
Net income	$ 1,570	$198,189	$116,111
Charges to income not involving the current use of working capital:			
Depreciation and net retirements	166,252	113,755	103,007
Non-current portion of deferred taxes on income and deferred investment tax credits	20,312	27,776	20,065
Total working capital provided by operations	188,134	339,720	239,183
Sale of long-term marketable securities	206,471	—	
Other assets, net	8,741	5,023	(10,215)
Additions to long-term debt, net	132,092	18,720	120,443
Proceeds from sales of shares through employee stock plans, tax benefits thereof, and other	32,612	37,236	56,780
Proceeds from issuance of warrants, net of issuance costs	27,136	—	—
Proceeds from sale of capital stock	—	2,998	250,000
Issuance of stock due to conversion of 7% convertible subordinated debentures, net of issuance costs	—	—	146,996
Total working capital provided	595,186	403,697	803,187
Working capital used for:			
Additions to property, plant and equipment	236,216	388,445	144,974
Long-term investments, net	151,064	55,095	165,718
Investment in unconsolidated subsidiary	51,058	—	—
Decrease in long-term debt	7,567	—	40,000
Conversion of 7% convertible subordinated debentures	—	—	150,000
Total working capital used	445,905	443,540	500,692
Increase (decrease) in working capital	$149,281	$ (39,943)	$302,495
Increase (decrease) in working capital by component:			
Cash and temporary cash investments	$ 98,499	$ 5,743	$ 49,204
Short-term investments	31,993	(164,168)	254,541
Accounts receivable	(49,033)	51,101	81,818
Inventories	(48,556)	67,411	30,156
Prepaid taxes on income	(9,669)	32,875	34,263
Refundable income taxes	28,655	30,000	(42,674)
Other current assets	13,703	2,025	(2,010)
Short-term debt	(23,365)	15,549	(5,600)
Accounts payable	22,912	(761)	(40,001)
Deferred income on shipments to distributors	15,992	(14,729)	(21,700)
Accrued compensation and benefits	(3,017)	(6,021)	(3,206)
Profit sharing retirement plan accrual	32,998	(32,441)	(2,200)
Other accrued liabilities	1,351	(4,978)	(11,834)
Income taxes payable	36,818	(21,449)	(18,262)
Increase (decrease) in working capital	149,281	(39,843)	302,495
Working capital at beginning of year	567,938	607,781	305,286
Working capital at end of year	$717,219	$567,938	$607,781

STANADYNE, INC. (DEC)

Consolidated Statement of Changes in Financial Position

	1985	1984	1983
		In thousands	
Sources of Working Capital			
From operations:—			
Net income	$30,537	$33,525	$22,052
Add items not requiring working capital:			
Depreciation	13,266	11,817	11,298
Amortization of intangibles	330	221	207
Deferred compensation and other	1,414	1,930	1,753
Deferred income taxes, long term	7,442	2,239	3,794
	52,989	49,732	39,104
Proceeds from long-term debt	—	14,665	800
Sales and retirements of property, plant and equipment	430	746	293
Funds escrowed for plant and equipment, net	269	(4,017)	948
Other	441	(743)	191
	54,129	60,383	41,336
Uses of Working Capital			
Expended on plant and equipment	20,218	17,308	12,339
Declaration of cash dividends	9,785	9,158	8,439
Pension cost prepayments	5,656	—	—
Noncurrent assets of companies acquired	5,639	—	—
Reduction in long-term debt	4,082	4,801	3,701
Acquisition of goodwill	50	1,540	—
	45,430	32,807	24,479
Increase in working capital	$ 8,699	$27,576	$16,857
Changes in Elements of Working Capital			
Cash and short-term cash investments	$(3,490)	$23,349	$14,660
Accounts receivable	10,471	(577)	23,861
Inventories	2,397	10,389	(5,872)
Prepaid expenses	10,772	56	534
Current portion of debt and short-term borrowings	(8,379)	(691)	(470)
Accounts payable	(4,141)	(832)	(5,970)
Accrued liabilities	(281)	(3,796)	(4,258)
Dividends payable	(192)	(240)	(96)
Taxes on income	1,542	(82)	(5,532)
Increase in working capital	$ 8,699	$27,576	$16,857

STEIGER TRACTOR, INC. (SEP)

Consolidated Statement of Changes in Financial Position

	1985	1984	1983
		($000)	
Financial Resources Applied To (Provided By)			
Operations:			
Net (income) loss	$ 8,078	$ 1,893	$ 3,588
Items not affecting working capital:			
Depreciation and amortization	(2,734)	(2,842)	(2,711)
Equity earnings of subsidiaries	966	1,193	1,467
Deferred taxes	902	75	155
Total (from) for operations	7,212	(3,467)	2,499
Increase (reduce) investments and advances to unconsolidated subsidiaries	1,600	(1,790)	(658)
Acquire property, plant and equipment	1,497	2,278	1,189
Reduce long-term debt	1,059	983	906
Other		33	
	11,368	(1,963)	3,936
Financial Resources Provided By			
Long-term borrowings	130	1,174	856
Proceeds from sale of equipment	312	91	67
Proceeds from stock issuance		8,667	102
	442	9,932	1,025
Increase (decrease) in working capital	$(10,926)	$11,895	$ (2,911)
Summary Of Working Capital Changes			
Cash	$ (749)	$ 168	$ 82
Trade receivables	(3,080)	(5,499)	963
Notes receivable	(14,335)	18,407	(2,268)
Income tax refund receivable	(85)	(2,748)	(2,489)
Inventories	(776)	1,631	(18,372)
Prepaid expenses	(45)		25
Notes payable to banks		2,662	12,411
Current maturities of long-term debt	7	(89)	259
Accounts payable and accrued expenses	4,384	(2,043)	4,420
Income taxes	3,753	(594)	2,058
Increase (decrease) in working capital	$(10,926)	$11,895	$ (2,911)

Analysis Presented in a Tabulation Apart From Statement

ALBERTSON'S INC. (JAN)

Consolidated Changes in Financial Position

	1986	1985	1984
		(in thousands)	
Source of Cash:			
Net earnings	$ 85,110	$ 79,746	$ 70,281
Items not requiring the use of funds:			
Depreciation and amortization	59,978	51,428	44,921
Increase in deferred long-term liabilities	12,568	9,647	6,952
Increase in deferred income taxes	4,973	3,819	2,175
Amortization of deferred investment tax credits	(3,516)	(3,531)	(3,301)
Decrease (increase) in other working capital	(21,068)	48,984	(20,162)
Cash provided by operations	138,045	190,093	100,866
Additions to deferred investment tax credits	3,845	3,661	4,114
Additions to long-term debt and obligations under capital leases	6,363	6,182	8,889
Proceeds from stock options exercised	4,407	3,828	2,304
Change in unrealized loss on noncurrent marketable equity securities		1,429	(1,429)
	152,660	205,193	114,744
Use of Cash:			
Capital expenditures	119,955	150,071	94,785
Disposals of land, buildings and equipment	(3,022)	(5,113)	(14,294)
Capital expenditures, net	116,933	144,958	80,491
Payment of long-term debt and obligations under capital leases	12,043	11,818	7,790
Increase (decrease) in other assets	2,745	(17,454)	17,606
Cash dividends	25,227	22,431	19,657
	156,948	161,753	125,544
Increase (Decrease) in Cash and Marketable Securities	$ (4,288)	$ 43,440	$(10,800)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in the Elements of Other Working Capital

Changes in the elements of other working capital are summarized as follows (in thousands):

	1985	1984	1983
Increase (decrease) in current assets:			
Receivables and prepaid expenses	$ (1,009)	$ (7,435)	$14,491
Inventories	35,079	13,166	24,913
Property held for resale		(29,950)	24,861
Deferred income tax benefits	2,259	3,963	115
	36,329	(20,256)	64,380
Increase in current liabilities:			
Accounts payable	12,978	18,907	43,365
Other liabilities	2,283	9,821	853
	15,261	28,728	44,218
Increase (decrease) in other working capital	$21,068	$(48,984)	$20,162

WALBRO CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1985	1984	1983
	(In Thousands)		
Working Capital Was Provided By:			
Operations—			
Income from continuing operations	$ 4,936	$ 3,551	$1,869
Charges to continuing operations not affecting working capital—			
Depreciation and amortization	1,999	1,581	1,441
Deferred income taxes	7	209	395
Pension obligations	157	150	113
Working capital provided by continuing operations	$ 7,099	$ 5,491	$3,818
Income (loss) from discontinued operations	$ (1,622)	$ 184	$ 10
Charges to discontinued operations not affecting working capital—			
Depreciation and amortization	456	260	290
Deferred income taxes	132	114	59
Working capital provided by (used for) discontinued operations	$ (1,034)	$ 558	$ 359
Total working capital provided by operations	$ 6,065	$ 6,049	$4,177
Additions to long-term debt	3,433	4,725	2,207
Reduction of unexpended bond funds	3,000	—	—
Pension plan asset reversion	739	—	—
Net proceeds from public offering of common stock	—	4,997	—
Net book value of plant and equipment retired	189	357	41
Increase in working capital arising from currency translation adjustments	159	—	18
Other, net	—	5	—
Total working capital provided	$13,585	$16,133	$6,443
Working Capital Was Used For:			
Additions to plant and equipment	$ 9,812	$ 7,401	$3,745
Increase in unexpended bond funds	—	3,000	—
Reduction of long-term debt	507	359	92
Cash dividends	765	504	343
Decrease in working capital arising from currency translation adjustments	—	91	—
Other	74	—	44
Total working capital used	$11,158	$11,355	$4,224
Increase in Working Capital (Note 9)	$ 2,427	$ 4,778	$2,219
Working Capital—Beginning of Year	10,769	5,991	3,772
Working Capital—End of Year	$13,196	$10,769	$5,991

Note 9. Changes in Working Capital Components.

Changes in working capital components for the years ended December 31, 1985, 1984 and 1983 were as follows:

	Increase (Decrease)		
	1985	1984	1983
	(In Thousands)		
Changes in Current Assets:			
Cash	$ (801)	$ (41)	$ 368
Short-term investments	1,155	—	—
Accounts receivable	4,452	1,058	2,473
Inventories	(2,019)	3,192	1,444
Prepaid expenses	124	36	(32)
Deferred income taxes	1,045	139	(12)
	$3,956	$4,384	$4,241
Changes in Current Liabilities:			
Current portion of long-term debt	$ 77	$ 267	$ 3
Notes payable	(2,498)	(443)	351
Accounts payable	1,759	(588)	899
Accrued liabilities	2,131	287	754
Dividends payable	60	83	15
	$1,529	$ (394)	$2,022
Increase in Working Capital	$2,427	$4,778	$2,219

Section 6: Auditors' Report

This section reviews the format and content of Auditors' Reports appearing in the annual reports of the 600 survey companies. Effective November 1972, *Statement on Auditing Standards No. 1*, issued by the Auditing Standards Board of the AICPA, codified and superseded *Statements on Auditing Procedures Nos. 33–54* previously issued by the Committee on Auditing Procedure. Subsequent to *SAS No. 1*, fifty-one Statements on Auditing Standards have been issued; some of which superseded sections of *SAS No. 1*.

TITLE OF AUDITORS' REPORT

Table 6-1 shows the descriptive titles used to identify the Auditors' Report.

TABLE 6-1: TITLE OF AUDITORS' REPORT

	1985	1984	1983	1982
Independent accountants' report	174	174	147	134
Auditors' report	121	116	110	116
Accountants' report	72	77	84	90
Independent auditors' report	58	58	72	70
Independent certified public accountants' report	58	53	64	67
Certified public accountants' report	50	52	53	55
Auditors' opinion	29	29	32	32
Independent certified public accountants' opinion	6	5	5	3
Independent accountants' opinion	5	8	3	4
Accountants' opinion	2	2	4	5
Other titles	8	10	5	5
No title	17	16	21	19
Total Companies	**600**	**600**	**600**	**600**

ADDRESSEE OF THE AUDITORS' REPORT

Paragraph 8 of *Statement on Auditing Standards No. 2* states:

> The report may be addressed to the company whose financial statements are being examined or to its board of directors or stockholders. A report on the financial statements of an unincorporated entity should be addressed as circumstances dictate, for example, to the partners, to the general partner, or to the proprietor. Occasionally, an auditor is retained to examine the financial statements of a company that is not his client; in such a case, the report customarily is addressed to the client and not to the directors or stockholders of the company whose financial statements are being examined.

Table 6-2 summarizes the addressee mentioned in the Auditors' Reports of the survey companies. The various forms of address are illustrated in the Auditors' Reports presented as examples throughout this section.

TABLE 6-2: ADDRESSEE OF AUDITORS' REPORT

	1985	1984	1983	1982
The Directors (Board of Directors) and Shareholders	471	473	468	469
The Stockholders	70	74	78	79
The Directors	45	40	42	43
The Company	8	8	7	6
Other, or no addressee	6	5	5	3
Total Companies	**600**	**600**	**600**	**600**

AUDITORS' STANDARD REPORT

The auditors' standard report outlines in general terms the scope of the auditors' examination and states concisely the auditors' opinion as to whether the financial statements fairly present, in conformity with generally accepted accounting principles, the information included therein. Table 6-3, which summarizes the format of auditors' reports included in 1985 annual reports of the survey companies, shows that occasionally a modified form of auditors' report is presented. A modified report differs from the standard report in that the opinion and scope are combined in a single paragraph with the opinion sentence appearing first.

Appropriate wording for an auditors' standard report on comparative financial statements, as stated in paragraph 3 of *Statement on Auditing Standards No. 15*, follows:

> We have examined the balance sheets of ABC Company as of (at) December 31, 19x2 and 19x1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
>
> In our opinion, the financial statements referred to above present fairly the financial position of ABC Company as of (at) December 31, 19x2 and 19x1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Effective for fiscal years ending after December 15, 1980, the Securities and Exchange Commission requires that annual reports to stockholders issued in connection with the annual stockholder's meeting include audited statements of income and changes in financial position for each of the 3 most recent fiscal years. Typical wording for an auditors' standard report expressing an opinion on statements of income and changes in financial position for 3 years follows:

> We have examined the consolidated balance sheets of ABC Company and subsidiaries as of (at) December 31, 19x2 and 19x1, and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 19x2. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
>
> In our opinion, the financial statements referred to above present fairly the consolidated financial position of ABC Company and subsidiaries as of (at) December 31, 19x2 and 19x1, and the consolidated results of their operations and changes in financial position for each of the three years in the period ended December 31, 19x2, in conformity with generally accepted accounting principles applied on a consistent basis.

Paragraph 9 of *Statement on Auditing Standards No. 2* lists circumstances which require a departure from the auditors' standard report. Paragraph 9 states:

TABLE 6-3: FORMAT OF AUDITORS' REPORT

	1985	1984	1983	1982
Standard report	416	417	416	411
Variations to standard report	92	95	101	105
Modified report	92	88	83	84
Total Companies	**600**	**600**	**600**	**600**
Variations to Standard Report				
Sentence in scope paragraph referring to:				
Examination by other accountants	32	38	37	42
Prior year examination	14	13	12	12
Other	5	5	3	—
Middle paragraph between scope and opinion paragraphs referring to:				
Matter for which opinion qualified	43	38	31	31
Prior year qualification removed	8	12	10	13
Other	4	7	5	2
Sentence or paragraph following opinion paragraph	17	17	17	19
Total Variations	***123**	***130**	***115**	***119**

*Some Auditors' reports had more than one variation.

The circumstances that result in a departure from the auditor's standard report are as follows:

a. The scope of the auditor's examination is affected by conditions that preclude the application of one or more auditing procedures he considers necessary in the circumstances.

b. The auditor's opinion is based in part on the report of another auditor.

c. The financial statements are affected by a departure from a generally accepted accounting principle.

d. The financial statements are affected by a departure from an accounting principle promulgated by the body designated by the AICPA Council to establish such principles.

e. Accounting principles have not been applied consistently.

f. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report.

g. The auditor wishes to emphasize a matter regarding the financial statements.

Examples of auditor's reports relating to items b, e, f and g are presented in connection with Tables 6-4 and 6-5.

REFERENCE TO OTHER AUDITORS

Section 543 of *Statement on Auditing Standards No. 1*, which provides guidance for reporting on financial statements when the principal auditor refers to the work of other independent auditors, states in part:

> .07 When the principal auditor decides that he will make reference to the examination of the other auditor, his report should indicate clearly, in both the scope and opinion paragraphs, the division of responsibility as between that portion of the financial statements covered by his own examination and that covered by the examination of the other auditor. The report should disclose the magnitude of the portion of the financial statements examined by the other auditor. This may be done by stating the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly reveals the portion of the financial statements examined by the other auditor. The other auditor may be named but only with his express permission and provided his report is presented together with that of the principal auditor.

Tables 6-4 summarizes the scope of work done by other auditors as disclosed in the reports of the principal auditors. Examples of such disclosures follow.

TABLE 6-4: REFERENCES TO OTHER AUDITORS

	1985	1984	1983	1982
Examination by Other Auditors Covers:				
Statements for branch or consolidated subsidiary...	14	18	20	19
Statements of investee only	12	14	15	18
Statements for prior years only	7	7	4	8
Total Companies	**33**	**39**	**39**	**45**

Consolidated Subsidiaries

The Board of Directors and Stockholders
LaBarge, Inc.:

We have examined the consolidated balance sheets of LaBarge, Inc. and subsidiaries as of June 30, 1985, December 31, 1984 and December 31, 1983, and the related consolidated statements of operations, stockholders' equity, and changes in financial position for the six months ended June 30, 1985 and each of the years in the three-year period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Duralite Company, Inc. and subsidiaries, consolidated subsidiaries, as of and for each of the years in the two-year period ended December 31, 1983, such statements reflect total assets constituting 22% and total revenues constituting 24% and 2% in 1983 and 1982, respectively, of the related consolidated totals. These statements were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Duralite Company, Inc. and subsidiaries, as of and for each of the years in the two-year period ended December 31, 1983, is based solely upon the report of the other auditors.

In our opinion, based upon our examinations and the report of other auditors, the aforementioned consolidated financial statements present fairly the financial position of LaBarge, Inc. and subsidiaries at June 30, 1985, December 31, 1984 and December 31, 1983, and the results of their operations and the changes in their financial position for the six months ended June 30, 1985 and each of the years in the three-year period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.—*Accountants' Report.*

Board of Directors
The North American Coal Corporation
Cleveland, Ohio

We have examined the consolidated balance sheets of The North American Coal Corporation and subsidiaries as of December 31, 1985 and 1984, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the 1985 financial statements of Yale Materials Handling Corporation, a consolidated subsidiary (see Note C), which statements reflect total assets constituting 9% in 1985, and total revenues constituting 29% of the related 1985 consolidated totals. These statements were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Yale Materials Handling Corporation, is based solely on the report of the other auditors.

In our opinion, based upon our examinations and, for 1985, the aforementioned report of other auditors, the financial statements referred to above present fairly the consolidated financial position of The North American Coal Corporation and subsidiaries at December 31, 1985 and 1984, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Auditors.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C—Acquisition of Yale Materials Handling Corporation

On March 11, 1985, the Company acquired 69.5% of the outstanding common stock of Yale Materials Handling Corporation (Yale) (whose Chairman is also an officer of the principal selling company and a stockholder and director of the Company) for $29,872,000. The Company previously acquired 15% of the outstanding common stock of Yale on December 31, 1983. Yale designs, manufactures and markets industrial forklift trucks.

The acquisition was accounted for as a purchase, and the results of operations have been consolidated with those of the Company from the date of acquisition. The aggregate purchase price of $32,734,000 has been allocated to the fair value of the net assets acquired as determined by an independent appraisal.

The following unaudited pro forma consolidated results of operations were prepared as if the operations of the Corporation and Yale were consolidated as of January 1, 1984.

	1985	1984
	(In thousands, except per share data)	
Net sales	$572,725	$656,870
Net income	$ 33,699	$ 32,616
Earnings per share	$ 10.51	$ 10.25

These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results that actually would have resulted if the combination had been in effect on the date indicated, or which may result in the future.

Staley Continental, Inc.:

We have examined the consolidated balance sheets of Staley Continental, Inc. and subsidiaries as of September 30, 1985 and 1984 and the related statements of consolidated earnings, consolidated common shareholders' equity and changes in consolidated financial position for each of the three years in the period ended September 30, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of CFS Continental, Inc. (a consolidated subsidiary) for the 48-week period ended September 28, 1985, which statements reflect assets and revenues constituting 26 percent and 53 percent, respectively, of the related consolidated totals for the year ended September 30, 1985. These statements were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for CFS Continental, Inc. for the 48-week period ended September 28, 1985, is based solely upon the report of such other auditors.

In our opinion, based upon our examination and the report of the other auditors referred to above, the aforementioned consolidated financial statements present fairly the financial position of Staley Continental, Inc. and subsidiaries at September 30, 1985 and 1984 and the results of their operations and the changes in their financial position for each of the three years in the period ended September 30, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditor's Opinion.*

To the Stockholders and Board of Directors,
Tenneco Inc.:

We have examined the balance sheet of Tenneco Inc. and consolidated subsidiaries as of December 31, 1985 and 1984, and the related statements of income, changes in common and other stockholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the 1984 and 1983 financial statements of certain consolidated subsidiaries and certain other subsidiaries reflected in the accompanying consolidated financial statements utilizing the equity method of accounting. Earnings of such subsidiaries comprise approximately 5% and 13% of consolidated net income for the years ended December 31, 1984 and 1983, respectively. The financial statements of such subsidiaries were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon the reports of the other auditors.

In our opinion, based upon our examinations and the reports of other auditors referred to above, the aforementioned financial statements present fairly the financial position of Tenneco Inc. and consolidated subsidiaries as of December 31, 1985 and 1984, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Investees

To the Stockholders and the Board of Directors,
Ameron, Inc.:

We have examined the consolidated balance sheets of Ameron, Inc. and subsidiaries as of November 30, 1985 and 1984, and the related consolidated statements of income, stockholders' equity, and changes in financial position for the years ended November 30, 1985, 1984 and 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Gifford-Hill-American, Inc., the investment in which is recorded in the financial statements using the equity method of accounting (see Note 5). The investment in this company represents 5 percent of consolidated assets as of November 30, 1985 and 1984, and the equity in its earnings represents 23, 13 and 27 percent of consolidated net income in 1985, 1984 and 1983, respectively. These statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for this company, is based solely upon the reports of the other auditors.

In our opinion, based upon our examinations and the reports of other auditors referred to above, the consolidated financial statements referred to above present fairly the financial position of Ameron, Inc. and subsidiaries as of November 30, 1985 and 1984, and the results of their operations and the changes in their financial position for the years ended November 30, 1985, 1984 and 1983, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Report.*

The Board of Directors and Shareholders
Borg-Warner Corporation:

We have examined the balance sheet of Borg-Warner Corporation and consolidated subsidiaries as of December 31, 1985 and 1984, and the related statements of earnings and changes in financial position for each of the years in the three-year period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of Hughes Tool Company, a non-subsidiary investee. The company's investment in Hughes Tool Company at December 31, 1985 and 1984 was $133.4 million and $135.4 million, respectively; the company's equity in earnings or losses of Hughes Tool Company was income of $3.0 million in 1985, a loss of $22.8 million in 1984 and a loss of $7.1 million in 1983. The consolidated financial statements of Hughes Tool Company were examined by other auditors, whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Hughes Tool Company, is based solely upon the report of the other auditors.

In our opinion, based upon our examinations and the report of other auditors, the aforementioned financial statements present fairly the financial position of Borg-Warner Corporation and consolidated subsidiaries at December 31, 1985 and 1984, and the results of their operations and changes in their financial position for each of the years in the three-year period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.—*Independent accountants' report.*

Pacific Resources, Inc.:

We have examined the consolidated balance sheets of Pacific Resources, Inc. and its subsidiaries as of December 31, 1985 and 1984 and the related consolidated statements of income, stockholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Pacific Oasis, the investment in which is accounted for by use of the equity method. Pacific Resources, Inc.'s equity in the losses of Pacific Oasis for the year ended December 31, 1983 of $17,926,000 is included in the 1983 financial statements. The financial statements of Pacific Oasis for the year ended October 31, 1983, were examined by other auditors whose report thereon has been furnished to us and our opinion on the 1983 financial statements expressed herein, insofar as it relates to the amounts included for Pacific Oasis, is based upon the report of the other auditors covering the year ended October 31, 1983.

In our opinion, based upon our examinations and the report of the other auditors referred to above, such consolidated financial statements present fairly the financial position of Pacific Resources, Inc. and its subsidiaries at December 31, 1985 and 1984 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.—*Opinion of Independent Certified Public Accountants.*

QUALIFIED OPINIONS

Statement on Auditing Standards No. 2 states in part:

29. A qualified opinion states that, "except for" or "subject to" the effects of the matter to which the qualification relates, the financial statements present fairly financial position, results of operations and changes in financial position in conformity with generally accepted accounting principles consistently applied. Such an opinion is expressed when a lack of sufficient competent evidential matter or restrictions on the scope of the auditor's examination have led him to conclude that he cannot express an unqualified opinion, or when the auditor believes, on the basis of his examination, that

a. the financial statements contain a departure from generally accepted accounting principles, the effect of which is material,
b. there has been a material change between periods in accounting principles or in the method of their application, or
c. there are significant uncertainties affecting the financial statements,

and he has decided not to express an adverse opinion or to disclaim an opinion.

32. When the auditor intends to express a qualified opinion, he should disclose all the substantive reasons in a separate explanatory paragraph(s) of his report, and should include, in the opinion paragraph, the appropriate qualifying language and a reference to the explanatory paragraph(s). The requirement for an explanatory paragraph does not apply when the opinion paragraph has been modified because of a change in accounting principle (see paragraph 20).

33. The explanatory paragraph(s) should disclose the principal effects of the subject matter of the qualification on financial position, results of operations and the changes in financial position, if reasonably determinable. If the effects are not reasonably determinable the report should so state. If such disclosures are made in a note to the financial statements, the explanatory paragraph(s) may be shortened by referring to it. The explanatory paragraph(s) also should make clear whether the matter is (a) one as to which there is a difference of opinion between the auditor and his client and for which the auditor believes an adjustment should be made or (b) one involving an uncertainty that cannot presently be resolved because the outcome depends on future events. If an auditor wishes to emphasize a matter or disclosure regarding the financial statements but does not intend to qualify his opinion (see paragraph 27), he should not refer to this information in the opinion paragraph of his report.

Table 6-5 shows the uncertainties and accounting principle changes for which the auditors' opinions included in the survey company annual reports were qualified.

UNCERTAINTIES

Statement on Auditing Standards No. 2 states in part:

22. In certain instances, the outcome of matters that may affect the financial statements or the disclosures required therein is not susceptible of reasonable estimation; such matters are to be regarded as uncertainties for purposes of this Statement. When such uncertainties exist, it cannot be determined whether the financial statements should be adjusted, or in what amount.

23. There may be uncertainties with respect to specific matters whose possible effects on the financial statements can be isolated and therefore readily understood. Examples are the recoverability of a deferred cost or the likelihood that a material amount will become collectible or payable because of income tax adjustments or litigation. Also, there may be multiple uncertainties or uncertainties whose possible effects are complex and whose impact on the financial statements consequently is difficult for a reader to assess. Examples of conditions indicating the existence of uncertainties of the latter kind are recurring operating losses, serious deficiencies in working capital, an inability to obtain financing sufficient for continued business operations, and failure to comply with the terms of loan agreements. In some situations an adverse outcome of matters in either category could imperil the continued existence of the entity. In any event, if the effects of the matters on the financial statements could be material, their nature and their possible effects should be disclosed in the statements.

Examples of auditors opinions qualified because of uncertainties follow.

TABLE 6-5: QUALIFIED OPINIONS

	1985	1984	1983	1982
Uncertainties				
Litigation	18	16	14	15
Going concern	13	14	8	8
Discontinued operations	5	3	2	5
Valuation or realization of assets	3	3	4	2
Income tax liability	3	2	2	1
Other	4	1	—	3
Total Uncertainties	**46**	**39**	**30**	**34**
Total Companies	**33**	**29**	**26**	**28**
Accounting Principle Changes				
Pension cost determination	15	6	9	N/C
LIFO adoption	7	3	12	22
Other inventory changes	6	11	8	10
Investment tax credit	6	11	13	12
Depreciation method	5	5	6	12
Foreign currency translation	3	25	91	153
Consolidation policy	2	5	5	—
Compensated absences	2	4	6	26
Interest capitalization	—	—	3	3
Other	14	13	20	30
Total Changes	**60**	**83**	**173**	**268**
Total Companies	**51**	**69**	**143**	**215**

N/C—Not Compiled.

Litigation

Fischbach Corporation:

We have examined the consolidated balance sheets of Fischbach Corporation and Subsidiaries as of September 30, 1985 and 1984 and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended September 30, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 15 to the financial statements, subsidiaries of the Company and several other contractors were named in various actions alleging violations of the Sherman Anti-trust Act. The Company intends to defend these actions; however, the ultimate outcome is uncertain at this time.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, such financial statements present fairly the financial position of the companies at September 30, 1985 and 1984 and the results of their operations and the changes in their financial position for each of the three years in the period ended September 30, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Opinion.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Litigation

The companies are parties to various legal proceedings and claims. Fischbach and Moore, Incorporated ("F&M"), certain of its subsidiaries, and various other contractors, have responded to a number of subpoenas issued since May of 1982 by the Antitrust Division of the Department of Justice, in connection with its investigation of possible violations of the Sherman Anti-trust Act ("the Act") in the electrical contracting industry.

During 1985 and 1984, several of these contractors, including F&M and two of its subsidiaries, together with several related employees of such contractors, were involved in proceedings charging them with violating the Act. In one such proceeding, after a severance had been granted to one employee for health reasons, F&M and its other employees together with all other defendants, were acquitted. In another such proceeding, F&M was convicted after trial and fined $1,000,000. In a more recent proceeding, F&M together with one other corporation and two individuals, were indicted on charges of violating the Act. All defendants have pled not guilty and are awaiting trial.

In addition, a subsidiary of F&M, together with one of its employees, was indicted in two separate proceedings. In one, the subsidiary pled nolo contendere and was fined $175,000. In the other, the subsidiary and its employee were successful in having the indictment dismissed on grounds of double jeopardy and are vigorously contesting an appeal by the Department of Justice from that dismissal.

Another subsidiary of F&M, which in November of 1984 had been indicted for allegedly violating the Act, pled guilty and was fined $250,000. In addition, separate civil actions have been instituted against the Company, F&M and others, alleging violations of the Act and seeking unspecified amounts of treble damages.

The above-mentioned fines, civil settlements and related legal costs, net of a tax benefit of $3,500,000 in 1985 and $1,500,000 in 1984 have been reflected as an extraordinary loss in the statement of income. The Company is unable to predict the ultimate outcome of these legal proceedings and, except as noted previously, no other provision for any liability has been made.

To the Stockholders
Texaco Inc.:

We have examined the consolidated balance sheet of Texaco Inc. and subsidiary companies as of December 31, 1985 and 1984, and the related statements of consolidated income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully discussed in Note 16 of the Notes to Consolidated Financial Statements, on December 10, 1985, the District Court of Harris County, Texas entered judgment against Texaco and awarded the plaintiff substantial damages. While the Company intends to pursue all available remedies to set aside or to reverse the findings, the ultimate outcome of this litigation is not presently determinable.

In our opinion, subject to the effect on the 1985 financial statements of such adjustments, if any, that might have been required had the outcome of the litigation mentioned in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of Texaco Inc. and subsidiary companies as of December 31, 1985 and 1984, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 (In Part): Contingent Liabilities

Pennzoil Litigation—On December 10, 1985, the District Court of Harris County, Texas entered judgment for Pennzoil Company against Texaco Inc. in the amount of $10.5 billion as actual and punitive damages and $600 million as prejudgment interest in *Pennzoil Company vs. Texaco Inc.*, an action in which Pennzoil claims that Texaco tortiously interfered with Pennzoil's alleged contract to acquire a minority interest in Getty Oil Company. Interest will accrue on the total $11.1 billion judgment at the simple rate of 10% per annum from the date of judgment. Texaco believes that there is no legal basis for the judgment, which it believes is contrary to the weight of the evidence and applicable law. Texaco is pursuing all available remedies to set aside or to reverse the findings. In this connection, Texaco will expeditiously file its appeal in the Texas Court of Appeals.

On January 16, 1986, the United States District Court for the Southern District of New York granted Texaco a preliminary injunction which enjoins Pennzoil from taking any action to enforce or attempt to enforce the $11.1 billion judgment, pending Texaco's appeal. To satisfy the $1 billion security requirement established in connection with the preliminary injunction, on February 5, 1986, Texaco placed 65 million shares of Texaco Canada Inc. common stock with the Clerk of the U.S. District Court. On February 20, 1986, the United States Court of Appeals for the Second Circuit affirmed the grant of a preliminary injunction.

The ultimate outcome of the Texaco-Pennzoil litigation is not presently determinable. A final decision of Texaco's appeal that affirms all or a significant part of the $11.1 billion judgment could have a material adverse effect on the consolidated financial position and results of operations of Texaco Inc. and its subsidiaries.

Going Concern

To the Board of Directors and Stockholders of
Genesco Inc.

We have examined the consolidated balance sheet of Genesco Inc. and its subsidiaries as of January 31, 1986 and 1985, and the related consolidated statements of earnings, of changes in financial position, of additional paid-in capital and of accumulated deficit for the year ended January 31, 1986, for the six months ended January 31, 1985, and for each of the two years in the period ended July 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 18 to the financial statements, at January 31, 1986 the Company was not in compliance with certain covenants contained in its revolving credit agreement and subsequently terminated to prevent default. The Company is currently seeking other sources of short-term financing or alternative means of raising funds to finance its current operations. Continuation of the Company in its present form could be dependent upon securing adequate funds to finance current operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

In our opinion, subject to the effects on the 1986 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the consolidated financial statements examined by us present fairly the financial position of Genesco Inc. and its subsidiaries at January 31, 1986 and 1985, and the results of their operations and the changes in their financial position for the year ended January 31, 1986, for the six months ended January 31, 1985 and for each of the two years in the period ended July 31, 1984, in conformity with generally accepted accounting principles consistently applied.—*Report of Independent Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Liquidity Concerns

Cash and short-term investments currently on hand and expected to be generated by operations during the fiscal year ending January 31, 1987 will not be sufficient to finance expected operating losses, working capital and other projected cash needs during such period. Continued operation of the Company in the normal course is dependent on the Company's ability to obtain adequate funding of ongoing operations from external or internal sources.

The Company's near-term working capital needs were expected to have been met under a $15 million revolving credit agreement between Genesco and a group of 10 commercial banks and a $10 million revolving credit agreement between GFC and that same bank group. As a result of losses incurred by the Company in the fourth quarter of Fiscal 1986, the Company failed to meet the Tangible Net Worth requirements under its credit agreement and on April 3, 1986 terminated that agreement. There were no loans outstanding. The revolving credit agreement with GFC remains in effect until its expiration on July 31, 1986. Due to uncertainty regarding the Company's ability to obtain external financing, the Company is currently unable to obtain commercial letters of credit used to import foreign goods into the United States. The Company imports substantial amounts of shoes and of piece goods for its tailored clothing business.

A first mortgage loan commitment has been received by the Company's real estate subsidiary which, if completed, will make approximately $5 million of additional cash available to the Company. The Company is also seeking other credit arrangements from banks and other sources, but there is no assurance that the Company will be successful. Any such other credit arrangement will likely involve stringent financial and other convenants, the granting of security interests in GFC assets and the mandatory sale of some Company assets and operations. Covenants in Genesco's and GFC's long-term debt agreements restrict the ability of Genesco and GFC to incur additional long-term debt and to grant security interest in their assets. See Note 7 for additional information regarding such restrictions.

Apart from any external financing plan, the Company is seeking a buyer for its hosiery operations and is considering the sale or liquidation of some other operations or assets to generate cash for ongoing operations. A decision to sell certain operations could result in a charge to earnings.

To the Shareholders of
The Wurlitzer Company:

We have examined the consolidated balance sheets of The Wurlitzer Company and subsidiaries as of March 31, 1985 and 1984 and the related statements of consolidated earnings (loss) and retained earnings (accumulated deficit) and of changes in consolidated financial position for each of the three years in the period ended March 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 1, there are conditions which indicate that the ability of the Company to continue as a going concern may be dependent upon its ability to generate sufficient cash flows to meet its obligations and sustain its operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

In our opinion, subject to the effects on the 1985 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements present fairly the financial position of the companies at March 31, 1985 and 1984 and the results of their operations and the changes in their financial position for each of the three years in the period ended March 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Opinion.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Consolidation and Presentation

The Company's consolidated financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The relatively poor performance during fiscal 1985 of both the organ and piano markets has weakened the Company's financial condition. As described in Note 2, the availability of additional financing as of March 31, 1985 under the Company's secured revolving credit agreement and margin of covenant compliance thereunder is substantially limited, and certain covenants have not been met.

The Company's continued existence is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to comply with the terms and covenants of its financing agreements and to obtain additional financing or refinancing as may be required. Although it cannot be assured that the Company will be able to continue as a going concern in view of its weakened financial condition and the uncertain timing and strength of recovery in its markets, management believes that continued diversification into complementary product markets, successful completion of cost savings efforts, sale of underutilized and surplus assets and working capital reductions should enable the Company to meet its obligations and sustain its operations.

The consolidated financial statements include the accounts of The Wurlitzer Company and its domestic and foreign subsidiaries, all of which are wholly-owned. All intercompany accounts and transactions are eliminated. Certain 1984 and 1983 amounts have been reclassified to conform to the 1985 presentation.

Discontinued Operations

The Board of Directors and Stockholders
Murphy Oil Corporation:

We have examined the consolidated balance sheets of Murphy Oil Corporation and Consolidated Subsidiaries as of December 31, 1985 and 1984 and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the years in the three year period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note B to the consolidated financial statements, Mentor Insurance Limited (MIL), a Bermuda subsidiary of Ocean Drilling & Exploration Company (ODECO), a 59.5 percent owned subsidiary of the Company, is currently in liquidation under the supervision of the Supreme Court of Bermuda. ODECO has entered into an agreement which provides that it will pay certain liabilities of MIL if they are not satisfied by liquidation. In addition, in March 1986 the liquidators of MIL filed suit asserting various claims against ODECO. The ultimate outcome of the liquidation of MIL and related litigation is not presently determinable and no provision has been made in the consolidated financial statements for the effects, if any, of such liquidation and related litigation.

In our opinion, subject to the effects on the 1985 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties discussed in the preceding paragraph been known, the aforementioned consolidated financial statements present fairly the financial position of Murphy Oil Corporation and Consolidated Subsidiaries at December 31, 1985 and 1984 and results of their operations and the changes in their financial position for each of the years in the three year period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.—*Accountants' Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B—Discontinued Insurance Operations:

Effective December 31, 1984 ODECO announced its intention to discontinue its casualty insurance operations, most of which were conducted by Mentor Insurance Limited (MIL), a Bermuda subsidiary. Accordingly, this business segment has been accounted for as discontinued operations. At December 31, 1984 MIL had a stockholder's deficit of $12,331,000. Since ODECO did not intend to invest additional funds in the subsidiary, equity in losses was recorded only to the extent of ODECO's investment.

In June 1985 the Supreme Court of Bermuda appointed provisional liquidators to wind up MIL's business. Permanent liquidators were appointed by MIL's creditors in September 1985, and liquidation is currently proceeding under supervision of the Court. The liquidators have commenced an ancillary proceeding in the U.S. Bankruptcy Court of the Southern District of New York, the stated purpose of which is to conserve the assets of MIL located in the United States.

Prior to the discontinuance of MIL's business, five U.S. banks had issued approximately $110,000,000 in letters of credit on MIL's behalf to secure certain reinsurance obligations to insurance companies. During 1985 approximately $65,000,000 had been drawn against these letters of credit, and two of the banks filed suits against ODECO alleging, among other things, that ODECO had effectively guaranteed repayment of amounts drawn against the letters of credit. ODECO disputed the banks' position, but to preserve banking relationships and settle the disputes, it entered into an agreement with all the banks in January 1986. The agreement resulted in dismissal of the suits and provides that ODECO will pay the banks in twenty quarterly installments beginning no later than December 31, 1988 any unrecovered principal amount owed by MIL under the letters of credit. The agreement also provides for payment of interest on amounts drawn and outstanding, fees ranging from ½% to 1% on letters of credit outstanding, and reimbursement of legal and other costs relating to the letters of credit. Such interest, fees, and costs are being expensed on a current basis, and for the year ended December 31, 1985 interest expense includes $2,760,000 for such interest and commitment fees.

While the agreement was being negotiated with the banks during December 1985, ODECO also proposed to the MIL liquidators and creditors' committee a plan for the orderly and voluntary liquidation of MIL that, among other things, would include subordination of part of the banks' claims against MIL arising under the letters of credit.

On March 3, 1986, the liquidators of MIL filed suit in the U.S. District Court, Eastern District of Louisiana, against ODECO, its wholly owned subsidiary, Mentor Holding Corporation, certain of their officers and directors, one former officer and director of Mentor Holding Corporation and MIL, and an unrelated insurance company. The plaintiffs allege fraud, negligent misrepresentation by ODECO and the other defendants, and liability under the federal Racketeer Influenced and Corrupt Organizations Act (RICO), in connection with the financial statements of MIL and Mentor Holding Corporation for 1982 and certain subsequent years. The plaintiffs seek to recover as actual damages the net debts of MIL incurred after February 1983, which the plaintiffs claim to be approximately $200,000,000, together with interest, attorneys' fees and costs, trebled pursuant to RICO, and punitive damages of $100,000,000.

The suit also alleges control and domination of MIL by ODECO, breach of duty by the individual defendants, and violation of Bermuda law by ODECO and the other defendants, for which the plaintiffs seek to recover an amount equal to MIL's total net deficiency, which the plaintiffs claim to be approximately $500,000,000.

ODECO intends to defend itself vigorously, while continuing discussions with the liquidators and creditors' committee of MIL with respect to a plan for the orderly and voluntary liquidation of MIL.

The ultimate effect on ODECO of the discontinuance of MIL's business and MIL's liquidation, including the suit filed by the liquidators, a plan of voluntary liquidation if adopted, and the agreement with the banks, will be dependent on future events such as the resolution of disputed facts in the suit by the liquidators, the final determination of and timing of payment of MIL's liabilities for insurance losses, an unknown amount of which is as yet unreported, and other factors relevant to the financial condition and operations of MIL. Therefore, ODECO feels that any ultimate liability cannot be currently estimated with any reasonable degree of reliability, and accordingly no provision for loss has been made.

Asset Realization

To the Shareholders and Board of Directors of
CMI Corporation:

We have examined the consolidated balance sheets of CMI Corporation and subsidiaries as of December 31, 1985 and 1984, and the related consolidated statements of earnings and retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The balance sheets at December 31, 1985 and 1984 include the Company's wholly-owned subsidiary CMI Energy Conversion Systems, Inc.'s capitalized investment of approximately $13,400,000 and $10,600,000, respectively, in a waste-to-energy conversion system. The recovery of these costs is dependent upon the Company's ability to complete and place the conversion system into operation on a profitable basis.

In our opinion, subject to the effects on the consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty discussed in the preceding paragraph been known, the aforementioned consolidated financial statements present fairly the financial position of CMI Corporation and subsidiaries at December 31, 1985 and 1984, and the results of their operations and the changes in their financial position for each of the years in the three-year period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Report.*

Board of Directors and Stockholders
Fairchild Industries, Inc.
Chantilly, Virginia

We have examined the consolidated balance sheets of Fairchild Industries, Inc. and consolidated subsidiaries as of December 31, 1985, and 1984, and the related consolidated statements of results of operations, common stockholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 3, the Company expects the T-46A aircraft program to continue; however, continuation of the program is uncertain.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the financial statements referred to above present fairly the consolidated financial position of Fairchild Industries, Inc. and consolidated subsidiaries at December 31, 1985, and 1984, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.—*Accountants' Report.*

NOTES TO FINANCIAL STATEMENTS

Note 3 (In Part): Aircraft Programs

T-46 Aircraft Program—In 1982, the Company was awarded a contract to design, develop, test and evaluate the T-46A trainer aircraft for the U.S. Air Force. The contract includes Full Scale Development (FSD) and options for Lot 1 and Lot 2 production aircraft. The contract is a fixed-price incentive type with different cost share ratios for FSD and Lots 1 and 2. The Air Force has exercised and fully funded the option for Lot 1.

The Air Force has the option to order from 22 to 44 aircraft in Lot 2. While Congress has appropriated funds in its fiscal 1986 budget to buy 33 aircraft, the Air Force has not yet exercised the option. With current budget constraints on the Air Force, management believes that the quantity ordered in Lot 2 will not exceed 22 aircraft. In estimating its provision for loss on the contract, the Company assumed that the quantity ordered would be 22 aircraft. If the option for Lot 2 were exercised for more than 22 aircraft, an additional provision would be required by the Company. Management believes, however, that an order above 22 aircraft is unlikely.

Reviews of the completion status of the prototype airplanes and of the estimated cost to complete the tasks remaining to satisfy contractual requirements were performed periodically in 1984 and 1985. As a result of these reviews, it was determined that development of the aircraft, additional engineering tasks, ground testing prior to first flight, the test flight program, as well as the production of Lots 1 and 2, would cost substantially more than ceiling prices in the contract. As a result, in 1984 the Company recorded a loss provision of $11,400,000 and, in 1985, increased its provision for loss by $89,000,000.

The Air Force does not have a contract option beyond Lot 2 production. Contracts for the remainder of the 650 aircraft in the program plan would be priced on a negotiated basis.

The Air Force conducted, in June 1985, a Contractor Operations Review of the Fairchild Republic aircraft facility. The review was similar to that conducted by the Air Force at a number of aerospace contractor facilities. The review indicated a significant number of deficiencies in the operations at Fairchild Republic. The Company has developed and is implementing corrective action plans in coordination with the Air Force. The Air Force has suspended 50 percent of the progress payments under certain contracts pending the implementation of the corrective action plans. While the suspension is temporary, the Company is unable to determine when the Air Force will pay prior withholdings and resume full progress payments. A prolonged suspension would have a materially adverse effect on the Company's cash flow. At December 31, 1985, the Air Force had withheld $14,100,000 of progress payments.

The Company believes it has resolved many of the concerns of the Air Force about its ability to perform on the program through improvements in its operating systems and through initial success with the first aircraft in the flight test program. Despite these advances in the program, the T-46A program was not included in the President's fiscal 1987 budget submission to Congress in January, 1986. The Company believes that the omission of the T-46A was primarily a result of budget pressures and constraints anticipated from the Gramm-Rudman-Hollings Act.

The Company further believes, however, that strong Congressional support for the program, combined with the vital need for a new trainer aircraft for which there are no viable alternatives for the Air Force, should lead to continuation of the program. Nevertheless, the ultimate outcome in the current budget environment is uncertain.

Discontinuance of the program, while not expected, could significantly affect the valuation of the existing T-46 contract, depending on the manner in which the program is terminated. The Company has not deferred any costs beyond the current contract coverage that might be unrecoverable in the event of discontinuance of the program. T-46 production is expected to utilize much of the capacity of the Fairchild Republic Company, particularly beyond 1987; therefore, discontinuance of the program would require the Company to reduce the plant capacity significantly and could ultimately result in closing the Fairchild Republic plant. Such a closing could have a materially adverse impact on the Company, but the Company believes that in such an event, a number of actions could be taken to limit the impact.

Because of the options available to the government for total or partial cancellation or other program modification and the uncertainty over timing of any decisions, the company is unable to predict or quantify with any certainty the effect of such developments on the financial statements if the program is not continued.

CHANGE IN ACCOUNTING PRINCIPLE

Section 546 of *Statement on Auditing Standards No. 1* states in part:

> .01 When there is a change in accounting principle, the independent auditor should modify his opinion as to consistency, indicating the nature of the change. The auditor's concurrence with a change is implicit unless he takes exception to the change in expressing his opinion as to fair presentation of the financial statements in conformity with generally accepted accounting principles. Nevertheless, in order to be more informative the auditor should make his concurrence explicit (unless the change is the correction of an error) using the expression "with which we concur." The form of modification of the opinion depends on the method of accounting for the effect of the change, as explained in paragraphs .02 and .03.
>
> 02. If there has been a change in accounting principle which should be reported by restating the financial statements of prior years, the appropriate reference to consistency is that the statements are consistent after giving retroactive effect to the change . . .
>
> The auditor's report need not refer to a change in accounting principle and restatement made in conformity with generally accepted accounting principles if the statements for the year of change are reported upon together with the financial statements for a year subsequent to the year of change.
>
> 03. If there has been a change in accounting principle which should be reported by means other than by restating the financial statements of prior years and the independent auditor is reporting only on the year during which the change was made, his report should state that accounting principles have been consistently applied except for the change . . .
>
> If the independent auditor is reporting on two or more years when reporting on a subsequent year's financial statements, he should make appropriate reference to the change as long as the year of change is included in the years being reported upon . . .
>
> If the year of change is the earliest year being reported upon, there is no inconsistency in the application of accounting principles during the period subsequent to the change. However, the auditor should make reference to the change having been made in such year when a cumulative effect adjustment is included in the income statement for the year of the change.

Table 6-5 shows the reasons for consistency qualifications. Of the 58 reasons, 23 are for changes made in years prior to 1985. Examples of auditors' opinions qualified as to consistency follow.

Pension Cost Determination

Shareholders and Directors
Becor Western Inc.
South Milwaukee, Wisconsin

We have examined the consolidated balance sheets of Becor Western Inc. (formerly Bucyrus-Erie Company) and subsidiaries as of December 31, 1985 and 1984, and the related consolidated statements of operations, shareholders' investment and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Becor Western Inc. and subsidiaries at December 31, 1985 and 1984, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the actuarial method of determining pension cost as described in Note 1 to the consolidated financial statements.—*Accountants' Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Pension and Retirement Plans

The Company and its subsidiaries have several pension and retirement plans covering substantially all employees. In addition to its own pension and retirement plans, the Company contributes to various joint industry pension plans. The total pension expense for all plans was $2,925,000 in 1985, $4,507,000 in 1984 and $10,695,000 in 1983. During 1985, the Company changed its actuarial method used to determine pension cost from the entry age normal method to the projected unit credit method. The net effect of this change was to increase 1985 net earnings by $1,190,000 or $.07 per share. The decrease in 1984 pension expense compared to

1983 was due to increases in the weighted average rate of return and changes in other actuarial assumptions. Contributions to Company plans are accrued and funded based on actuarially determined amounts including amortization of past service costs over 30 to 40 years. Contributions to joint industry pension plans are in accordance with the provisions of negotiated labor contracts, generally based on number of hours worked.

To the Board of Directors and Shareholders of
Phelps Dodge Corporation

We have examined the consolidated balance sheet of Phelps Dodge Corporation and its subsidiaries as of December 31, 1985 and 1984, and the related statements of consolidated operations, of consolidated retained earnings and of changes in consolidated financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 4, in 1984 the Corporation implemented a program to restructure certain of its operations including the disposal of the energy segment and certain other assets and the shutdown of certain operations. In connection with this program, the Corporation provided for the future costs to be incurred and recorded adjustments to the net book values of certain of the Corporation's assets. The ultimate accuracy of the Corporation's provisions and estimates is dependent on the actual amounts realized on the sale of the energy segment and other assets and the actual costs incurred in connection with the shutdown of operations.

In our opinion, subject to the effect of such adjustments, if any, on the 1985 and 1984 consolidated financial statements as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the consolidated financial statements appearing on pages 17 to 28, inclusive, of this Report present fairly the financial position of Phelps Dodge Corporation and its subsidiaries at December 31, 1985 and 1984, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of accounting for pension costs as described in Note 3 to the financial statements.—*Report of Independent Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Accounting Change

Effective January 1, 1985, the Corporation adopted certain provisions of FAS Nos. 87 and 88, "Employers' Accounting for Pensions" and "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", which increased 1985 net income by $4.6 million ($0.17 per common share). The provisions were adopted prospectively, and accordingly income for 1984 and 1983 has not been restated. As permitted by FAS No. 87, the Corporation has elected not to adopt currently the provision which would recognize a pension asset and liability in the Consolidated Balance Sheet.

Inventory

To the Directors and Shareowners of
Bergen Brunswig Corporation:

We have examined the consolidated balance sheets of Bergen Brunswig Corporation and subsidiaries as of August 31, 1985 and 1984 and the related statements of consolidated earnings, retained earnings, and changes in financial position for each of the three years in the period ended August 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Corporation and its subsidiaries at August 31, 1985 and 1984 and the results of their operations and the changes in their financial position for each of the three years in the period ended August 31, 1985, in conformity with generally accepted accounting principles consistently applied during the period except for the change with which we concur, in 1985 in the method of accounting for the cost of inventories as described in Note 2 to the consolidated financial statements.—*Opinion of Independent Certified Public Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2—Change to LIFO Accounting

To match costs and related revenues more properly, the Corporation changed its method of valuing the Drug and Health Care and Medical/Surgical Supplies inventories to the LIFO method in the third quarter of 1985. The Consumer Electronics segment inventories ($41,090,000 at August 31, 1985) continue to be valued using the FIFO method because of the deflationary nature of its inventory costs.

It is not possible to determine the cumulative effect of the change on retained earnings as of September 1, 1984 nor the proforma effects of retroactive application of the change for prior periods. In accordance with generally accepted accounting principles, the change is prospective from September 1, 1984. The effect of the change to LIFO in 1985 was to decrease earnings from continuing operations by $3.4 million or $.27 per share.

To the Shareholders of
H. H. Robertson Company:

We have examined the consolidated balance sheets of H. H. Robertson Company and its subsidiaries as of December 31, 1985 and 1984 and the related statements of consolidated income and retained earnings and of changes in consolidated financial position for each of the three years ended December 31, 1985, 1984 and 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of H. H. Robertson Company and its subsidiaries at December 31, 1985 and 1984 and the results of their operations and the changes in their financial position for the years ended December 31, 1985, 1984 and

1983, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in 1984 in the method of inventory valuation used by a division of the Company as described in the second paragraph of Note 3 of the Notes to Consolidated Financial Statements.—*Auditors' Opinion.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Inventories

To better match costs with revenues, the Company expanded the use of the LIFO method of inventory valuation during 1984 to a division acquired in 1982. The effect of this change in 1984 was to increase net income by $1,467,000 or $.27 per common share. The cumulative and pro forma effects of retroactive application of this change to prior periods were not readily determinable.

To the Stockholders and Board of Directors of
The Dow Chemical Company

We have examined the consolidated balance sheets of The Dow Chemical Company and its consolidated subsidiaries as of December 31, 1985 and 1984 and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of The Dow Chemical Company and its consolidated subsidiaries at December 31, 1985 and 1984 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis, after restatement for the change, with which we concur, in the method of accounting for foreign inventories as described in Note A to the consolidated financial statements.—*Opinion of Independent Public Accountants.*

NOTES TO FINANCIAL STATEMENTS

(dollars in millions, except per share)

A. Accounting Change

As a result of continued high inflation rates in many foreign countries and the devaluation of their currencies against the U.S. dollar, Dow's worldwide use of the last-in, first-out (LIFO) inventory accounting method no longer yields the best matching of costs and revenue. Effective January 1, 1985, management has decided to change its method of accounting for most of the foreign inventories from LIFO and adopt the first-in, first-out (FIFO) or average cost methods to provide a better matching of costs and revenue, consistent with conservative accounting practices.

Inventories in the United States and Dow's Foreign Sales Corporation, plus foreign hydrocarbon inventories, remained on LIFO.

On a restated basis, net income was reduced $25 or $.13 per share and $6 or $.03 per share in 1984 and 1983, respectively, and $78 or $.41 per share and $34 or $.18 per share in 1982 and 1981, respectively.

All reference to results for these years in the Notes to Financial Statements reflect the impact of the accounting change and restatement.

The Stockholders and the Board of Directors of
Kaiser Aluminum & Chemical Corporation:

We have examined the consolidated balance sheets of Kaiser Aluminum & Chemical Corporation and its consolidated subsidiary companies as of December 31, 1985 and 1984, and the related statements of consolidated income and changes in consolidated financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of companies representing 17%, 16%, and 10% of the investments accounted for by the equity method at December 31, 1985, 1984, and 1983. The financial statements of these companies were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to amounts included for these companies, is based solely upon the reports of the other auditors.

In our opinion, based upon our examinations and the reports of other auditors referred to above, such consolidated financial statements present fairly the financial position of Kaiser Aluminum & Chemical Corporation and its consolidated subsidiary companies at December 31, 1985 and 1984, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis, after restatement for the change, with which we concur, in the method of determining cost of inventories as described in Note 4 to the financial statements.—*Independent Auditor's Opinion.*

NOTES TO FINANCIAL STATEMENTS

Millions of dollars, except share amounts

4. Inventories

In 1985 the corporation changed its method of valuing its domestic aluminum raw materials, including primary aluminum, and certain industrial and specialty chemicals to the first-in, first-out (FIFO) method from the last-in, first-out (LIFO) method. The corporation is in the process of completing a refinancing of its bank debt and the financial position of the corporation is of increasing interest to investors and others who extend credit to the corporation. The FIFO method of inventory valuation is a better measure to reflect the current value of such inventories and the financial position of the corporation. In addition, under the current economic environment of low inflation and the corporation's decreasing inventories and production costs, the FIFO method results in a better matching of costs and revenues as compared to the LIFO method.

The FIFO method of accounting has been applied retroactively, and prior-year financial statements have been restated. This change increased inventory value by $190.7 and retained earnings by $104.1 at December 31, 1985, and increased the net loss by $9.1 ($.21 per share) because the effect of a FIFO cost write-down in 1985 exceeded the effect of liquidating a LIFO layer with higher unit costs than the current FIFO costs. The change increased the 1984 net loss by $43.5 ($.99 per share) because a FIFO cost write-down was required by a market price decline in 1984. The 1983 net loss was reduced by $24.7 ($.57 per share) because the FIFO inventory value increase of $82.6 exceeded the $57.9 benefit from the 1983 LIFO liquidation.

Operating supplies inventories were $72.4 and $76.5 at December 31, 1985 and 1984. Finished goods, work in process, and raw materials have been combined because they are sold at various stages of processing.

Board of Directors and Stockholders
United States Surgical Corporation

We have examined the consolidated balance sheets of United States Surgical Corporation and subsidiaries as of December 31, 1985 and 1984, and the related consolidated statements of operations, changes in stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of United States Surgical Corporation and subsidiaries at December 31, 1985 and 1984, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles consistently applied during the period, except for the change in 1984, with which we concur, in the method of accounting for the allocation of overhead costs to inventories as described in Note B of Notes to Consolidated Financial Statements.—*Report of Independent Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B—Securities and Exchange Commission Settlement and Accounting Change

In connection with a previously reported settlement with the Securities and Exchange Commission, the Company completed in 1984 the remaining undertakings which resulted in the adoption of a refinement in the Company's method of overhead allocation to inventories. The new method, which was accounted for as a change in accounting principle, was adopted to reflect more accurately actual costs to the manufacturing process to the related inventories on hand at the end of an accounting period. The effect of this change in 1984 was to increase income before cumulative effect by approximately $1,000,000 ($.09 per share). The effect on prior years ($2,768,000—$.24 per share) is included as a charge to 1984 net income as a cumulative effect adjustment. The net loss of $.42 per share reported for 1983 would have been decreased, on a pro forma basis, by $.06 per share if the new method had been applied retroactively.

Investment Tax Credit

To the Shareholders of
RCA Corporation:

We have examined the statement of consolidated financial position of RCA Corporation and its subsidiaries as of December 31, 1985 and 1984, and the related statements of consolidated income, consolidated changes in financial position, and consolidated changes in shareholders' equity for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of RCA Corporation and its subsidiaries as of December 31, 1985 and 1984, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles consistently applied during the period except for the change in 1984, with which we concur, in the method of accounting for investment tax credits as described in Note 5.—*Report of Independent Public Accountants.*

NOTES TO FINANCIAL STATEMENTS

5. Accounting Change

Effective January 1, 1984, RCA changed its accounting for investment tax credits from the deferral to the flow-through method in order to achieve greater comparability with the accounting policies of most other companies. As a result, income from continuing operations increased $8.9 million ($.11 per share) and net income increased $8.4 million ($.10 per share) in 1984. The pro forma effect of this change in 1983 would have increased income from continuing operations by $12.6 million ($.15 per share) and net income by $12.1 million ($.15 per share). The cumulative effect of this change through December 31, 1983 increased net income in the first quarter of 1984 by $75.7 million ($.92 per share), of which $24 million ($.29 per share) relates to the discontinued operations of Hertz.

The Board of Directors and Shareholders
Textron Inc.

We have examined the consolidated balance sheet of Textron Inc. and the combined balance sheet of Textron's unconsolidated finance and insurance subsidiaries at December 28, 1985 and December 29, 1984, and the related consolidated and combined statements of income and changes in financial position and consolidated statement of changes in shareholders' equity for each of the three years in the period ended December 28, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements mentioned above present fairly the consolidated financial position of Textron Inc. and the combined financial position of Textron's unconsolidated finance and insurance subsidiaries at December 28, 1985 and December 29, 1984, and the consolidated and combined results of operations and changes in financial position for each of the three years in the period ended December 28, 1985, in conformity with generally accepted accounting principles applied on a consistent basis during the period except for the change, with which we concur, in the method of accounting for investment tax credits as described in Note 1 to the consolidated financial statements.—*Report of Certified Public Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

Income tax expense is calculated based on income before income taxes per the consolidated financial statements. Such expense differs from taxes currently payable because of timing differences in that certain income and expense items are reported in Textron's consolidated statement of income in years different from those in which they are reported in Textron's income tax returns.

Deferred income taxes have not been provided for the undistributed earnings of foreign subsidiaries. Management's intention is to reinvest such undistributed earnings outside the United States for an indefinite period, except for distributions upon which incremental U.S. income taxes would not be material.

See Note 6 to the combined financial statements of Textron's finance and insurance subsidiaries for information about their income taxes.

Effective at the beginning of 1985, Textron changed its method of accounting for investment tax credits from the deferral method to the flow-through method with respect to its manufacturing operations. (In accordance with industry practice, Textron's unconsolidated finance companies continue to use the deferral method with respect to their leasing operations.) This change was made to conform to the method used by the manufacturing operations of Textron's Avco subsidiary as well as to achieve comparability with the accounting practices of most other manufacturing companies. Had the change in accounting been applied retroactively, net income for 1985, 1984 and 1983 would have been $240.0 million, ($6.43 per share), $112.9 million ($3.10 per share) and $84.7 million ($2.29 per share), respectively.

Depreciation Method

Board of Directors and Stockholders
Rowe Furniture Corporation:

We have examined the consolidated balance sheets of Rowe Furniture Corporation and its wholly-owned subsidiaries as of November 30, 1985 and 1984, and the related statements of consolidated earnings, consolidated stockholders' equity, and changes in consolidated financial position for each of the three years in the period ended November 30, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of Rowe Furniture Corporation and its wholly-owned subsidiaries as of November 30, 1985 and 1984, and the results of their operations and the changes in their financial position for each of the three years in the period ended November 30, 1985, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in 1985 in the method of computing depreciation for fixed asset additions as described in Note 2 to the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2—Change in Accounting Principle

Depreciation is provided for primarily by the declining balance method on substantially all property acquired prior to December 1, 1984. The Company adopted the straight-line method for financial statement purposes for all property acquired after November 30, 1984. The new method conforms with that prevalent in the industry. The effect of the change for the year ended November 30, 1985 was to increase net earnings by $122,000 and earnings per share by $0.05.

Consolidation Policy

To the Stockholders and Board of Directors of
J.C. Penney Company, Inc.

We have examined the balance sheet of J.C. Penney Company, Inc. and Consolidated Subsidiaries as of January 25, 1986, January 26, 1985, and January 28, 1984, and the related statements of income, reinvested earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of J.C. Penney Company, Inc. and Consolidated Subsidiaries at January 25, 1986, January 26, 1985, and January 28, 1984, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the basis of consolidation as it relates to J.C. Penney Financial Corporation as described in the Summary of Accounting Policies.—*Accountants' Report.*

SUMMARY OF ACCOUNTING POLICIES

Basis of Consolidation. The accounts of J.C. Penney Financial Corporation (Financial), a wholly-owned subsidiary whose primary activity is to finance the Company's operations, are, for the first time, included in the Company's consolidated financial statements in order to more appropriately reflect the financial structure of the Company. Prior to 1985, Financial was presented as an unconsolidated subsidiary accounted for by the equity method and its income before income taxes was included as a reduction of interest expense. This change had no effect on the Company's Statement of Income; however, the Balance Sheet and the Statement of Changes in Financial Position have been retroactively restated. For a more detailed description of Financial, refer to its 1985 annual report, which is available upon request.

The consolidated financial statements present the results of J.C. Penney Company, Inc. and its subsidiaries except for the insurance operations, the bank, and real estate development operations, which are accounted for by the equity method. The combined income of these unconsolidated operations is included as a single item in the Statement of Income. Intercompany items and transactions have been eliminated in consolidation.

Software Development Costs

The Board of Directors and Stockholders
A. O. Smith Corporation

We have examined the consolidated balance sheet of A. O. Smith Corporation at December 31, 1985 and 1984, and the related consolidated statements of operations and retained earnings and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements mentioned above present fairly the consolidated financial position of A. O. Smith Corporation at December 31, 1985 and 1984 and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis during the period except for the changes, with which we concur, as described in note 2 to the consolidated financial statements.—*Report of Certified Public Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Accounting Changes

Software development costs. During the third quarter of 1985, the Financial Accounting Standards Board issued and the company adopted Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." Under this statement, software production costs incurred by the company's data systems business segment in connection with the development of certain products, primarily electronic funds transfer software, are being capitalized and amortized on a product-by-product basis over periods not exceeding three years. The effect of this accounting change, which is in accordance with the statement and which has been applied to costs incurred during all of 1985, was to increase earnings from continuing operations by approximately $2.0 million ($.26 per primary share of common stock). At December 31, 1985, $3.9 million of unamortized software costs are included in the accompanying consolidated balance sheet and $.1 million was charged to expense as amortization of such costs for the year then ended.

Classified Balance Sheet

The Board of Directors and Stockholders of
Control Data Corporation:

We have examined the consolidated balance sheets of Control Data Corporation and consolidated subsidiaries as of December 31, 1985 and 1984 and the related consolidated statements of operations and changes in financial position for each of the years in the three-year period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Notes I and M to the consolidated financial statements, the Company was in default on various bank borrowings and other obligations at December 31, 1985. Discussions are in process with lending banks to restructure the borrowings in default, and the proposed terms would require full repayment during 1986 and compliance with various other provisions. Management of the Company does not expect that cash to be generated from operations and asset dispositions that are presently planned will be sufficient to repay the bank borrowings and other liabilities, commitments and contingent obligations as they become due during 1986. Therefore, in addition to successfully restructuring its bank borrowings and other obligations, the Company must obtain additional financing; otherwise, further asset dispositions will be required. The 1985 consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts should such adjustments be necessary for assets disposed of in those circumstances.

In our opinion, subject to the effects on the 1985 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the previous paragraph been known, the aforementioned consolidated financial statements present fairly the financial position of Control Data Corporation and consolidated subsidiaries as of December 31, 1985 and 1984, and the results of their operations and changes in their financial position for each of the years in the three-year period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the changes, with which we concur, in the method of accounting for the investment in Commercial Credit Company and to a classified balance sheet, both as described more fully in Note A to the consolidated financial statements.—*Auditors' Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Accounting Policies

Change in Basis of Consolidation and Presentation

Effective December 31, 1985, Control Data changed its method of accounting for its investment in Commercial Credit, a wholly-owned financial services subsidiary, from consolidation to recording it on an equity basis. As a result, the presentation of the balance sheet has changed from a non-classified to a classified basis. The change has no effect on consolidated net earnings or stockholders' equity, and prior years financial information has been restated on a comparable basis.

The equity method is intended to provide stockholders a more appropriate view of the computer business results than was provided under the consolidated basis. The change is due to the disparity of the businesses and changes in strategies related to Commercial Credit resulting in greater separateness of this business.

EMPHASIS OF A MATTER

Paragraph 27 of *Statement on Auditing Standards No. 2* states:

> In some circumstances, the auditor may wish to emphasize a matter regarding the financial statements, but nevertheless intends to express an unqualified opinion. For example, he may wish to point out that the entity is a component of a larger business enterprise or that it has had significant transactions with related parties, or he may wish to call attention to an unusually important subsequent event or to an accounting matter affecting the comparability of the financial statements with those of the preceding period. Such explanatory information may be presented in a separate paragraph of the auditor's report. Phrases such as "with the foregoing explanation" should not be used in the opinion paragraph in situations of this type.

Examples of auditors' reports including explanatory information about the financial statements follow.

To the Board of Directors and Shareholders
GeoResources, Inc.
Williston, North Dakota

We have examined the balance sheets of GeoResources, Inc. as of December 31, 1985 and 1984, and the related statements of operations, stockholders' equity, and changes in financial position for the years ended December 31, 1985, 1984 and 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 9 to the financial statements, the price received for the company's crude oil declined by approximately $12 per barrel during the first two months of 1986. If oil prices remain substantially below 1985 levels, it is likely that the Company's oil revenues will decline significantly during 1986 and it is likely that the Company will incur a material write-down of the capitalized cost of its oil and gas properties.

In our opinion, the financial statements referred to in the first paragraph present fairly the financial position of GeoResources, Inc. as of December 31, 1985 and 1984 and the results of its operations and the changes in its financial position for the years ended December 31, 1985, 1984 and 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

NOTES TO FINANCIAL STATEMENTS

Note 9. Decline in Oil Prices

At December 31, 1985, the Company was receiving approximately $25.50 per barrel of oil produced. As of February 28, 1986 this price had declined to approximately $13.50 per barrel. If the Company had used February 28, 1986 prices in estimating its reserve values at December 31, 1985 management estimates that the Company's oil and gas properties would have been written down by a range of $2 to $3 million less than the net capitalized costs of oil and gas properties of $5,362,500 reported at December 31, 1985.

If oil prices remain at depressed levels and if the Company does not discover significant amounts of oil and gas, management believes that the value of the Company's estimated oil and gas reserves will be reduced to substantially less than the amounts reported at December 31, 1985. Management is currently reevaluating the Company's estimated oil and gas reserves. The value of the estimated reserves resulting from the reevaluation is dependent upon many factors, the most significant of which are oil prices and reserve revisions or additions. Based upon information currently available, management believes that a substantial writedown of the net capitalized costs of the Company's oil and gas properties in the range of the numbers set forth above is probable by the end of the first quarter of 1986. Accordingly, a substantial charge to operations would be incurred and the balance sheet would be adjusted to reflect a lower carrying value of the oil and gas properties.

Management emphasizes that the foregoing estimates are broad and subject to substantial revision; therefore, it can make no assurances that writedowns would be in the range as set forth or will occur in 1986. Estimates of reserves and values resulting therefrom are imprecise and subject to numerous uncertainties, including engineering factors and assumptions regarding production costs and tax consequences.

To ICN Pharmaceuticals, Inc.:

We have examined the consolidated balance sheets of ICN Pharmaceuticals, Inc. and subsidiaries as of November 30, 1985 and 1984 and the related consolidated statements of operations, redeemable convertible preferred stock and shareholders' equity and changes in financial position for each of the three years in the period ended November 30, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The company has had certain transactions with its partially owned subsidiaries and a joint venture as more fully described in Notes 2, 3, 4, 5 and 11 to the consolidated financial statements. Whether the terms of these transactions would have been the same had they been between wholly unrelated parties cannot be determined.

In our opinion, the financial statements referred to above present fairly the financial position of ICN Pharmaceuticals, Inc. and subsidiaries as of November 30, 1985 and 1984 and the results of their operations and the changes in their financial position for each of the three years in the period ended November 30, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supporting schedules listed in the index to consolidated financial statements and schedules are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These supporting schedules have been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.—*Report of Independent Public Accountants.*

REPORTS ON COMPARATIVE FINANCIAL STATEMENTS

Statement on Auditing Standards No. 15 "provides guidance to an auditor reporting on financial statements of one or more prior periods that are presented on a comparative basis with financial statements of the current period." Examples illustrating various aspects of reporting on one or more prior periods follow.

Qualification as to Prior Years Financial Statements Removed

Board of Directors and Stockholders
Centronics Data Computer Corp.
Hudson, New Hampshire

We have examined the consolidated balance sheets of Centronics Data Computer Corp. and Subsidiaries as of December 29, 1985 and December 30, 1984 and the related consolidated statements of operations, stockholders' equity and changes in financial position for each of the three fiscal years in the period ended December 29, 1985. Our examinations were made in accordance with generally accepted auditing standards, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated March 21, 1985, our opinion on the 1984 financial statements was qualified as being subject to the effects on the financial statements of such adjustments, if any, that might have been required had the outcome of the uncertainty with respect to the Company's ability to consummate its public offering been known. As described in Note 7, the Company consummated its public offering on June 11, 1985. Accordingly, our present opinion on the 1984 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Centronics Data Computer Corp. and Subsidiaries as of December 29, 1985 and December 30, 1984 and the consolidated results of their operations and changes in their financial position for each of the three fiscal years in the period ended December 29, 1985 in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Certified Public Accountants.*

To the Board of Directors of
Revere Copper and Brass Incorporated:

We have examined the consolidated balance sheets of Revere Copper and Brass Incorporated and Subsidiaries as of December 31, 1985 and 1984 and the related consolidated statements of income and retained earnings and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated February 7, 1985 (and March 6, 1985 as to certain items), our opinion on the 1984 and 1983 consolidated financial statements was qualified subject to the adjustments, if any, as might have been required had the outcome of certain uncertainties, including confirmation of a plan of reorganization, the attainment of profitable operations and the ability to generate sufficient funds to meet obligations been known. The Company's plan of reorganization was consummated during 1985 (see Note A). In addition, the Company achieved profitable operations and has generated sufficient funds to meet its obligations. Accordingly, our present opinion on the 1984 and 1983 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Revere Copper and Brass Incorporated and Subsidiaries as of December 31, 1985 and 1984, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Certified Public Accountants.*

NOTES TO FINANCIAL STATEMENTS

A. Proceedings Under Chapter 11—On October 27, 1982 the Company filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the Southern District of New York. The Company's proposed plan of reorganization and related disclosure statement were filed May 1, 1985 with the Bankruptcy Court. On June 6, 1985, the Court approved the disclosure statement and authorized solicitation of votes on the plan. Following approval by the creditors and stockholders and a hearing on confirmation of the plan, an order of the Court confirming the plan was entered on July 30, 1985. The plan's consummation date was established as August 12, 1985 and distributions specified by the plan were then begun.

The plan provided that administration expenses and agreed pre-petition claims estimated to aggregate $268 million (net of prior settlements) were to be settled by cash payments, the issuance or assumption of indebtedness and the issuance of common stock equal in total, as valued under the plan, to such expenses and claims except for debt extinguishment resulting from the election by certain general creditors to settle their claims for less than the agreed amount thereof. The plan also provided for interest payments to be made with respect to certain cash distributions and indebtedness issued or assumed, generally for the period from January 1, 1985 to August 12, 1985. (The net amount of such interest payments and gain on debt extinguishment recorded in 1985 resulted in a charge of $280,000, net of applicable income taxes, which has been shown in the income statement as an extraordinary item.)

In 1985, in settlement of claims pursuant to the plan, the Company made cash payments and offset receivables aggregating $112 million, issued or assumed indebtedness of $115 million and issued common stock valued for purposes of the plan at $25.6 million. The Company estimates that the additional amount to be paid in settlement of claims is $15 million, for which provision has been made in current liabilities at December 31, 1985, and believes that the resolution of remaining claims will not have a material effect on its financial position.

Board of Directors and Stockholders
Tesoro Petroleum Corporation

We have examined the consolidated balance sheets of Tesoro Petroleum Corporation and subsidiaries as of September 30, 1985 and 1984 and the related statements of operations, common stock and other stockholders' equity and changes in financial position for each of the three years in the period ended September 30, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

During March 1981, the Company surrendered all of its common stock investment in Commonwealth Oil Refining Company, Inc. (Corco) to Corco and also significantly reduced the carrying value of its advances to Corco, as discussed in Note E. This surrender and write-down resulted in substantial tax refunds and reductions. The Internal Revenue Service may contest such income tax refunds and reductions, particularly in view of two 1984 decisions in which the United States Tax Court overruled a series of prior cases and held that a shareholder's non-pro rata surrender of a portion of his stock to the issuing corporation should be treated as a nondeductible contribution to capital rather than an ordinary loss. While the Company believes its facts differ significantly from the facts of the above two decisions, the Company is unable to predict the eventual outcome of any such contest.

As described in Note H, the Department of Energy (DOE) has been involved in a continuing audit and special investigations of the Company for a number of years. While there are no formal enforcement orders pending against the Company, the DOE has issued a notice of probable violation and two proposed remedial orders alleging certain overcharges. Various issues concerning the interpretation of regulations have been discussed with the DOE, some of which could involve significant amounts and which may result in formal orders requiring remedial action. The Company has denied and intends to contest all claims asserted by the DOE. Based on recent developments involving other companies, the DOE may prevail on certain allegations which would adversely affect the Company. The Company cannot estimate the total claims which the DOE may ultimately assert and, accordingly, cannot predict the eventual outcome of these matters, or the range of possible loss.

In our report dated December 13, 1984, our opinion on the 1984 and 1983 financial statements was qualified as being subject to the possible effects of such adjustments, if any, as might have been required had the outcome of the uncertainties relating to the realization of the Company's investment in Trinidad-Tesoro Petroleum Company Limited (Trinidad-Tesoro) been known. As explained in Note B, subsequent to September 30, 1985, the board of directors of Trinidad-Tesoro declared dividends of $71,500,000 to the Company and the Company subsequently sold this investment to the Government of Trinidad and Tobago. As a result of these dividend and sales transactions, the Company has recorded a write-down of its investment of approximately $8,600,000 and provided taxes of approximately $42,800,000. Accordingly, our opinion on the 1984 and 1983 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, subject to the possible effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties regarding Corco and the DOE as discussed above been known, the consolidated financial statements referred to above present fairly the financial position of Tesoro Petroleum Corporation and subsidiaries at September 30, 1985 and 1984, and the results of their operations and the changes in their financial position for each of the three years in the period ended September 30, 1985 in conformity with generally accepted accounting principles applied on a consistent basis.—*Independent Accountants' Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B (In Part): Investments

Trinidad-Tesoro Petroleum Company Limited

The Company's investment in Trinidad-Tesoro included its investment in 49.9% of the outstanding capital stock and equity in undistributed earnings through September 30, 1982. The other 50.1% interest was owned by the Government of Trinidad and Tobago. During fiscal 1982, the Board of Directors of the Company directed management to proceed with negotiations for the sale of the Company's investment in Trinidad-Tesoro.

Subsequent to September 30, 1985, the directors of Trinidad-Tesoro declared dividends of $71,500,000 to the Company. Of these dividends, $50,000,000 was received as a cash distribution in October 1985 and the remainder will be received between November 1985 and April 1986 as distributions of 1,000,000 barrels of No. 6 residual fuel oil. On November 15, 1985, the Government of Trinidad and Tobago purchased the Company's 49.9% interest in Trinidad-Tesoro for 3,230,000 barrels of No. 6 residual fuel oil to be delivered between May 1986 and November 1987 at the rate of 6,000 barrels per day. The undiscounted value of this sale is approximately $69,445,000 which has been discounted at 8.35% to a net present value of approximately $62,283,000. As a result, the Company wrote down its investment in Trinidad-Tesoro by $8,577,000 during 1985. In addition, foreign and domestic taxes on these transactions in the amount of $42,800,000 have been provided at September 30, 1985. These taxes had not previously been reasonably determinable due to the various uncertainties regarding the possible sale or other disposition of the Company's investment.

Change in Auditors

Board of Directors and Shareholders
Bobbie Brooks, Incorporated

We have examined the consolidated balance sheet of Bobbie Brooks, Incorporated and subsidiaries as of December 31, 1985 and the related consolidated statements of operations, changes in shareholders' equity and changes in financial position for the eight months then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of Bobbie Brooks, Incorporated and subsidiaries for the years ended April 27, 1985 and April 28, 1984 were examined by other auditors whose report thereon dated July 12, 1985 expressed an unqualified opinion on those statements.

In our opinion, the 1985 financial statements referred to above present fairly the consolidated financial position of Bobbie Brooks, Incorporated and subsidiaries as of December 31, 1985 and the consolidated results of their operations and changes in their financial position for the eight months then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Report.*

To the Board of Directors
National Intergroup, Inc.
Pittsburgh, PA 15222

We have examined the consolidated balance sheet of National Intergroup, Inc. and consolidated subsidiaries as of December 31, 1985 and the related statements of consolidated income (loss), stockholders' equity and redeemable preferred stock, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We did not examine the financial statements of First Nationwide Financial Corporation or National Steel Corporation, the Corporation's investments in which are, or have been, accounted for by use of the equity method. The Corporation's equity of $44,218,000 in the net loss of National Steel Corporation and $56,266,000 in the net income of First Nationwide Financial Corporation for the year ended December 31, 1985 and equity of $295,374,000 in National Steel Corporation's net assets at December 31, 1985 are included in the accompanying consolidated financial statements. The financial statements of those companies were examined by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such companies, is based solely upon the reports of the other independent accountants.

The financial statements of National Intergroup, Inc. for each of the two years in the period ended December 31, 1984 were examined by other independent accountants whose report, dated April 9, 1985, expressed an unqualified opinion on those statements.

In our opinion, based upon our examination and the reports of other independent accountants referred to above, the consolidated financial statements for 1985 present fairly the financial position of National Intergroup, Inc. and consolidated subsidiaries at December 31, 1985 and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Report of Independent Accountants.*

To The Stockholders and
Board of Directors of
Pentron Industries, Inc.:

We have examined the consolidated balance sheet of Pentron Industries, Inc. and subsidiaries as of June 30, 1985 and the related consolidated statements of operations, changes in stockholders' equity (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As shown in the consolidated financial statements, the Company incurred a substantial loss in 1985, and had an excess of liabilities over assets at June 30, 1985. As discussed in Note 12 to the consolidated financial statements, the Company was in violation of a loan agreement that would have required the acceleration of $3,900,000 of long-term debt. This violation was waived by the lender subject to the Company's ability to meet the loan covenant requirement in the future. The Company's 1986 business plan includes (1) the conversion of long-term debt to common stock as described in Note 19 to the consolidated financial statements and (2) anticipates future operating profits. The Company's ability to attain future operating profits, which may be necessary to permit the realization of assets and satisfaction of liabilities in the ordinary course of business, is uncertain. The financial statements do not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should the Company be unable to continue in its present form.

In our opinion, subject to the effects on the 1985 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty about the recoverability and classification of liabilities referred to in the preceding paragraph been known, the 1985 financial statements referred to above present fairly the consolidated financial position of Pentron Industries, Inc. and subsidiaries as of June 30, 1985 and the consolidated results of their operations and the consolidated changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Auditors' Report.*

To the Stockholders and
Board of Directors of
Pentron Industries, Inc.:

We have examined the consolidated balance sheet of Pentron Industries, Inc. and subsidiaries as of June 30, 1984 and the related consolidated statements of operations, changes in stockholders' equity (deficit) and changes in financial position for each of the two years in the period ended June 30, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As shown in the consolidated financial statements, the Company incurred substantial losses in 1984 and 1983 and has an excess of liabilities over assets at June 30, 1984. In addition, the Company's violation of a loan agreement, which would have permitted the acceleration of substantially all long-term debt, was waived by the bank through June 30, 1985, subject to monthly defined minimum tangible net worth requirements. The Company's 1985 business plan contemplates reduced operating losses and the infusion of additional capital into the Company. The Company's ability to achieve the foregoing elements of its business plan, which may be necessary to permit the realization of assets and satisfaction of liabilities in the ordinary course of business, is uncertain. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in its present form.

In our opinion, subject to the effects on the 1984 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the financial statements referred to above present fairly the consolidated financial position of Pentron Industries, Inc. and subsidiaries as of June 30, 1984 and the consolidated results of their operations and consolidated changes in financial position for each of the two years in the period ended June 30, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Report.*

To The Board of Directors and Stockholders of
Walbro Corporation:

We have examined the consolidated balance sheets of Walbro Corporation (a Delaware corporation) and subsidiaries as of December 31, 1985 and the related consolidated statements of income, stockholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements for the years ended December 31, 1984 and 1983 were examined by other auditors whose report thereon dated February 7, 1985 (except with respect to the matter discussed in Note 2, as to which the date is February 18, 1986) expressed an unqualified opinion on those statements.

In our opinion, the financial statements referred to above present fairly the financial position of Walbro Corporation and subsidiaries as of December 31, 1985 and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles which, except for the change (with which we concur) in the method of accounting for pension expense discussed in Note 6, have been applied on a basis consistent with that of the preceding year.—*Auditors' Report.*

TABLE 6-6: OPINION EXPRESSED ON SUPPLEMENTARY STATEMENTS OR SCHEDULES

	Number of Companies			
	1985	1984	1983	1982
Schedules presented to comply with SEC regulations	14	12	5	5
Financial statements of subsidiaries	5	6	9	10
Historical summaries or five year summaries of operations	2	1	2	2
Other—financial highlights, pro forma data, etc.	2	3	3	4

OPINIONS EXPRESSED ON SUPPLEMENTARY STATEMENTS OR SCHEDULES

Table 6-6 shows that occasionally the annual reports of the survey companies present either an auditors' report which expresses an opinion on both the basic financial statements of a company and supplementary statements or schedules, or an auditors' report which expresses an opinion on the basic financial statements and an auditors' report which expresses an opinion on supplementary statements or schedules. Examples of auditors' reports expressing opinions on financial statements or schedules other than the basic financial statements follow.

Financial Statements of Subsidiary

Board of Directors and Shareholders
Fruehauf Corporation
Detroit, Michigan

We have examined the consolidated balance sheets of Fruehauf Corporation and consolidated subsidiaries as of December 31, 1985 and 1984, and the related statements of net earnings, changes in shareholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1985. We have also examined the consolidated balance sheets of Fruehauf Finance Company and consolidated subsidiaries as of December 31, 1985 and 1984, and the related statements of net earnings and retained earnings and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Fruehauf Corporation and consolidated subsidiaries and the consolidated financial position of Fruehauf Finance Company and consolidated subsidiaries at December 31, 1985 and 1984, and the respective consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

SEC Schedules

To the Board of Directors and Stockholders of
The Federal Company:

We have examined the consolidated balance sheets of The Federal Company and subsidiaries as of June 1, 1985, June 2, 1984, May 28, 1983, May 29, 1982, and May 30, 1981, and the related consolidated statements of income and retained earnings and changes in financial position for each of the five years in the period ended June 1, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of The Federal Company and subsidiaries as of June 1, 1985, June 2, 1984, May 28, 1983, May 29, 1982, and May 30, 1981, and the results of their operations and changes in their financial position for each of the five years in the period ended June 1, 1985, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change (with which we concur) in the method of accounting for vacation pay, as explained in Note 11 to the financial statements.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules on pages 27–30 are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.—*Report of Independent Public Accountants.*

REPORT OF MANAGEMENT

The 1985 annual reports of 279 survey companies included a Report of Management. Examples of management reports follow.

ALUMINUM COMPANY OF AMERICA (ALCOA)

MANAGEMENT'S REPORT TO ALCOA SHAREHOLDERS

The accompanying financial statements of Alcoa and consolidated subsidiaries were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in this annual report is consistent with that in the financial statements.

The company maintains a system of internal controls, including accounting controls, and a strong program of internal auditing. The system of controls provides for appropriate division of responsibility and the application of policies and procedures that are consistent with high standards of accounting and administration. The company believes that its system of internal controls provides reasonable assurance that assets are safeguarded against losses from unauthorized use or disposition and that financial records are reliable for use in preparing financial statements.

The Audit Committee of the Board of Directors, composed solely of directors who are not officers or employees, meets regularly with management, with the company's internal auditors, and with its independent certified public accountants, to discuss their evaluation of internal accounting controls and the quality of financial reporting. The independent auditors and the internal auditors have free access to the Audit Committee, without management's presence.

Management also recognizes its responsibility for conducting the company's affairs according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in key policy statements issued from time to time regarding, among other things, conduct of its business activities within the laws of the host countries in which the company operates and potentially conflicting outside business interests of its employees. The company maintains a systematic program to assess compliance with these policies.

Chairman of the Board
and Chief Executive Officer
Senior Vice President—Finance

CHROMALLOY AMERICAN CORPORATION

REPORT OF MANAGEMENT

The management of Chromalloy American Corporation (the Company) is responsible for the preparation and integrity of all information contained in the accompanying consolidated financial statements and other sections of the annual report. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and the other information in the annual report is consistent with those statements. In preparing the financial statements, management makes informed judgments and estimates of the expected effects of certain events and transactions.

In meeting its responsibility for the reliability of the financial statements, management relies on the Company's system of internal accounting controls. While no system can ensure elimination of all errors and irregularities, this system is designed to provide reasonable assurance assets are safeguarded, transactions are executed in accordance with management's authorization and financial records are reliable as a basis for preparation of financial statements. This system includes the selection and training of qualified personnel, an organizational structure providing appropriate delegation of authority and segregation of responsibility, the establishment and communication of accounting and business policies throughout the organization and the conduct of internal audits.

The Board of Directors pursues its oversight role for the Company's financial statements through its Audit Committee, which is composed solely of directors who are not officers or employees of the Company. This Committee is responsible for selecting, subject to the Board of Directors' approval, the Company's independent accountants and determining their independence. The Audit Committee meets periodically with management and its independent accountants, both jointly and separately, to review the discharge of their responsibilities. Matters discussed include the scope and major findings of the independent accountants' examination, recent and prospective statements of the Financial Accounting Standards Board and their impact on the Company, the adequacy of the system of internal accounting controls, the quality and depth of the staffing of the Company's financial departments and the quality of the financial reporting of the Company.

The independent accountants are engaged to examine the Company's financial statements and to express their opinion thereon. Their examination is conducted in accordance with generally accepted auditing standards, which include procedures they consider necessary in the circumstances to enable them to formulate an opinion as to whether the financial statements present fairly the financial position, results of operations, and changes in financial position of the Company in conformity with generally accepted accounting principles.

LIBBEY-OWENS-FORD COMPANY

MANAGEMENT'S STATEMENT ON RESPONSIBILITY FOR FINANCIAL STATEMENTS

Shareholders and Board of Directors
Libbey-Owens-Ford Company
Toledo, Ohio

The management of Libbey-Owens-Ford Company has prepared the financial statements as well as the other data included in this annual report and has primary responsibility for the integrity and objectivity of the financial information and its presentation. The financial statements were prepared in accordance with generally accepted accounting principles, consistently applied, and contained estimates and judgments by management as required.

The company maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and are properly recorded, and that accounting records may be relied upon for preparation of financial statements. Management is responsible for maintenance of these systems, which is accomplished through communication of established written codes of conduct, policies and procedures, careful selection and training of qualified personnel, and appropriate delegation of authority and segregation of responsibilities. Adherence to these controls, policies and procedures is monitored and evaluated on a periodic basis by the company's internal and external auditors.

The company's independent auditors provide an objective examination of Libbey-Owens-Ford Company's financial statements. They evaluate the company's internal accounting controls and perform tests of procedures and accounting records to enable them to set forth their opinion as expressed on this page. The independent auditors also prepare recommendations for improving policies and practices. Such recommendations are communicated in accordance with company policy to the individuals responsible for implementation.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the independent auditors, internal auditors and financial management to review their respective activities and to satisfy itself that each is properly discharging its responsibilities. Both the independent auditors and internal auditors have direct access to the Audit Committee, with or without the presence of management, to discuss the scope and results of their audits, their comments on the adequacy of internal accounting controls and the quality of financial reporting.

Chairman of the Board
and Chief Executive Officer
Vice President—
Finance

McDERMOTT INTERNATIONAL, INC.

COMPANY REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

McDermott International has prepared the consolidated financial statements and related financial information included in this report. McDermott International has the primary responsibility for the financial statements and other financial information and for ascertaining that the data fairly reflect the financial position and results of operations of McDermott International. The financial statements were prepared in accordance with generally accepted accounting principles appropriate in the circumstances, and necessarily reflect estimates and judgments by appropriate officers of McDermott International with appropriate consideration given to materiality.

McDermott International believes that it maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that the financial records are adequate and can be relied upon to produce financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control must not exceed the related benefits. Although accounting control procedures are designed to achieve these objectives, it must be recognized that errors or irregularities may nevertheless occur. McDermott International seeks to assure the objectivity and integrity of its accounts by its selection of qualified personnel, by organizational arrangements that provide an appropriate division of responsibility and by the establishment and communication of sound business policies and procedures throughout the organization. McDermott International believes that its accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected.

McDermott International's accompanying consolidated financial statements have been examined by its certified public accountants, who provide McDermott International with expert advice on the application of U.S. generally accepted accounting principles to McDermott International's business and also provide an objective assessment of the degree to which McDermott International meets its responsibility for the fairness of financial reporting. They regularly evaluate the system of internal accounting controls and perform such tests and other procedures as they deem necessary to reach and express an opinion on the fairness of the financial statements. The report of the certified public accountants appears elsewhere herein.

The Board of Directors pursues its responsibility for McDermott International's consolidated financial statements through its Audit Committee which is composed solely of directors who are not officers or employees of McDermott International. The Audit Committee meets periodically with the certified public accountants, management and the internal auditors to review matters relating to the quality of financial reporting and internal accounting control and the nature, extent and results of the audit effort. In addition, the Audit Committee is responsible for recommending to the Board of Directors the engagement of certified public accountants for McDermott International, who in turn submit the engagement to the stockholders for their approval. The certified public accountants, as well as the internal auditors, have free access to the Audit Committee.

MORTON THIOKOL, INC.

REPORT OF MANAGEMENT

We have prepared the accompanying consolidated financial statements of Morton Thiokol, Inc. in conformity with generally accepted accounting principles appropriate in the circumstances. The integrity and objectivity of data in these financial statements are the responsibility of management. Based on currently available information, management makes informed judgments and estimates of the effects of certain events and transactions when preparing the financial statements. Financial information included elsewhere in this Annual Report is consistent with that contained in the financial statements.

We maintain a highly developed accounting system and controls to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for preparing financial statements and maintaining accountability for assets. However, there are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived and that the evaluation of those factors requires estimates and judgments by management. The Company's systems provide such reasonable assurance.

The functioning of the accounting system and controls over it are reviewed by an extensive program of internal audits and by the Company's independent auditors. The responsibility of the Board of Directors for the Company's financial statements is exercised through its Audit Committee which is composed of Directors who are not Company employees. The Audit Committee recommends to the Board of Directors the selection of the independent auditors and reviews their fee arrangements. It meets periodically with management, the internal auditors and the independent auditors to assure that each is carrying out its responsibilities. The independent auditors have full and free access to the Audit Committee to discuss auditing and financial reporting matters.

The Company's legal counsel has reviewed the Company's position with respect to litigation, claims, assessments, and illegal or questionable acts, has communicated that position to our independent auditors and is satisfied that it is properly disclosed in the financial statements.

The Company has prepared and distributed to its employees a statement of its policies prohibiting certain activities deemed illegal, unethical or against the best interest of the Company. Certification of compliance with such policies is required and any apparent problems are reviewed by a committee of the Board of Directors. In consultation with our independent auditors we have developed and instituted additional internal controls and internal audit procedures designed to prevent or detect violations of those policies. We believe that the policies and procedures provide reasonable assurance that our operations are conducted in conformity with the law and with a high standard of business conduct.

Vice President Finance

WESTINGHOUSE ELECTRIC CORPORATION

REPORT OF MANAGEMENT

The Corporation has prepared the consolidated financial statements and related financial information included in this Annual Report. Management has the primary responsibility for the financial statements and other financial information and for ascertaining that the data fairly reflect the financial position and results of operations of the Corporation. The financial statements were prepared in accordance with generally accepted accounting principles appropriate in the circumstances, and necessarily include amounts that are based on best estimates and judgments with appropriate consideration given to materiality. Financial information included elsewhere in this Annual Report is presented on a basis consistent with the financial statements.

The Corporation maintains a system of internal accounting controls, supported by adequate documentation, to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation. Limitations exist in any system of internal accounting controls based upon the recognition that the cost of the system should not exceed the benefits derived. Westinghouse believes its system of internal accounting controls, augmented by its internal auditing function, appropriately balances the cost/benefit relationship.

The independent accountants provide an objective assessment of the degree to which management meets its responsibility for fairness of financial reporting. They regularly evaluate the system of internal accounting controls and perform such tests and other procedures as they deem necessary to express an opinion on the fairness of the financial statements.

The Board of Directors pursues its responsibility for the Corporation's financial statements through its Audit Review Committee which is composed solely of directors who are not officers or employees of the Corporation. The Audit Review Committee meets regularly with the independent accountants, management and the internal auditors. The independent accountants have direct access to the Audit Review Committee, with and without the presence of management representatives, to discuss the scope and results of their audit work and their comments on the adequacy of internal accounting controls and the quality of financial reporting.

We believe that the Corporation's policies and procedures, including its system of internal accounting controls, provide reasonable assurance that the financial statements are prepared in accordance with the applicable securities laws and with a corresponding standard of business conduct.

Appendix of 600 Companies

List of 600 Companies on Which Tabulations are Based

Co. No.		*Month in which fiscal year ends
1	ADDSCO Industries, Inc.	6
2	AEL Industries, Inc.	2
3	AFG Industries, Inc.	12
4	AM International, Inc.	7
5	AMAX Inc.	12
6	AMETEK, Inc.	12
7	AMP Incorporated and Pamcor, Inc.	12
8	AMSTED Industries Incorporated	9
9	ASARCO Incorporated	12
10	Abbott Laboratories	12
11	Acme-Cleveland Corporation	9
12	Acme Precision Products, Inc.	9
13	Action Industries, Inc.	6
14	Adams-Millis Corporation	12
15	Adams-Russell Co., Inc.	9
16	Air Products and Chemicals, Inc.	9
17	Albertson's, Inc.	1
18	Alco Standard Corporation	9
19	Allegheny International, Inc.	12
20	Allied-Signal Inc.	12
21	Allied Stores Corporation	1
22	Allis-Chalmers Corporation	12
23	Alpha Industries, Inc.	3
24	Aluminum Company of America	12
25	Amcast Industrial Corporation	8
26	Amerada Hess Corporation	12
27	American Bakeries Company	12
28	American Biltrite Inc.	12
29	American Brands, Inc.	12
30	American Building Maintenance Industries	10
31	American Can Company	12
32	American Cyanamid Company	12
33	American Greetings Corporation	2
34	American Hoist & Derrick Company	11
35	American Home Products Corporation	12
36	American Maize-Products Company	12
37	American Medical International, Inc.	8
38	American Motors Corporation	12
39	American Petrofina, Incorporated	12
40	The American Ship Building Company	9
41	American Standard Inc.	12
42	American Stores Company	1
43	American Telephone and Telegraph Company	12
44	Ameron, Inc.	11
45	Amoco Corporation	12
46	Ampco-Pittsburgh Corporation	12
47	Anadite, Inc.	10
48	Analogic Corporation	7
49	Anchor Hocking Corporation	12
50	Anderson, Clayton & Co.	6
51	Anheuser-Busch Companies, Inc.	12
52	Apple Computer, Inc.	9
53	Archer Daniels Midland Company	6
54	Arden Group, Inc.	12
55	Armada Corporation	12
56	Armco	12
57	Armstrong World Industries, Inc.	12
58	The Arundel Corporation	12
59	Arvin Industries, Inc.	12
60	Ashland Oil, Inc.	9
61	Associated Dry Goods Corporation	1
62	Astrosystems, Inc.	6
63	Athlone Industries, Inc.	12
64	Atlantic Richfield Company	12
65	Avnet, Inc.	6
66	Avon Products, Inc.	12
67	BMC Industries, Inc.	12
68	Badger Meter, Inc.	12
69	Baird Corporation	9
70	Baker International Corporation	9
71	Ball Corporation	12
72	Barco of California	6
73	The Barden Corporation	10
74	Bausch & Lomb Incorporated	12
75	Baxter Travenol Laboratories, Inc.	12
76	Beatrice Companies, Inc.	2
77	Becor Western Inc.	12
78	Becton, Dickinson and Company	9
79	Belding Heminway Company, Inc.	12
80	Bell & Howell Company	12
81	Bemis Company, Inc.	12
82	Bergen Brunswig Corporation	8
83	Bethlehem Steel Corporation	12
84	Bird Incorporated	12
85	The Black & Decker Corporation	9
86	Bobbie Brooks, Incorporated	12
87	The Boeing Company	12
88	Boise Cascade Corporation	12
89	Borden, Inc.	12
90	Borg-Warner Corporation	12
91	Bowne & Co., Inc.	10

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends	Co. No.		*Month in which fiscal year ends
92	Brenco, Incorporated	12	155	Crown Zellerbach	12
93	Briggs & Stratton Corporation	6	156	Culbro Corporation	12
94	Bristol-Myers Company	12	157	Cummins Engine Company, Inc.	12
95	Brockway, Inc. (NY)	12	158	Curtiss-Wright Corporation	12
96	Brown & Sharpe Manufacturing Company	12	159	Cyclops Corporation	12
97	Brown Group, Inc.	10	160	DSC Communications Corporation	12
98	Browning-Ferris Industries, Inc.	9	161	Dana Corporation	12
99	Brunswick Corporation	12	162	Dart & Kraft, Inc.	12
100	Burlington Industries, Inc.	9	163	Data General Corporation	9
101	Burndy Corporation	12	164	Dayco Corporation	10
102	Burroughs Corporation	12	165	Dayton Hudson Corporation	1
103	CBI Industries, Inc.	12	166	Dean Foods Company	12
104	CBS Inc.	12	167	Deere & Company	10
105	CMI Corporation	12	168	Deluxe Check Printers, Incorporated	12
106	CPC International Inc.	12	169	Dennison Manufacturing Company	12
107	CSP Inc.	8	170	Designcraft Industries, Inc.	2
108	Cabot Corporation	9	171	Diamond Shamrock Corporation	12
109	Caesars World, Inc.	7	172	DiGiorgio Corporation	12
110	Campbell Soup Company	7	173	Digital Equipment Corporation	6
111	Capital Cities/ABC, Inc.	12	174	Walt Disney Productions	9
112	Castle & Cooke, Inc.	6	175	R. R. Donnelley & Sons Company	12
113	Caterpillar Tractor Co.	12	176	Dover Corporation	12
114	Celanese Corporation	12	177	The Dow Chemical Company	12
115	Centronics Data Computer Corp.	12	178	Dow Jones & Company, Inc.	12
116	CertainTeed Corporation	12	179	Doyle Dane Bernbach Group Inc.	12
117	Champion International Corporation	12	180	Dravo Corporation	12
118	Champion Spark Plug Company	12	181	Dresser Industries, Inc.	10
119	The Charter Company	12	182	The Dun & Bradstreet Corporation	12
120	Chesebrough-Pond's Inc.	12	183	Duplex Products Inc.	10
121	Chevron Corporation	12	184	E.I. du Pont de Nemours & Company	12
122	Chicago Pacific Corporation	12	185	Durr-Fillauer Medical, Inc.	12
123	Chicago Pneumatic Tool Company	12	186	Dynamics Corporation of America	12
124	Chock Full o'Nuts Corporation	7	187	EG & G, Inc.	12
125	Chromalloy American Corporation	12	188	Eagle-Picher Industries, Inc.	11
126	Chrysler Corporation	12	189	Easco Corporation	12
127	Cincinnati Milacron Inc.	12	190	The Eastern Company	12
128	Clark Equipment Company	12	191	Eastman Kodak Company	12
129	Clarostat Mfg. Co., Inc.	12	192	Eaton Corporation	12
130	Cleveland-Cliffs Inc.	12	193	Echlin Inc.	8
131	The Clorox Company	6	194	Elcor Corporation	6
132	The Coastal Corporation	12	195	Emerson Electric Co.	9
133	The Coca-Cola Company	12	196	Emerson Radio Corp.	3
134	Coleco Industries, Inc.	12	197	Emhart Corporation	12
135	Colgate-Palmolive Company	12	198	Engelhard Corporation	12
136	Collins & Aikman Corporation	2	199	Ethyl Corporation	12
137	Collins Industries, Inc.	10	200	Everest & Jennings International	12
138	Colt Industries Inc.	12	201	Ex-Cell-O Corporation	11
139	Combustion Engineering, Inc.	12	202	Exxon Corporation	12
140	Commercial Metals Company	8	203	FMC Corporation	12
141	Compugraphic Corporation	12	204	Fairchild Industries, Inc.	12
142	ConAgra, Inc.	5	205	Fansteel Inc.	12
143	Concord Fabrics Inc.	8	206	Fedders Corporation	12
144	Consolidated Papers, Inc.	12	207	The Federal Company	5
145	Control Data Corporation	12	208	Federal-Mogul Corporation	12
146	Cooper Industries, Inc.	12	209	Federated Department Stores, Inc.	1
147	Adolph Coors Company	12	210	The Firestone Tire & Rubber Company	10
148	Copperweld Corporation	12	211	Fischbach Corporation	9
149	Corning Glass Works	12	212	Fleetwood Enterprises, Inc.	12
150	Courier Corporation	9	213	Fleming Companies, Inc.	12
151	Craddock-Terry Shoe Corporation	9	214	Flowers Industries, Inc.	6
152	Crane Co.	12	215	John Fluke Mfg. Co., Inc.	9
153	Crown Central Petroleum Corporation	12	216	Fluor Corporation	10
154	Crown Cork & Seal Company, Inc.	12	217	The Fluorocarbon Company	1

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
218	Foote Mineral Company	12
219	Ford Motor Company	12
220	Fort Howard Paper Company	12
221	Foster Wheeler Corporation	12
222	Freeport-McMoRan Inc.	12
223	Fruehauf Corporation	12
224	Fuqua Industries, Inc.	12
225	GAF Corporation	12
226	GATX Corporation	12
227	GTI Corporation	12
228	Gannett Co., Inc.	12
229	Gearhart Industries, Inc.	1
230	GenCorp	11
231	General Cinema Corporation	12
232	General Dynamics Corporation	12
233	General Electric Company	12
234	General Foods Corporation	3
235	General Host Corporation	12
236	General Instrument Corporation	2
237	General Mills, Inc.	5
238	General Motors Corporation	12
239	General Refractories Company	12
240	General Signal Corporation	12
241	Genesco Inc.	1
242	Genuine Parts Company	12
243	Georgia-Pacific Corporation	12
244	Gerber Products Company	3
245	Giant Food Inc.	2
246	The Gillette Company	12
247	Golden Enterprises, Inc.	5
248	The BFGoodrich Company	12
249	The Goodyear Tire & Rubber Company	12
250	Gould Inc.	12
251	Goulds Pumps, Incorporated	12
252	W.R. Grace & Co.	12
253	W.W. Grainger, Inc.	12
254	The Great Atlantic & Pacific Tea Company, Inc.	2
255	Great Northern Nekoosa Corporation	12
256	Greif Bros. Corporation	12
257	The Greyhound Corporation	12
258	Grumman Corporation	12
259	Guilford Mills, Inc.	6
260	Gulf & Western Industries, Inc.	7
261	Gulf Resources & Chemical Corporation	12
262	Gulton Industries, Inc.	2
263	HON Industries Inc.	12
264	Halliburton Company	12
265	Hammermill Paper Company	12
266	Hampton Industries, Inc.	12
267	Handy & Harman	12
268	Harnischfeger Corporation	10
269	Harris Corporation	6
270	Harsco Corporation	12
271	Hartmarx Corporation	11
272	Hazeltine Corporation	12
273	Hecla Mining Company	12
274	G. Heileman Brewing Company, Inc.	12
275	H.J. Heinz Company	4
276	Hercules Incorporated	12
277	Hershey Foods Corporation	12
278	Hewlett-Packard Company	10
279	Holly Sugar Corporation	3

Co. No.		*Month in which fiscal year ends
280	Homasote Company	12
281	Honeywell Inc.	12
282	Geo. A. Hormel & Company	10
283	Hughes Supply, Inc.	1
284	Hughes Tool Company	12
285	Humana Inc.	8
286	Hunt Manufacturing Co.	11
287	Hurco Companies, Inc.	10
288	IC Industries, Inc.	12
289	ICOT Corporation	7
290	IPCO Corporation	6
291	ITT Corporation	12
292	Ingersoll-Rand Company	12
293	Inland Steel Company	12
294	Insilco Corporation	12
295	Intel Corporation	12
296	Interco Incorporated	2
297	Interlake, Inc.	12
298	International Business Machines Corporation	12
299	International Harvester Company	10
300	International Minerals & Chemical Corporation	6
301	International Multifoods Corporation	2
302	International Paper Company	12
303	Interstate Bakeries Corporation	5
304	Iroquois Brands, Ltd.	12
305	JLG Industries, Inc.	7
306	JWT Group, Inc.	12
307	James River Corporation of Virginia	4
308	Johnson & Johnson	12
309	Johnson Controls, Inc.	9
310	Johnson Products Co., Inc.	8
311	Joslyn Corporation	12
312	Jostens, Inc.	6
313	Joy Manufacturing Company	9
314	K mart Corporation	1
315	Kaiser Alumnium & Chemical Corporation	12
316	Kaiser Cement Corporation	12
317	Kellogg Company	12
318	Kelly Services, Inc.	12
319	Kerr Glass Manufacturing Corporation	12
320	Kerr-McGee Corporation	12
321	Kevlin Microwave Corporation	5
322	Keystone Consolidated Industries, Inc.	6
323	Kidde, Inc.	12
324	Kimberly-Clark Corporation	12
325	Kinder-Care Learning Centers, Inc.	8
326	Knape & Vogt Manufacturing Company	6
327	Knight-Ridder Newspapers, Inc.	12
328	Koppers Company, Inc.	12
329	The Kroger Co.	12
330	Kuhlman Corporation	12
331	The LTV Corporation	12
332	LaBarge, Inc.	6
333	Laclede Steel Company	12
334	Lamaur Inc.	12
335	Lear Siegler, Inc.	6
336	Lee Enterprises, Incorporated	9
337	Leggett & Platt, Incorporated	12
338	Libbey-Owens-Ford Company	12
339	Eli Lilly and Company	12
340	Litton Industries, Inc.	7
341	Lockheed Corporation	12

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
342	Lone Star Industries, Inc.	12
343	The Louisiana Land and Exploration Company	12
344	Lowe's Companies, Inc.	1
345	The Lubrizol Corporation	12
346	Lucky Stores, Inc.	1
347	Lukens, Inc.	12
348	Lynch Corporation	12
349	M/A-COM, Inc.	9
350	MAPCO Inc.	12
351	MCA Inc.	12
352	MGM/UA Entertainment Co.	8
353	Mack Trucks, Inc.	12
354	Macmillan, Inc.	12
355	R. H. Macy & Co., Inc.	7
356	Magic Chef, Inc.	6
357	Manville Corporation	12
358	Marriott Corporation	12
359	Martin Marietta Corporation	12
360	Masco Corporation	12
361	Mattel, Inc.	12
362	The May Department Stores Company	1
363	The Maytag Company	12
364	McCormick & Company, Incorporated	11
365	McDermott International, Inc.	3
366	McDonald's Corporation	12
367	McDonnell Douglas Corporation	12
368	McGraw-Hill, Inc.	12
369	McKesson Corporation	3
370	The Mead Corporation	12
371	Medtronic, Inc.	4
372	Melville Corporation	12
373	Merck & Co., Inc.	12
374	Meredith Corporation	6
375	Met-Pro Corporation	1
376	Midland-Ross Corporation	12
377	Herman Miller, Inc.	5
378	Milton Roy Company	12
379	Minnesota Mining and Manufacturing Company	12
380	Mobil Corporation	12
381	Mohasco Corporation	12
382	Monfort of Colorado, Inc.	8
383	Monsanto Company	12
384	Moore McCormack Resources, Inc.	12
385	Morton Thiokol, Inc.	6
386	Mosinee Paper Corporation	12
387	Motorola, Inc.	12
388	Mott's Super Markets, Inc.	12
389	Munsingwear, Inc.	12
390	Murphy Oil Corporation	12
391	The Murray Ohio Manufacturing Company	12
392	NCR Corporation	12
393	NL Industries, Inc.	12
394	National Distillers and Chemical Corporation	12
395	National Gypsum Company	12
396	National Intergroup, Inc.	12
397	National Presto Industries, Inc.	12
398	National Semiconductor Corporation	5
399	National Service Industries, Inc.	8
400	The New York Times Company	12
401	Nike, Inc.	5
402	Nortek, Inc.	12
403	The North American Coal Corporation	12
404	North American Philips Corporation	12
405	Northrop Corporation	12
406	Norton Company	12
407	Oak Industries Inc.	12
408	Occidental Petroleum Corporation	12
409	Ogden Corporation	12
410	Ohio Ferro-Alloys Corporation	12
411	Olin Corporation	12
412	Orion Pictures Corporation	2
413	O'Sullivan Corporation	12
414	Outboard Marine Corporation	9
415	Owens-Corning Fiberglas Corporation	12
416	Owens-Illinois, Inc.	12
417	Oxford Industries, Inc.	5
418	PPG Industries, Inc.	12
419	Paccar Inc.	12
420	Pacific Resources, Inc.	12
421	Pall Corporation	7
422	Pantasote Inc.	12
423	Pantry Pride, Inc.	7
424	Parker Hannifin Corporation	6
425	The Parker Pen Company	2
426	The Penn Central Corporation	12
427	The Penn Traffic Company	1
428	J.C. Penney Company, Inc.	1
429	Pennwalt Corporation	12
430	Pennzoil Company	12
431	Pentron Industries, Inc.	6
432	PepsiCo, Inc.	12
433	The Perkin-Elmer Corporation	7
434	Pettibone Corporation	3
435	Pfizer Inc.	12
436	Phelps Dodge Corporation	12
437	Philip Morris Companies Inc.	12
438	Phillips Petroleum Company	12
439	The Pillsbury Company	5
440	Pioneer Hi-Bred International, Inc.	8
441	Pitney-Bowes Inc.	12
442	The Pittston Company	12
443	Polaroid Corporation	12
444	Portec, Inc.	12
445	H. K. Porter Company, Inc.	12
446	Potlatch Corporation	12
447	Prab Robots, Inc.	10
448	Pratt & Lambert, Inc.	12
449	Pratt-Read Corporation	6
450	Premier Industrial Corporation	5
451	The Procter & Gamble Company	6
452	Purolator Courier Corp.	12
453	The Quaker Oats Company	6
454	Quaker State Oil Refining Corporation	12
455	Quanex Corporation	10
456	RCA Corporation	12
457	RTE Corporation	12
458	Ralston Purina Company	9
459	Ranco Incorporated	9
460	Raymark Corporation	12
461	Raytheon Company	12
462	Reichhold Chemicals, Inc.	12
463	Revere Copper and Brass Incorporated	12
464	Rexnord Inc.	10

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
465	R. J. Reynolds Industries, Inc.	12
466	Reynolds Metals Company	12
467	Richardson-Vicks Inc.	6
468	H. H. Robertson Company	12
469	Rockwell International Corporation	9
470	Rohm and Haas Company	12
471	Rowe Furniture Corporation	11
472	Rubbermaid Incorporated	12
473	Russ Togs, Inc.	1
474	The Rymer Company	10
475	SAB Harmon Industries, Inc.	12
476	SCM Corporation	6
477	SPS Technologies, Inc.	12
478	Safeway Stores, Incorporated	12
479	Sara Lee Corporation	6
480	Savannah Foods & Industries, Inc.	12
481	Schering-Plough Corporation	12
482	Schlumberger Limited	12
483	Scholastic Inc.	5
484	Scope Industries	6
485	Scott Paper Company	12
486	Sears, Roebuck and Co.	12
487	Service Corporation International	4
488	Seton Company	12
489	Sheller-Globe Corporation	9
490	The Sherwin-Williams Company	12
491	Simkins Industries, Inc.	9
492	The Singer Company	12
493	Slattery Group Inc.	12
494	A. O. Smith Corporation	12
495	SmithKline Beckman Corporation	12
496	Snap-on Tools Corporation	12
497	The Southland Corporation	12
498	Sparton Corporation	6
499	Spectrum Control, Inc.	11
500	Spencer Companies, Inc.	5
501	Sperry Corporation	3
502	Springs Industries Inc.	12
503	Square D Company	12
504	Squibb Corporation	12
505	Staley Continental, Inc.	9
506	Stanadyne, Inc.	12
507	Standard Motor Products, Inc.	12
508	The Standard Oil Company	12
509	The Standard Register Company	12
510	Stanhome Inc.	12
511	The Stanley Works	12
512	The L. S. Starrett Company	6
513	Steiger Tractor, Inc.	9
514	Sterling Drug Inc.	12
515	J. P. Stevens & Co. Inc.	10
516	Stewart-Warner Corporation	12
517	Stone Container Corporation	12
518	The Stop & Shop Companies, Inc.	1
519	Sun Chemical Corporation	12
520	Sun Company, Inc.	12
521	Sunstrand Corporation	12
522	Super Valu Stores, Inc.	2
523	Supermarkets General Corporation	1
524	Supreme Equipment & Systems Corp.	7
525	Syntex Corporation	7
526	TRW Inc.	12
527	Talley Industries, Inc.	12
528	Tandy Corporation	6
529	Tasty Baking Company	12
530	Tecumseh Products Company	12
531	Teledyne, Inc.	12
532	Temple-Inland Inc.	12
533	Temtex Industries, Inc.	8
534	Tenneco Inc.	12
535	Tesoro Petroleum Corporation	9
536	Texaco Inc.	12
537	Texas Instruments Incorporated	12
538	Textron Inc.	12
539	Thetford Corporation	9
540	Time Incorporated	12
541	The Times Mirror Company	12
542	The Timken Company	12
543	Tonka Corporation	12
544	Tosco Corporation	12
545	Triangle Industries, Inc.	12
546	Triangle Pacific Corp.	12
547	Tribune Company	12
548	Tultex Corporation	11
549	Tyler Corporation	12
550	Tyson Foods, Inc.	9
551	UNC Resources, Inc.	12
552	USG Corporation	12
553	Unifi, Inc.	6
554	Union Camp Corporation	12
555	Union Carbide Corporation	12
556	Union Pacific Corporation	12
557	United Brands Company	3
558	United Foods, Inc.	2
559	United Merchants and Manufacturers, Inc.	6
560	The United States Shoe Corporation	1
561	United States Steel Corporation	12
562	United States Surgical Corporation	12
563	United States Tobacco Company	12
564	United Technologies Corporation	12
565	Univar Corporation	2
566	Universal Leaf Tobacco Company, Incorporated	6
567	Universal Voltronics Corp.	6
568	Unocal Corporation	12
569	The Upjohn Company	12
570	VF Corporation	12
571	Varian Associates, Inc.	9
572	The Vendo Company	12
573	Vulcan Materials Company	12
574	Walbro Corporation	12
575	Walgreen Co.	8
576	Jim Walter Corporation	8
577	Wang Laboratories, Inc.	6
578	Warner Communications Inc.	12
579	Warner-Lambert Company	12
580	Waste Management, Inc.	12
581	Wausau Paper Mills Company	8
582	West Point-Pepperell, Inc.	8
583	Westinghouse Electric Corporation	12
584	Westvaco Corporation	10
585	Wetterau Incorporated	3
586	Weyerhaeuser Company	12
587	Wheeling-Pittsburgh Steel Corporation	12
588	Whirlpool Corporation	12
589	Whittaker Corporation	10

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
590	Willamette Industries, Inc.	12
591	The Williams Companies	12
592	Wilson Foods Corporation	7
593	Winn-Dixie Stores, Inc	6
594	Winnebago Industries, Inc	8
595	Witco Corporation	12
596	F. W. Woolworth Co.	1
597	Wm. Wrigley Jr. Company	12
598	The Wurlitzer Company	3
599	Xerox Corporation	12
600	Zenith Electronics Corporation	12

COMPANIES ADDED FOR 1986 EDITION

American Greetings Corporation
American Medical International, Inc.
Apple Computer, Inc.
Ball Corporation
Barco of California
Bergen Brunswig Corporation
Borden, Inc.
Capital Cities/ABC, Inc.
Chicago Pacific Corporation
Cincinnati Milacron Inc.
Collins Industries, Inc.
Consolidated Papers, Inc.
Data General Corporation
Designcraft Industries, Inc.
DiGiorgio Corporation
EG & G, Inc.
Fischbach Corporation
Fleming Companies, Inc.
General Cinema Corporation
General Instrument Corporation
Genuine Parts Company
W.W. Grainger, Inc.
G. Heileman Brewing Company, Inc.
Hunt Manufacturing Co.
Kaiser Cement Corporation
Kelly Services, Inc.
Kerr Glass Manufacturing Corporation
Laclede Steel Company
M/A-COM, Inc.
Mack Trucks, Inc.
Masco Corporation
The New York Times Company
Nike, Inc.
RTE Corporation
Springs Industries Inc.
Tandy Corporation
Tasty Baking Company
Temple-Inland Inc.
Tribune Company
Tyler Corporation
Univar Corporation

Companies Included in Thirty-ninth Edition Not Included in this Edition of the Survey

AMF Incorporated
American Broadcasting Companies, Inc.
American Hospital Supply Corporation
Amstar Corporation
Central Soya Company, Inc.
The Cessna Aircraft Company
Clevepak Corporation
Cluett, Peabody & Co., Inc.
Compo Industries, Inc.
Consolidated Packaging Corporation
Erb Lumber Co.
First National Supermarkets, Inc.
Fotomat Corporation
The Hoover Company
International Banknote Company, Inc.
Kaiser Steel Corporation
Levi Strauss & Co.
M. Lowenstein Corporation
MEI Corporation
McGraw-Edison Company
Miller Technology & Communications Corporation
Nabisco Brands, Inc.
Northwest Industries, Inc.
Opelika Manufacturing Corporation
Palm Beach Incorporated
Revlon, Inc.
Rival Manufacturing Company
Rockcor, Inc.
SCOA Industries, Inc.
G.D. Searle & Co.
Seligman & Latz, Inc.
Shell Oil Company
The Signal Companies, Inc.
Standun Inc.
Stauffer Chemical Company
Struthers Wells Corporation
Swift Independent Corporation
Sybron Corporation
Uniroyal, Inc.
West Chemical Products, Inc.
White Consolidated Industries, Inc.

*Months numbered in sequence, January through December

Company Index

A

B

C

D

E

F

G

H

I

J

K

L

M

N

O

P

Q

R

S

T

U

V

W

X

Z

Subject Index

A

D

E

F

G

H

I

J

L

M

N

O

P

Q

R

S

T

U

V

W

Y

Z

TECHNICAL HOTLINE

The AICPA Technical Information Service answers inquiries about specific audit or accounting problems.

Call Toll Free

(800) 223-4158 (Except New York)
(800) 522-5430 (New York Only)

This service is free to AICPA members.

009861