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ACCOUNTING TRENDS & TECHNIQUES
1998—FIFTY-SECOND EDITION

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

1998
FIFTY-SECOND EDITION

ACCOUNTING TRENDS & TECHNIQUES

Annual Survey of Accounting Practices Followed in 600 Stockholders' Reports

AICPA

American Institute of Certified Public Accountants

1998
FIFTY-SECOND EDITION

ACCOUNTING TRENDS & TECHNIQUES

Fifty-second annual cumulative survey of the accounting aspects of the annual reports of 600 industrial, merchandising, and service 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 1, 1998.

Edited by

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Coordinator/Editor

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PREFACE

Accounting Trends & Techniques—1998, Fifty-Second 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, merchandising, and service companies for fiscal periods ending between February 22, 1997 and February 1, 1998.

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, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881; telephone (201) 938-3067.

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. 280 of the companies were listed in the fortieth (1986) edition and each retained the number assigned in that edition. The other 320 companies in the 1986 edition have been eliminated. Most of the eliminated companies were eliminated because of a business combination with another company. The identification numbers of the eliminated companies have not been reused. Numbers 601 through 920 have been assigned to the replacement companies. The 600 companies in the current edition are listed in the Appendix of 600 Companies both alphabetically and by their identification number.

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

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Section 1: General

TABLE 1-1: INDUSTRY CLASSIFICATIONS

	1997	1996	1995	1994
Advertising	3	3	2	2
Aerospace	19	19	19	20
Apparel, shoes	18	17	17	17
Beverages	6	6	6	6
Building materials, glass	15	16	15	14
Chemicals	32	32	33	34
Computer and data services	10	9	8	5
Computers, office equipment	21	21	22	24
Electronics, electrical equipment	51	52	54	55
Engineering, construction	8	6	6	6
Entertainment	3	2	3	5
Food	39	39	38	39
Forest and paper products	28	28	27	30
Furniture	9	9	8	7
Hotels, casinos	2	3	3	3
Industrial and farm equipment	41	43	43	44
Metal products	24	23	23	23
Metals	24	24	24	24
Mining, crude oil production	11	12	12	13
Motor vehicles and parts	25	24	26	25
Petroleum refining	23	23	23	23
Pharmaceuticals	13	13	13	13
Publishing, printing	21	20	20	20
Retailing-grocery stores	11	11	10	10
Retailing-other stores	21	20	18	17
Rubber and plastic products	12	11	12	11
Scientific, photographic, and control equipment	37	37	36	34
Soaps, cosmetics	9	9	8	8
Textiles	10	12	13	13
Tobacco	5	6	7	6
Transportation equipment	4	4	4	4
Waste management	4	4	3	3
Wholesalers	16	17	17	16
Not otherwise classified	25	25	27	26
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. Many of the survey companies have securities traded on one of the major stock exchanges—81% on the New York and 4% 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 amount of revenue.

TABLE 1-2: REVENUE OF SURVEY COMPANIES

	1997	1996	1995	1994
Less than $100,000,000	28	28	32	38
Between $100,000,000 and $500,000,000	76	86	101	101
Between $500,000,000 and $1,000,000,000	55	60	68	77
Between $1,000,000,000 and $2,000,000,000	132	120	114	116
More than $2,000,000,000	309	306	285	268
Total Companies	**600**	**600**	**600**	**600**

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

Rule 14a-3 of the Securities Exchange Act of 1934 states that annual reports furnished to stockholders in connection with the annual meetings of stockholders should include audited financial statements—balance sheets as of the 2 most recent fiscal years, and statements of income and of cash flows for each of the 3 most recent fiscal years. Rule 14a-3 also states that 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. Summary of selected financial data for last 5 years.
4. Description of business activities.
5. Segment information.
6. Listing of company directors and executive officers.
7. Market price of Company's common stock for each quarterly period within the two most recent fiscal years.
8. Management's discussion and analysis of financial condition and results of operations.
9. Quantitative and qualitative disclosures about market risk.

Examples of items 1, 3, 8, and 9 follow. Included with the item 8 examples are excerpts from management's discussion and analysis as to forward looking information and year 2000. Certain survey companies discussed the year 2000 problem in the notes to financial statements. Such disclosures are presented on pages 88 and 89.

Examples of segment information disclosures are presented on pages 27-40.

Quarterly Financial Data

LONE STAR INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1997 and 1996 is as follows (In thousands except per share data):

	Quarter			
1997	First	Second	Third	Fourth
Net sales	$60,836	$104,618	$111,775	$80,336
Gross profit	8,516	36,241	41,868	28,468
Net income	264	20,181	27,722	17,246
Basic earnings per common share	0.02	1.84	2.52	1.58
Diluted earnings per common share	0.02	1.53	2.04	1.27

	Quarter			
1996	First	Second	Third	Fourth
Net sales	$52,987	$102,307	$118,349	$94,030
Gross profit	2,208	31,989	42,993	29,771
Net income (loss)	(3,276)	17,263	25,436	14,827
Basic earnings per common share	(0.29)	1.51	2.23	1.36
Diluted earnings per common share	(0.29)	1.28	1.91	1.13

(1) Gross profit is net of depreciation expense relating to cost of sales of $23,182,000 and $23,598,000, in the years ended December 31, 1997 and 1996, respectively.

(2) Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share in 1997 and 1996 does not equal the total computed for the year. In accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share", earnings per share for previously reported periods have been restated (See Note 1).

PORTEC, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Unaudited Quarterly Financial Information

The 1996 interim results of operations were impacted by the effect of reducing the valuation allowance against deferred tax assets based on management's judgment about the Company's ability to realize such assets in the future.

(Dollars in thousands except per share data)

	March 31	June 30	September 30	December 31
1997				
Net sales	$6,053	$6,112	$7,096	$6,260
Gross margin	2,633	2,582	2,801	2,472
Income from continuing operations	86	268	355	463
Income from discontinued operations	695	1,274	842	11,318
Net income	781	1,542	1,197	11,781
Basic income per common share				
Income from continuing operations	.02	.06	.08	.11
Income from discontinued operations	.12	.33	.19	2.59
Net income	.14	.39	.27	2.70
Diluted income per common share				
Income from continuing operations	.02	.06	.08	.10
Income from discontinued operations	.12	.32	.18	2.49
Net income	$.14	$.38	$.26	$2.59

(Dollars in thousands except per share data)

	March 31	June 30	September 30	December 31
1996				
Net sales	$7,588	$6,770	$5,617	$7,242
Gross margin	2,671	2,480	2,294	3,090
Income from continuing operations	504	197	387	2,495
Income (loss) from discontinued operations	1,469	1,724	621	(506)
Net income	1,973	1,921	1,008	1,989
Basic income (loss) per common share				
Income from continuing operations	.11	.05	.09	.58
Income (loss) from discontinued operations	.34	.40	.14	(.12)
Net income	.45	.45	.23	.46
Diluted income (loss) per common share				
Income from continuing operations	.11	.05	.08	.54
Income (loss) from discontinued operations	.32	.37	.14	(.11)
Net income	$.43	$.42	$.22	$.43

THE SCOTTS COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Millions Except Per Share Data)

15. Quarterly Consolidated Financial Information (Unaudited)

The following is a summary of the unaudited quarterly results of operations for fiscal 1997 and 1996:

Fiscal 1997	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Net sales	$100.2	$346.2	$299.0	$155.4	$900.8
Gross profit	32.6	138.4	110.7	45.5	327.2
Net income (loss)	(6.0)	27.9	21.1	(3.5)	39.5
Net income (loss) per common share	(.45)	.95	.70	(.32)	1.35
Common shares used in per share calculation	18.6	29.3	29.9	18.7	29.3

Fiscal 1996	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Net sales	$117.9	$251.2	$247.9	$134.8	$751.9
Gross profit	36.8	87.7	82.0	33.0	239.5
Net income (loss)	(7.1)	10.6	7.6	(13.6)	(2.5)
Net income (Loss) per common share	(.51)	.36	.26	(.86)	(.65)
Common shares used in per share calculation	18.7	29.4	29.4	18.6	18.8

(1) Fiscal 1997 results of operations included $6.0 of asset valuation charges, $4.2 and $1.8 in the second and fourth quarters, respectively. Fiscal 1996 results of operations included $17.7 of unusual charges and a $3.1 inventory write-down on a pretax basis or $13.0 on a combined after tax basis. These items reduced after tax earnings by $1.1, $1.7, $1.6, and $8.6 in the first, second, third, and fourth quarters, respectively, in fiscal 1996.

(2) In the quarter ended March 29, 1997, the Company changed its method of accounting for advertising expenses in interim periods. The newly adopted method assigns anticipated advertising costs to interim periods based on projected sales of advertised product categories and has been applied retroactive to the beginning of fiscal 1997 (October 1, 1996). The change impacts interim periods only; all current year advertising costs will be expensed within the fiscal year. Management believes this method of interim accounting for advertising costs provides better matching of revenues and expenses in interim periods, and is consistent with companies in the consumer packaged goods industry.

This change in interim accounting had the effect of increasing advertising expense for the first, second and fourth quarters of fiscal 1997 by $3.3, $4.6 and $0.5, respectively. Third quarter 1997 advertising expense decreased by $8.4. Net income for the first, second and fourth quarters of fiscal 1997 decreased by $1.9 or $0.10 per share, $2.6 or $0.09 per share and $0.3 or $0.02 per share, respectively. Net income for the third quarter increased $4.8 or $0.16 per share.

On a pro forma basis, assuming the new method of accounting for interim advertising had been applied to fiscal 1996, first, second and fourth quarter advertising expense would have increased $3.9, $2.0 and $1.5, respectively. Third quarter 1996 advertising expense would have decreased $7.4. Net income for the first, second and fourth quarters of fiscal 1996 would have decreased by $2.2 or $0.12 per share, $1.2 or $0.04 per share and $0.8 or $0.05 per share. Net income for the third quarter would have increased by $4.2 or $0.14 per share.

(3) The Company's business is highly seasonal with between 66% and 72% of sales occurring in the second and third fiscal quarters combined.

Selected Information For Five Years

FLOWERS INDUSTRIES, INC. (JUN)

SELECTED FINANCIAL DATA

Amounts in thousands except per share data

	1997	1996	1995	1994	1993
Operating Results:					
Sales	$1,437,713	$1,238,564	$1,129,203	$989,782	$962,132
Net income	62,324	30,768	42,301	29,496	39,161
Net income per common share (1)	.72	.36	.50	.35	.47
Cash dividends paid per common share (1)	.4125	.3833	.3622	.3445	.3267
At Year End:					
Total assets	898,187	849,443	655,921	559,682	490,948
Long-term notes payable	259,884	254,355	99,251	77,422	22,307
Industrial revenue bonds	12,950	17,770	17,895	11,564	13,508

(1) Years prior to fiscal 1997 have been restated to give effect to the three-for-two stock split effected in the form of a stock dividend paid on May 2, 1997.

GENERAL DYNAMICS CORPORATION (DEC)

SELECTED FINANCIAL DATA (UNAUDITED)

(Dollars In Millions, Except Per Share and Per Employee Amounts)	1997	1996	1995	1994	1993
Summary of Operations					
Net sales	$4,062	$3,581	$3,067	$3,058	$3,187
Operating costs and expenses	3,616	3,228	2,752	2,737	2,878
Interest, net	36	55	55	22	36
Provision for income taxes	163	139	128	120	143
Earnings from continuing operations	316	270	247	223	270
Earnings per share from continuing operations—basic[d]	2.51	2.14	1.96	1.77	2.17
Earnings per share from continuing operations—diluted[d]	2.50	2.13	1.95	1.76	2.13
Cash dividends on common stock[d]	.82	.82	.75	.70	.50
Sales per employee	160,000[c]	155,500	138,200[b]	143,900[a]	138,100[a]
Financial Position at December 31					
Cash and equivalents and marketable securities	$441	$1,155	$1,095	$1,059	$585
Property, plant and equipment, net	592	441	398	264	302
Total assets	4,091	3,299	3,164	2,673	2,635
Long-term debt (including current portion)	265	38	38	40	38
Long-term debt-finance operations (including current portion)	118	135	146	161	175
Shareholders' equity	1,915	1,714	1,567	1,316	1,177
Per share[d]	15.22	13.58	12.39	10.45	9.41
Other Information					
Funded backlog	$6,796	$6,161	$5,227	$4,562	$5,487
Total backlog	9,599	10,350	7,386	6,006	7,015
Shares outstanding at December 31 (in millions)[d]	125.8	126.2	126.5	126.0	125.1
Weighted average shares outstanding—basic (in millions)[d]	125.7	126.3	126.0	126.1	124.4
Weighted average shares outstanding—diluted (in millions)[d]	126.6	126.9	126.5	126.9	126.5
Common shareholders of record at December 31	21,046	22,129	22,930	23,935	24,496
Active employees at December 31:					
Total company	29,000	23,100	27,700	24,200	30,500
Excluding discontinued operations	29,000	23,100	26,800	21,300	23,100

(a) Excludes Bath Iron Works, which was acquired on September 13, 1995. See Note B.

(b) Includes pro forma results of Bath Iron Works as if owned by the company for the entire year.

(c) Excludes Advanced Technology Systems, which was acquired on October 1, 1997, and Computing Devices International, which was acquired on December 31, 1997. See Note B.

(d) Data has been restated to give retroactive recognition to the company's announced two-for-one stock split. See Note K.

MET-PRO CORPORATION

FIVE YEAR FINANCIAL SUMMARY

	Years ended January 31,				
	1998	1997	1996	1995	1994
Selected Operating Statement Data					
Net sales	$62,387,870	$60,853,278	$54,067,320	$50,005,577	$41,199,444
Income from operations	10,695,596	9,157,131	7,663,957	6,281,437	3,952,510
Net income	7,116,481	6,096,002	4,893,885	3,830,042	2,517,155
Earnings per share, basic	1.01	.87	.70	.55	.36
Earnings per share, diluted	1.00	.86	.69	.54	.35
Selected Balance Sheet Data					
Current assets	$36,067,260	$32,088,546	$28,268,561	$26,595,928	$21,987,515
Current liabilities	11,267,545	11,374,115	10,250,506	9,506,301	7,177,206
Working capital	24,799,715	20,714,431	18,018,055	17,089,627	14,810,309
Current ratio	3.2	2.8	2.8	2.8	3.1
Total assets	57,984,240	56,079,391	47,626,587	45,168,544	40,917,481
Long-term obligations	2,242,047	3,683,419	1,692,962	2,877,386	4,048,119
Total stockholders' equity	43,840,829	40,352,926	35,012,578	32,084,010	29,187,306
Total capitalization	46,082,876	44,036,345	36,705,540	34,961,396	33,235,425
Return on average total assets, %	12.5	11.8	10.5	8.9	6.6
Return on average stockholders' equity, %	16.9	16.2	14.6	12.5	8.9
Other Financial Data					
Capital expenditures	$1,356,065	$1,811,833	$2,436,419	$1,098,893	$2,415,385
Stockholders' equity per share	6.27	5.73	5.03	4.61	4.15
Cash dividends paid per share	.27	.22	.20	.11	.11
Average common shares, basic	7,053,071	6,989,717	6,999,408	7,000,281	7,037,971
Average common shares, diluted	7,144,931	7,096,214	7,051,527	7,063,920	7,079,057
Shares of common stock outstanding	6,993,473	7,043,436	6,956,535	6,964,403	7,034,108

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

AMCAST INDUSTRIAL CORPORATION (AUG)

MANAGEMENT'S DISCUSSION OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ($ in thousands except per share amounts)

Results of Operations—In 1997, the Company experienced double-digit sales growth as net sales increased 12.5% to $387,051. By segment, Flow Control Products sales increased slightly while Engineered Components sales increased 21.8%. Volume increases in both segments increased total net sales by 15%; however, reduced prices slightly offset the favorable impact of the increased volume. Net sales in 1996 were $343,934, up 4.8% from net sales of $328,231 in 1995. By segment, Flow Control Products sales increased 8.6%, primarily due to higher unit volumes, and Engineered Components sales were slightly ahead of the prior year.

Gross profit was $69,040, $70,696, and $68,111 in 1997, 1996, and 1995, respectively. As a percentage of sales, gross profit decreased to 17.8% in 1997 from 20.6% in 1996 and 20.8% in 1995. Higher volume provided increased gross profit in 1997; however, this improvement was partly offset by new facility start-up costs and a cumulative $3,500 charge for overstated inventory. In 1997 and 1996, the gross profit percentage was impacted by an unfavorable sales mix.

Selling, general and administrative (SG&A) expenses were $41,798, $43,368, and $41,139 in 1997, 1996, and 1995, respectively. SG&A expense increased in 1996 to support higher sales volume and future business expansion in the automotive market. As a percentage of sales, SG&A decreased to 10.8% in 1997 from 12.6% in 1996 and 12.5% in 1995. Higher sales volume and reduced spending levels contributed to the decrease in 1997.

In the fourth quarter of fiscal year 1996, Casting Technology Company (CTC), the Company's joint venture with Izumi Industries, launched several new products that resulted in an unusually steep production ramp-up in 1997. The ramp-up caused inefficiencies at CTC during this period, including unusually high handling and freight costs in addition to the typically high launch-related costs. The Company's pre-tax share of CTC's loss for 1997 was $2,416.

Interest expense of $5,135 increased from $2,348 in 1996 and $1,387 in 1995. Interest expense increased in 1997 primarily due to lower interest capitalization and, to a lesser degree, higher debt levels. Capitalized interest was $145, $2,038, and $390 in 1997, 1996, and 1995, respectively. Interest expense increased in 1996 as the Company borrowed $50,000 of senior debt. A large portion of the proceeds financed plant construction and expansion and accordingly, the interest related to such

long-term projects was capitalized. Interest expense is expected to increase significantly in 1998 due to higher debt levels related to the acquisition of Speedline S.p.A. (Speedline) discussed below.

The effective tax rate for 1997, 1996, and 1995 was 35.1%, 35.6%, and 34.2%, respectively. Changes in the effective tax rates primarily reflect the level of federal and state tax credits.

Flow Control Products—Net sales of the Flow Control Products segment were $162,150 in 1997 compared with $159,323 in 1996 and $146,692 in 1995. Increased volumes of copper and brass plumbing fittings in 1997 provided a 5.5% increase in net sales. Lower selling prices partially offset this increase, as the Company experienced competitive pricing pressures in copper plumbing fittings in much of the fiscal year's second half. Pricing pressures, together with a product mix that included low margin products, reduced net sales by approximately 3.5% and narrowed margins. As a result, operating income of $24,358 in 1997 decreased slightly from 1996. In 1996, net sales increased 8.6% while operating income of $25,236 remained equal to the prior year. Although all businesses in this segment experienced higher volumes in 1996, the primary increase in sales came from shipments of brass fittings which sell at lower margins.

Engineered Components—Net sales of the Engineered Components segment were $224,901 in 1997, compared with $184,611 in 1996 and $181,539 in 1995. The sales increase for 1997 resulted primarily from higher demand for the Company's aluminum wheels, the full year effect of the Company's new automotive plant in Ohio, and the introduction of several new products for automotive suspension systems. This increased volume resulted in a 23.5% increase in net sales, which was partially offset by lower-than-expected demand for other products due to strikes at several of the Company's automotive customers. Operating income of $9,531 in 1997 was slightly higher than the prior year, as new facility start-up costs partially offset the impact of the increased sales volumes. In addition, the Company recorded a one-time, cumulative, non-cash charge of $3,500 to reduce overstated inventory values at the Company's Amcast Precision unit. Excluding the one-time charge, operating income increased 39.8% from the prior year. In 1996, net sales were up slightly from the prior year as sales of aluminum wheels were higher. This increase was diminished by lower demand for other automotive components and volumes lost during a third quarter labor strike at GM. Operating income increased 5.2% primarily due to improved operating efficiencies.

Speedline Acquisition—On August 19, 1997, the Company acquired all of the outstanding stock of Speedline. The purchase price was approximately $133,300, consisting of cash payments of $60,600, the assumption of approximately $60,200 in debt, and the issuance of 478,240 shares of the Company's common stock with a fair market value of $12,500. Of the cash payments, $4,000 is deferred until May 1998, and $4,000 is due December 31, 1998, contingent upon future operating income of Speedline. The acquisition resulted in goodwill of approximately $34,300.

Located near Padova, Italy, Speedline is a major European manufacturer of light-alloy wheels. Speedline's products are sold principally to original equipment manufacturers in the automotive industry. For the twelve months ended August 31, 1997, Speedline had net sales of approximately $209,000.

Liquidity and Capital Resources—Net cash provided by operations was $30,675 and $33,638 in 1997 and 1996, considerably higher than the $15,464 provided in 1995. In each of the three years, cash was primarily provided by net income and depreciation. Accounts payable increased in 1997 due to acquisition related expenses, purchases for expansion activities, and increased sales activity. In 1996, accounts receivable increased as a result of increased sales while inventories decreased primarily due to the more efficient management of inventories. In 1995, inventories and accounts receivables increased to support the increased sales volume.

Net cash used by investing activities during 1997 was $91,954, as compared with $51,223 in 1996 and $42,743 in 1995. Investing activities for 1997 include $48,486 expended for the Speedline acquisition discussed above. Capital expenditures totaled $40,377, $48,640, and $41,724 in 1997, 1996, and 1995, respectively. To support business expansion activities, investments were made in property, plant, and equipment and in the Company's joint venture, Casting Technology Company. During this time period, the Company constructed two new facilities and completed expansions at four facilities. At August 31, 1997, the Company had $5,277 of commitments for capital expenditures to be made in 1998, primarily for the Engineered Components segment.

Net cash provided by financing activities was $65,474 in 1997, as compared with $21,712 and $13,151 for 1996 and 1995, respectively. Financing activities in 1997 include $70,000 in borrowings under the Company's new credit agreement, discussed below, in part to finance the Speedline acquisition. In 1996 and 1995, increased borrowings were used to fund business expansion. In 1996, the Company completed a private placement of $50,000 in senior notes that mature in November 2005 and reduced outstanding debt by $24,321. Borrowings in 1995 were under the existing revolving credit agreement and lines of credit.

On August 14, 1997, the Company replaced its prior credit facility with a new Credit Agreement (the Agreement) that provides for up to $200,000 in borrowings through 2002. At August 31, 1997, the Company had unused borrowing capacity of $38,432, under the most restrictive debt covenant of the Agreement. The Company also has lines of credit totaling $20,000 that were unused at August 31, 1997. In addition, Speedline has short-term lines of credit totaling $81,283, of which $27,245 was available at August 31, 1997.

The ratio of long-term debt as a percent of capital increased to 47.9% at August 31, 1997, from 30.2% at August 31, 1996. The increase reflects the higher level of borrowings as a result of the recent Speedline acquisition. Book value per common share at August 31, 1997, was $17.24, up from $15.80 for the prior year. One million preferred shares and 5.8 million common shares are authorized and available for future issuance. Manage-

ment believes the Company has adequate financial resources to meet its future needs.

Contingencies. The Company, as is normal for the industry in which it operates, is involved in certain legal proceedings and subject to certain claims and site investigations that arise under the environmental laws and which have not been finally adjudicated. To the extent possible, with the information available, the Company regularly evaluates its responsibility with respect to environmental proceedings. The factors considered in this evaluation are more fully described in the Commitments and Contingencies note to the consolidated financial statements. At August 31, 1997, the Company has reserves of $1,900 accrued for environmental liabilities. The Company is of the opinion that, in light of its existing reserves, its liability in connection with environmental proceedings should not have a material adverse effect on its financial condition, results of operations, or cash flows. The Company is presently unaware of the existence of any potential material environmental costs that are likely to occur in connection with disposition of any of its property.

Impact of Recently Issued Accounting Standards. During 1997, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The adoption of SFAS No. 121 did not have a material effect on the Company's consolidated financial statements. The Company also adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The adoption of SFAS No. 123 had no effect on the Company's consolidated financial statements as the Company elected to continue to account for such transactions, as permitted, under Accounting Principles Board Opinion No. 25. In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," both of which will become effective for the Company during fiscal year 1999. The Company has not determined the effect of these new standards.

CHIQUITA BRANDS INTERNATIONAL, INC. (DEC)

MANAGEMENT'S ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Operations

Sales of $2.4 billion in 1997 and 1996 were $130 million lower than in 1995 primarily as a result of the December 1995 sale of the Costa Rican operations of Chiquita's Numar edible oils group ("Numar Costa Rica"). The acquisition of two vegetable canning companies in the latter part of 1997 did not have a significant effect on net sales or operating income for the year. (See Note 3 to the Consolidated Financial Statements for additional discussion of these acquisitions.)

Operating income of $100 million for 1997 was adversely affected by a stronger dollar in relation to major European currencies (mitigated in part by the Company's foreign currency hedging program) and by increased banana production costs resulting primarily from widespread flooding in 1996. These factors more than offset the benefit of higher local currency European banana pricing during the second half of the year. In early 1998, the Company is experiencing higher local currency European banana pricing, the effect of a stronger U.S. dollar and lower North American banana pricing in comparison to early 1997.

For 1996, operating income was $84 million and included write-downs and costs of $70 million resulting from industry-wide flooding in Costa Rica, Guatemala and Honduras; modification of distribution logistics and the wind-down of particular production facilities to achieve further long-term reductions in the delivered product cost of Chiquita bananas; and certain claims relating to prior European Union ("EU") quota restructuring actions.

Operating income for 1995 was $176 million and included a net gain of $19 million primarily resulting from divestitures of operations and other actions taken as part of the Company's ongoing program to improve shareholder value. These divestitures and other actions included sales of older ships, the sale of Numar Costa Rica, the shut-down of a portion of the Company's juice operations and the reconfiguration of banana production assets.

Net interest expense decreased by $10 million in 1997 and $33 million in 1996 primarily as a result of refinancing and debt reduction activities. Net income (loss) includes extraordinary charges of $23 million in 1996 and $8 million in 1995 resulting from these activities.

Income taxes consist principally of foreign income taxes currently paid or payable. No tax benefit was recorded for unrealized U.S. net operating loss carryforwards or other available tax credits.

European Union Regulatory Developments

On July 1, 1993, the EU implemented a quota system effectively restricting the volume of Latin American bananas imported into the EU, which had the effect of decreasing the Company's overall volume and market share in Europe. The quota regime is administered through a licensing system and grants preferred status to producers and importers within the EU and its former colonies, while imposing restrictive quotas and tariffs on bananas imported from other sources, including Latin America, Chiquita's primary source of fruit. Since imposition of the EU quota regime, prices within the EU have increased to a higher level than the levels prevailing prior to the quota. Banana prices in other worldwide markets, however, have been lower than in years prior to the EU quota, as the displaced EU volume has entered those markets.

In two separate rulings, General Agreement on Tariffs and Trade ("GATT") panels found the EU banana policies to be illegal. In March 1994, four of the five countries which had initiated GATT complaints, Costa Rica, Colombia, Nicaragua and Venezuela, settled their GATT actions against the EU by entering into a "Framework Agreement" which guaranteed them preferential EU market access for bananas. The Framework Agreement was implemented in 1995 and imposed additional restrictive

and discriminatory quotas and export licenses on U.S. banana marketing firms, while leaving EU firms exempt. This significantly increased the Company's cost to export bananas.

Since implementation of the quota system:

- In September 1994, Chiquita and the Hawaii Banana Industry Association made a joint filing with the Office of the U.S. Trade Representative ("USTR") under Section 301 of the U.S. Trade Act of 1974 charging that the EU quota and licensing regime and the Framework Agreement are unreasonable, discriminatory, and a burden and restriction on U.S. commerce.
- In January 1995, the U.S. Government announced a preliminary finding against the EU banana import policy and, a year later, the USTR found the banana Framework Agreement export policies to be unfair.
- In September 1995, the United States, Guatemala, Honduras and Mexico commenced a challenge against the EU quota regime using the procedures of the World Trade Organization ("WTO"). Ecuador, the world's largest exporter of bananas, joined these countries in filing a new WTO action in February 1996.
- In May 1997, a WTO arbitration panel issued a report ruling that the licensing and quota systems under the EU quota regime and the Framework Agreement violate numerous international trade obligations to the detriment of Latin American supplying countries and U.S. marketing firms such as Chiquita. The panel recommended that the WTO request the EU to conform its import regime for bananas to these trade obligations.
- In June 1997, the EU appealed the WTO panel report. In September 1997, the WTO Appellate Body upheld the panel's report and the full WTO body later adopted both the panel and Appellate Body reports.
- In January 1998, a WTO arbitrator ruled that the EU must fully implement banana policies consistent with the WTO report findings not later than December 31, 1998.
- In January 1998, the EU governing commission proposed a new quota and license regime for review and possible implementation by the EU. The five governments which filed the WTO complaint, joined by Panama which has recently become a WTO member and initiated its own challenge to the quota and Framework Agreement, have all indicated that they do not believe the current EU proposal complies with the WTO findings.

If the EU fails to comply with the WTO rulings by the end of 1998, the WTO authorizes the injured governments to engage in retaliatory trade measures, such as tariffs or withdrawal of trade concessions, against the EU. However, there can be no assurance as to the results of the WTO proceedings, the nature and extent of actions that may be taken by the affected countries or the impact on the EU quota regime or the Framework Agreement.

Financial Condition

Cash flow from operations was $67 million in 1997, $123 million in 1996 and $90 million in 1995. The decrease in 1997 operating cash flow compared to 1996 resulted primarily from the use of cash to fund a short-term increase in working capital and the payment in 1997 of prior year claims relating to earlier EU quota restructuring actions.

Capital expenditures were $76 million in 1997, $75 million in 1996 and $65 million in 1995. The 1997 and 1996 capital expenditures include $19 million and $15 million, respectively, to rehabilitate banana farms and other assets damaged by storms in 1996. As a result of the Company's investment spending program for transportation system improvements and fresh fruit production capacity during the early 1990's, recurring capital expenditures (which exclude rehabilitation spending) have been less than depreciation and amortization for each of the past three years and have resulted in free cash flow exceeding the Company's results of operations by $34 million to $40 million per year.

In late 1997 and early 1998, the Company issued $120 million of capital and preference stock and paid approximately $37 million of cash to acquire the common stock and retire a portion of the outstanding debt of three vegetable canning companies. These acquisitions expand the capacity, product lines and geographic coverage of the Company's existing vegetable canning business.

In December 1996, Chiquita entered into a $125 million senior unsecured revolving credit facility. This facility, which is available through January 2001, provides flexibility in funding seasonal working capital and has allowed the Company to maintain lower cash balances, enabling the Company to further reduce debt and interest costs. Accordingly, debt repayments of $116 million were made in 1997. No amounts were drawn under this credit facility in 1997.

Chiquita has also strengthened its balance sheet, enhanced short-term liquidity and reduced overall borrowing costs over the past three years through the following achievements:

- In 1996, raised a total of $255 million from public offerings of preferred shares and senior notes and used the proceeds to prepay subordinated debt, which carried effective interest rates of 11.5% to 12.1%, and to prepay high cost subsidiary debt.
- In December 1995, sold its remaining meat operations to Smithfield Foods, Inc. for approximately $60 million, consisting of $25 million in cash and approximately 1.1 million shares of Smithfield common stock which were sold for cash in 1996.
- Sold Numar Costa Rica in December 1995 for approximately $50 million in cash and $50 million in secured notes, which were collected in 1996.
- Sold older ships in 1995 for $90 million in cash and used approximately $50 million of the proceeds to prepay the related debt. In addition, the Company sold and leased back shipping containers in 1995, generating proceeds of $40 million and retiring approximately $27 million of related 9.8% debt.
- Replaced $153 million of ship loans in 1995 with loans having longer maturities totaling $187 million

and negotiated the extension of the maturities on another $23 million ship loan.

- Used $36 million of restricted cash to prepay related subsidiary debt in December 1995 and, in 1996, obtained the right to use $40 million of previously restricted cash for general corporate purposes.

Hedging Activities

Chiquita's products are distributed in more than 60 countries. Its international sales are made primarily in U.S. dollars and major European currencies. The Company manages currency exchange risks from sales originating in currencies other than the dollar generally by exchanging local currencies for dollars immediately upon receipt, and by engaging from time to time in various hedging activities. Debt denominated in currencies of countries other than the U.S. serves as a hedge of the net investments in those countries. At December 31, 1997, the Company had foreign currency option contracts to ensure conversion of approximately $400 million of foreign sales in 1998 at a rate not higher than 1.72 Deutsche marks per U.S. dollar or lower than 1.56 Deutsche marks per U.S. dollar. (See Note 8 to the Consolidated Financial Statements for additional discussion of the Company's hedging activities.)

Year 2000 Compliance

As has been widely reported, many computer systems process dates based on two digits for the year of a transaction and are unable to process dates in the year 2000 and beyond. In connection with its ongoing information system management efforts, Chiquita has previously replaced or modified a significant portion of its key financial information and operational systems that were not year 2000 compliant. Remaining financial and operational systems have been assessed, and detailed plans have been developed and are being implemented to make the necessary modifications to ensure year 2000 compliance. The financial impact of making the required system changes for year 2000 compliance are not expected to have a material effect on Chiquita's financial statements.

JLG INDUSTRIES, INC. (JUL)

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

Results of Operations

Sales for 1997 increased 27% over 1996 and 54% from 1996 to 1995. Excluding the Material Handling Division, which was divested in May 1996, the increase was 33% for 1997. The increase in sales reflected generally stronger demand across all product classes and markets. Sales to customers outside the United States were 30%, 24% and 18% of total sales in 1997, 1996 and 1995, respectively. Sales from new and redesigned products introduced over the past two years contributed 46%, 27% and 24% to sales in 1997, 1996 and 1995, respectively.

Gross profit, as a percent of sales, decreased to 25% in 1997 from 26% in 1996. The decrease is principally due to a shift in product mix to smaller, less profitable models; the effects of increased sales discounts related to increasingly competitive market conditions; and product introduction costs. Gross profit, as a percent of sales, increased to 26% in 1996 from 24% in 1995 primarily due to the effects of spreading fixed overhead expenses over a higher production base, lower product liability costs and higher selling prices.

Selling, administrative and product development expenses increased $12.2 million and $10.8 million in 1997 and 1996, respectively, but as a percent of sales were 11% for 1997 and 1996, compared to 12% for 1995. The dollar increase for both years principally reflected higher personnel and related costs, increased expenses associated with expanding foreign operations and increased consulting expenses. The increase in 1996 also included higher advertising costs which was partially offset by lower bad debt expenses.

During the fourth quarter of 1997, the Company initiated plans to downsize and rationalize its operations. This resulted in a restructuring charge of $1.9 million for severance and termination benefits and costs associated with closing a smaller, less productive manufacturing facility and ceasing planned expansion of administrative facilities. The Company anticipates that an additional $5 million of restructuring costs related to workforce reductions and retraining employees will be incurred in 1998, which do not qualify for inclusion in 1997 under generally accepted accounting principles.

For 1997, miscellaneous expense included $800,000 in currency conversion losses compared to $800,000 in gains for 1996.

The effective income tax rates were 35%, 36% and 37% for 1997, 1996 and 1995, respectively. The decreases in the effective income tax rate are primarily due to tax benefits related to the increasing level of export sales and a lower effective state income tax rate.

Financial Condition

The Company continues to maintain a strong financial position, funding capital projects and working capital needs principally out of operating cash flow and cash reserves, while remaining virtually debt-free. Working capital increased by $12.8 million in 1997 and $26.4 million in 1996, principally as a result of increased sales growth, including higher inventory and receivable levels to support increased international business.

At July 31, 1997, the Company has unused credit lines totaling $30 million and cash balances of $25.4 million. The Company considers these resources, coupled with cash expected to be generated by operations, adequate to meet its foreseeable funding needs, including anticipated 1998 expenditures of $13.3 million for capital projects and $14.0 million in additions to its equipment held for rental.

The Company's exposure to product liability claims is discussed in the note entitled Commitments and Contingencies of the Notes to Consolidated Financial Statements, Item 8 of Part II of this report. Future results of operations, financial condition and liquidity may be affected to the extent that the Company's ultimate exposure with respect to product liability varies from current estimates.

Outlook

This Outlook section and other parts of this Management's Discussion and Analysis contain forward-looking information and involve risks and uncertainties that could significantly impact expected results. Certain important factors that, in some cases have affected and in the future could affect, the Company's results of operations and that could cause such future results of operations to differ are described in "Cautionary Statements Pursuant to the Securities Litigation Reform Act" which is an exhibit to this report.

The outlook for fiscal 1998 is for the temporary product saturation that led to softer order patterns during the second half of fiscal 1997 to continue, but improvement is expected as the year progresses. Therefore, management expects fiscal 1998's sales to be significantly below 1997's levels, approximately fiscal 1996's $413 million. Net income and earnings per share are likewise expected to be significantly below 1997's level due principally to the softer order patterns, the continuation of the unfavorable product mix to smaller, less profitable machines and increasingly competitive market conditions.

Management plans to focus on specific improvement goals during fiscal 1998 including: improve processes and reduce costs; accelerate new product development; expand global distribution; enhance customer support services; grow JLG Equipment Services; strengthen employee involvement and pursue strategic acquisitions. The goal of this business plan is to position the Company for long-term profitable growth and enhanced shareholder value.

PREMIUMWEAR, INC. (DEC)

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

The following discussion and analysis should be read in conjunction with the financial statements and related notes, which provide additional information concerning the Company's financial activities and condition.

Capital Resources and Liquidity

In two separate transactions in 1996 the Company sold all of its trade names and trademarks for cash totaling $23,000,000. Proceeds from the transactions and the liquidation of assets related to the exited retail and professional golf-oriented businesses were used to pay off the Company's previous asset-based lender, pay transaction expenses, provide funds for operations and for a $12,500,000 special cash distribution to shareholders on March 5, 1997. These transactions significantly strengthened the Company's financial position.

At January 3, 1998, working capital totaled $11,149,000 compared to $21,266,000 the previous year and the current ratio was 3.3:1 compared to 3.9:1 in 1996. After giving effect, on a pro forma basis, to the $12,500,000 special cash distribution in early 1997, working capital at January 4, 1997 would have totaled $8,766,000 and the current ratio would have been 2.2:1.

During 1997, operating activities provided $392,000 of cash, primarily due to a $1,214,000 decrease in inventories as a result of more effective inventory management practices, $837,000 of net earnings, $463,000 from the utilization of net operating loss carryforwards and $439,000 of depreciation. These sources of cash were offset by a $2,441,000 reduction in payables and other liabilities, primarily due to payments of severance and professional services related to the 1996 sales of trade names and trademarks and reduced trade payables as a result of lower year-end inventories. Capital expenditures totaled $435,000, primarily for purchases of manufacturing equipment, leasehold improvements and upgrading of the Company's information systems. Financing activities included the March 1997 special cash distribution of $12,500,000 and $959,000 received from officers, directors and employees in the exercise of common stock options. At 1997 year-end cash and cash equivalents totaling $2,870,000 were essentially all invested in short-term government securities.

At January 4, 1997, working capital totaled $21,266,000 compared to $3,926,000 the previous year and the current ratio was 3.9:1 compared to 1.2:1 in 1995. During 1996 operating activities provided $2,195,000 of cash, the result of a combined $6,692,000 reduction in receivables and inventories offset by a $3,677,000 decrease in accounts payable and other liabilities, all of which related primarily to the liquidation of inventories, collection of receivables and payment of liabilities related to the exited retail and golf-oriented businesses. Capital expenditures totaled $689,000 primarily for information systems improvements and purchases of manufacturing equipment. Proceeds of $23,000,000 were received in 1996 from the sale of trademarks and $819,000 was received from the exercise of common stock options.

During 1995, operating activities used $4,094,000 of cash, primarily the result of net losses of $2,335,000 and an increase in receivables of $3,468,000 which was due to a 29% increase in fourth quarter revenues compared to the previous year. These uses of cash were offset by a $1,248,000 increase in accounts payable and $782,000 of depreciation and amortization. Capital expenditures totaled $1,201,000, primarily for information systems improvements and purchases of manufacturing equipment. The Company financed the net use of cash through a $5,298,000 increase in its bank line-of-credit borrowings.

As a result of the 1996 sale of trademarks the Company's previous asset-based credit arrangement was terminated and all funds due the lender were repaid. On February 4, 1997, the Company entered into a long-term bank line of credit with another lender which provides up to $6,000,000 of funds available based on certain financial formulas.

Management believes that continued development of the promotional products/advertising specialty ("special markets") business will lead to steady sales growth, stable gross margins and improved profitability. Management expects to be able to finance working capital needs and capital expenditures, which will approximate $1,000,000 in fiscal 1998, through a combination of funds from operations and its bank line of credit.

Results of Operations

1997 Net sales to special markets customers increased 25% over 1996. Sales growth was from added customers and additional volume with existing customers. Management believes the increase was due in part to the Company's product offering, which generally includes more fashion than many of its competitors, and improved delivery performance. In total, net sales decreased from 1996 levels, which included $23,000,000 of sales related to the exited retail and golf-oriented businesses. Selling prices remained relatively constant from 1996 to 1997.

Total net sales for 1996 decreased 3% from the prior year. The reduction was due to the September 1996 exit from the retail and golf-oriented businesses which collectively had sales of $23,000,000 in 1996 compared to $36,000,000 in 1995. Special markets volume continued its strong growth, increasing 75% in 1996 to $27,000,000 compared to $15,400,000 the previous year, partially offsetting the decreases in sales to retail and golf accounts. Selling prices remained relatively constant from 1995 to 1996.

The Company's backlog of unfilled orders at the end of 1997 was approximately $1,400,000 compared to $3,800,000 the same time last year. The reduction was due to a change in buying patterns by certain distributors who now order merchandise closer to their need as opposed to the prior practice of carrying large quantities of inventory early in the year. The unfilled order backlog consists of orders received for subsequent delivery and includes orders subject to change for color, size, extension of delivery dates and cancellation. Orders for the special markets business are not necessarily indicative of future performance since this channel of distribution is characterized by a large number of "at once" orders which are generally received less than 30 days prior to requested delivery. As a result, the unfilled order backlog does not necessarily relate directly to future sales.

Following the 1996 sales of trademarks, the Company no longer receives income from Royalties. As a result, no such income was realized in 1997. Royalties dropped dramatically in 1996 compared to the prior year, primarily the result of the 1996 trademark sale. Royalties in 1995 were at the same level with 1994.

Gross margin for special market sales reached 24.2% of net sales in 1997, compared to 23.6% the prior year. The increase was due primarily to additional off-shore production, which resulted in lower unit costs, and the Company's ability to maintain markups as a result of improved delivery performance and customer acceptance of fashion-oriented items. 1996 margins in the special markets business were 23.6%, but total Company margins were 19.1% due to significant markdowns encountered while liquidating inventories related to the exited retail-oriented business.

Gross margin in 1996 was 19.1% of net sales vs. 17.1% in 1995. The increase was primarily due to the cessation of the retail-oriented business which in recent years experienced fierce competition and price pressure in the marketplace, significant markdowns, increased levels of unsold seasonal merchandise and rising production costs. Gross margin for the special markets business was 23.6% in 1996, compared to 24.4% in 1995. The reduction was a result of increased sales to wholesale distributors who receive volume discounts on large quantity purchases.

Selling, general and administrative expenses for 1997 were 20% of net sales and were $4,643,000 lower than the prior year due to the exit from the retail-oriented business which required substantial design, merchandising and sales support spending. Selling expenses dropped $1,130,000 primarily due to elimination or reduction of expenses such as commissions, sales management, market shows and travel related to the exited businesses. Advertising and promotion costs decreased $834,000 as a result of elimination of significant spending required by the former retail-oriented business. Warehouse and distribution costs dropped $694,000 due in part to reduced volume but also due to efficiencies realized in 1997 as a result of improved systems and workflow. 1996 included $605,000 of royalty expense and trademark amortization, costs not encountered after the sale of trademarks. Information systems expenditures dropped $458,000 as a result of reduced manning and outside programming services related to the Company's business software systems installed in late 1995 which required heavy support throughout 1996. Other administrative costs dropped $232,000 due to lower legal, consulting and investment banker fees; $193,000 as a result of the early 1997 headquarters office relocation; and $140,000 due to a reduction in the number of Board members and meetings.

Selling, general and administrative expenses were $2,543,000 lower in 1996 than in 1995 and, as a percent of sales, decreased from 27% in 1995 to 23% in 1996. This reduction was largely due to reductions in staff, design costs, advertising programs and other expenses as a result of the cessation of the retail-oriented business. Design expenses decreased $767,000 due to the exit from the retail-oriented business, which formerly required significantly more product offerings due to multiple labels and merchandising seasons. Advertising expenses decreased $772,000 as a result of lower spending on cooperative advertising programs, point-of-sale materials and PGA Tour endorsements. Selling expenses decreased $735,000 due to the elimination of sales executive positions, closed sales offices and reduced commissions. General and administrative expenses decreased $557,000 due to reduced recruiting expenses, lower staffing, reduced trademark defense costs and lower office lease costs. Management information systems expense increased $513,000 due to support of the Company's new computer systems installed in late 1995.

In 1995, Restructuring costs of $520,000 related to staff reductions and future lease payments on excess office space.

Interest expense in 1997 was $680,000 lower than in 1996 due to excess funds generated from the 1996 sale of trademarks and improved inventory management. 1996 interest expense was 33% below 1995's level due to payoff of the bank line-of-credit from proceeds from the sale of trademarks and collection of receivables from the retail-oriented business. 1997 Interest income of $114,000 was primarily due to excess funds during the first quarter prior to the payment of the $12,500,000 special cash distribution. In 1996, excess funds during the fourth quarter following the sale of trademarks led to $247,000 of interest income.

In 1996, Gain on sale of trademarks included $4,383,000 realized on the June 1996 sale of certain Far Eastern trademarks and $6,244,000 realized on the September 1996 sale of the Company's remaining trademarks and certain associated assets related to the retail and professional golf-oriented businesses. The gains were comprised of proceeds less transaction and disposition costs.

Provision for income taxes represents federal, state, local and foreign taxes. The 1995 provision was attributable to state income, franchise and foreign taxes, which are generally not dependent on pre-tax income. At January 3, 1998, the Company had net operating loss carryforwards of approximately $21,000,000 for domestic federal income tax purposes.

Looking Forward

Management has completed a transition which generally began in 1994 with entry into the special markets channel of distribution and which intensified in late 1995 when the Company retained an investment banker to explore a range of opportunities to maximize shareholder value. These actions led directly to the 1996 sale of trademarks and exit from the retail and professional golf-oriented businesses. During this period, management continued to increase its focus on and commitment to development of the special markets channel of distribution. Following the 1996 sale of trademarks and other assets related to the retail and professional golf-oriented businesses the Company operated entirely in the special markets channel of distribution, no longer soliciting orders from department stores, chain stores, specialty retail shops and professional golf accounts. Management believes that development and/or acquisition of complementary brands, markets and products are important to the future success of the Company and shortly after 1997 year-end announced the Company's re-entry into the golf-oriented apparel market under the Page & Tuttle brand. Targeted customers are primarily "green grass" golf shops. Management expects to continue to pursue opportunities through development of additional brands and products and potentially through acquisitions. In addition, management expects to increase off-shore production in 1998 in order to achieve lower unit costs. There can be no assurance, however, that this strategy will be successful. The Company currently pays no license fees on the majority of its sales under the terms of its licensing agreement with Supreme International Corporation and is not required to pay any such fees until aggregate sales dollars reach a specific amount, which will not likely occur until the year 2001. At that time, license fees will represent an additional expense to the Company which management hopes to recovery through improved margins and reduced costs in other areas.

Year 2000

The Company primarily uses licensed software products in its operations with a significant portion of processes and transactions centralized in one particular software package. During 1998, management plans to upgrade to the most current version of this software package which, among other things, is Year 2000 compliant. Cost of the project has not yet been determined.

Cautionary Statement

Statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Letter to Shareholders, elsewhere in the Annual Report, in the Company's Form 10-K, in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases and in oral statements made with the approval of an authorized executive officer which are not historical or current facts are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The following important factors, among others, in some cases have affected and in the future could affect the Company's actual results and could cause the Company's actual financial performance to differ materially from that expressed in any forward-looking statement: (i) competitive conditions that currently exist, including the entry into the market by a number of competitors with significantly greater financial resources than the Company, are expected to continue, placing pressure on selling prices which could adversely impact sales and gross margins; (ii) continued implementation of the North American Free Trade Agreement (NAFTA) is expected to put competitive cost pressure on apparel wholesalers with domestic production facilities such as the Company; (iii) the inability to carry out marketing and sales plans would have a materially adverse impact on the Company's projections; (iv) the Company is a licensee of the Munsingwear® name and maintaining a harmonious working relationship with the licensor is important for continued successful development of the special markets business; (v) as a licensee, the Company is dependent on the licensor to adequately promote the brand and defend it from trademark infringement. The foregoing list should not be construed as exhaustive and the Company disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Impact of Inflation

Inflation affects the Company's business principally in the form of cost increases for materials and wages. The Company generally attempts to offset these cost increases by a combination of merchandising and design techniques, purchasing practices, improved workflow efficiencies, increased off-shore sourcing and selective price increases.

Forward Looking Information Excerpts

AVON PRODUCTS, INC. (DEC)

Forward-Looking Statement

Certain statements in this report which are not historical facts or information are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to, the information set forth herein. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, levels of activity, performance or achievement of the Company, or industry results, to be materially different from any future results, levels of activity, performance or achievement expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions; the ability of the Company to implement its business strategy; the Company's access to financing and its management of foreign currency risks; the Company's ability to successfully identify new business opportunities; the Company's ability to attract and retain key executives; the Company's ability to achieve anticipated cost savings and profitability targets; changes in the industry; competition; the effect of regulatory and legal proceedings and other factors discussed in Item 1 of the Company's Form 10-K. As a result of the foregoing and other factors, no assurance can be given as to the future results and achievements of the Company. Neither the Company nor any other person assumes responsibility for the accuracy and completeness of these statements.

BEMIS COMPANY, INC. (DEC)

Forward Looking Statements

Certain statements made in this annual report are forward-looking statements that involve risks and uncertainties, and actual results may be materially different. These forward-looking statements include, but are not limited to, the expectation that increased market share and enhanced profitability will result from the reorganization of the Paper Packaging business, the expected completion date of such reorganization and the total job eliminations involved, the expectation of improvements in the Company's financial performance in the upcoming year, the amount and distribution of expected capital expenditures in 1998, the expectation that total debt will decrease slightly in 1998, and the opinion of management that resolution of the Company's current environmental litigation will not produce a material adverse effect on its financial condition or results of operations.

Factors that could cause actual results to differ from those expected include, but are not limited to, general economic conditions such as inflation, interest rates, and foreign currency exchange rates; competitive conditions within the Company's markets, including the acceptance of new and existing products offered by the Company; unanticipated expenses; timely completion of the reorganization of the Paper Packaging business; price increases for raw materials and the ability of the Company to pass these price increases on to its customers or otherwise manage commodity price fluctuation risks; the presence of adequate cash available for investment in the Company's business in order to maintain desired debt levels; changes in governmental regulation, especially in the areas of environmental, health and safety matters, and foreign investment unexpected outcomes in the Company's current and future litigation proceedings; and changes in the Company's labor relations.

THE BLACK & DECKER CORPORATION (DEC)

Forward Looking Statements

This Annual Report includes statements that constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections. By their nature, all forward looking statements involve risk and uncertainties. Actual results may differ materially from those contemplated by the forward looking statements for a number of reasons, including but not limited to: market acceptance of the new products introduced in 1997 and scheduled for introduction in 1998; the level of sales generated from these new products relative to expectations, based on the existing investments in productive capacity and commitments of the Corporation to fund advertising and product promotions in connection with the introduction of these new products; the ability of the Corporation and its suppliers to meet scheduled timetables for new product introductions; unforeseen competitive pressure or other difficulties in maintaining mutually beneficial relationships with key distributors or in penetrating new channels of distribution; adverse changes in currency exchange rates or raw material commodity prices, both in absolute terms and relative to competitors' risk profiles; delays in or unanticipated inefficiencies resulting from manufacturing and administrative reorganization actions in progress or contemplated by the strategic repositioning plan announced by the Corporation in January 1998; and the continuation of modest economic growth in the United States and gradual improvement of the economic environment in Europe and Asia.

In addition to the foregoing, the Corporation's ability to realize the anticipated benefits during 1998 and in the future of the restructuring program undertaken in 1996 and to be undertaken as part of the strategic repositioning of the Corporation is dependent upon current market conditions, as well as the timing and effectiveness of the relocation or consolidation of production and administrative processes. The ability to achieve certain sales and profitability targets and cash flow projections also is dependent upon the Corporation's ability to identify appropriate selected acquisitions that are complementary to the repositioned business units at acquisition prices that are consistent with these objectives.

There can be no assurance that the Corporation will consummate the sales of the recreational products business, the glass container-forming and inspection equipment business, and the household products business in North America, Latin America, and Australia. Further, the Corporation's ability to realize the aggregate net proceeds from the sales of such businesses in excess of

$500 million is dependent upon market conditions at the time of those sales.

The incremental costs of the Year 2000 project and the time by which the Corporation believes it will complete the Year 2000 modifications, as well as new systems initiatives that are Year 2000 compliant, are based upon management's best estimates, which were derived using numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

BRIGGS & STRATTON CORPORATION (JUN)

Cautionary Statement on Forward-Looking Statements

Certain statements in Management's Discussion and Analysis, in the Letter to Shareholders on pages 2 through 5 and in About Briggs & Stratton on pages 6 through 11 may contain forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. The words "anticipate", "believe", "estimate", "expect", "objective", and "think" or similar expressions are intended to identify forward-looking statements. The forward-looking statements are based on the Company's current views and assumptions and involve risks and uncertainties that include, among other things, the effects of weather on the purchasing patterns of the Company's customers and end use purchasers of the Company's engines; the seasonal nature of the Company's business; actions of competitors; changes in laws and regulations, including accounting standards; employee relations; customer demand; prices of purchased raw materials and parts; domestic economic conditions, including housing starts and changes in consumer disposable income; and foreign economic conditions, including currency rate fluctuations. Some or all of the factors are beyond the Company's control.

DIGITAL EQUIPMENT CORPORATION (JUN)

Factors that may affect future results

From time to time, information provided by the Corporation or statements made by its employees may contain "forward-looking" information, as that term is defined in the Private Securities Litigation Reform Act of 1995 (the "Act"). The Corporation cautions investors that there can be no assurance that actual results or business conditions will not differ materially from those projected or suggested in such forward-looking statements as a result of various factors, including but not limited to the following:

- The Corporation's future operating results are dependent on its ability to develop, produce and market new and innovative products and services. There are numerous risks inherent in this complex process, including rapid technological change, the Corporation's ability to access components and related technical information from other companies and the requirement that the Corporation bring to market in a timely fashion new products and services which meet customers' changing needs.
- Historically, the Corporation has generated a disproportionate amount of its operating revenues toward the end of each quarter, making precise prediction of revenues and earnings particularly difficult and resulting in risk of variance of actual results from those forecast at any time. In addition, the Corporation's operating results historically have varied from fiscal period to fiscal period; accordingly, the Corporation's financial results in any particular fiscal period are not necessarily indicative of results for future periods.
- The Corporation offers a broad variety of products and services to customers around the world. Changes in the mix of products and services comprising revenues could cause actual operating results to vary from those expected.
- The Corporation's success is partly dependent on its ability to successfully predict and adjust production capacity to meet demand, which is partly dependent upon the ability of external suppliers to deliver components at reasonable prices and in a timely manner; capacity or supply constraints, or unexpected increases or decreases in the prices of components, could adversely affect future operating results.
- While the Corporation believes that the materials required for its manufacturing operations are presently available in quantities sufficient to meet demand, the failure of a significant supplier to deliver certain components or technical information on a timely basis or in sufficient quantities could adversely affect the Corporation's future results of operations.
- The Corporation operates in a highly competitive environment which includes significant competitive pricing pressures and intense competition for skilled employees. Particular business segments may from time to time experience unanticipated intense competitive pressure, possibly causing operating results to vary from those expected.
- The Corporation offers its products and services directly and through indirect distribution channels. Changes in the financial condition of, or the Corporation's relationship with, distributors and other indirect channel partners, as well as fluctuations in end-user sales by indirect sales channel partners, could cause actual operating results to vary from those expected.
- The Corporation does business worldwide in over 100 countries. Global and/or regional economic factors and potential changes in laws and regulations affecting the Corporation's business, including without limitation, currency fluctuations, changes in monetary policy and tariffs, and federal, state and international laws regulating the environment, could impact the Corporation's financial condition or future results of operations.
- As the Corporation continues to implement its strategic plan and respond to external market conditions, there can be no assurance that additional

restructuring actions will not be required. With regard to completion of planned restructuring actions, there can be no assurance that the estimated cost of such actions will not change.

- The market price of the Corporation's securities could be subject to fluctuations in response to quarter to quarter variations in operating results, changes in analysts' earnings estimates, market conditions in the information technology industry, as well as general economic conditions and other factors external to the Corporation.

HALLIBURTON COMPANY (DEC)

Forward-Looking Information

In accordance with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions that the statements in this annual report and elsewhere, which are forward-looking and which provide other than historical information, involve risks and uncertainties that may impact the Company's actual results of operations. While such forward-looking information reflects the Company's best judgment based on current information, it involves a number of risks and uncertainties and there can be no assurance that other factors will not affect the accuracy of such forward-looking information. While it is not possible to identify all factors, the Company continues to face many risks and uncertainties that could cause actual results to differ from those forward-looking statements. Such factors include: unsettled political conditions, war, civil unrest, currency controls and governmental actions in over 100 countries of operation; trade restrictions and economic embargoes imposed by the United States and other countries; environmental laws, including those that require emission performance standards for new and existing facilities; the magnitude of governmental spending for military and logistical support of the type provided by the Company; operations in countries with significant amounts of political risk, including, without limitation, Algeria and Nigeria; technological and structural changes in the industries served by the Company; computer software and hardware used by governmental entities, service providers, vendors, customers and the Company which may be impacted by the Year 2000 issue; integration of acquired businesses into the Company; changes in the price of oil and natural gas; changes in the price of commodity chemicals used by the Company; changes in capital spending by customers in the hydrocarbon industry for exploration, development, production, processing, refining and pipeline delivery networks; increased competition in the hiring and retention of employees; changes in capital spending by customers in the wood pulp and paper industries for plants and equipment; and changes in capital spending by governments for infrastructure. In addition, future trends for pricing, margins, revenues and profitability remain difficult to predict in the industries served by the Company.

Year 2000 Excerpts

AMERADA HESS CORPORATION (DEC)

Year 2000

Some older computer programs use two digits rather than four to reflect dates used in performing calculations. As a result, these programs may not properly recognize the year 2000 and errors may result. The Corporation has instituted a program to identify these computer programs and modify or replace its systems so that they will function properly in the year 2000. Since 1995, the Corporation has been installing new financial systems in its United States operations as part of its financial reengineering project. While the primary purpose of this project is to increase efficiency and effectiveness, the software being installed is year 2000 compliant.

The Corporation is also taking actions, using internal and external resources, to modify or replace the remaining United States and foreign computer applications that are not year 2000 compliant. The Corporation is expensing these costs as incurred and expects that the total future costs of this program will be approximately $15 million, a portion of which is included in its normal information technology budget. The Corporation does not presently expect that its operations will be materially affected by problems with its computer systems or those of third parties with whom it deals.

CRANE CO (DEC)

Impact of the Year 2000

The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the company's computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in similar normal business activities.

Based on an initial assessment in 1997, the company determined that it will be required to modify or replace significant portions of its software so that its computer systems will properly utilize dates beyond December 31, 1999. Further confirmatory tests and more detailed assessments are planned in 1998. The company presently believes that with planned modifications to existing software and conversions to new software, the Year 2000 Issue can be effectively mitigated. However, if such modifications and conversions are not made, or are not completed on a timely basis, the Year 2000 Issue could have a material impact on the operations of the company.

The company is in the process of initiating formal communications with all of its significant suppliers and large customers to determine the extent to which the company is vulnerable to potential third parties' failures to remediate their own Year 2000 Issues. Though it is in the interest of the company to use this information to mitigate these risks, because of the complexity of this issue, the

company can give no guarantee that the systems of other companies on which the company's systems rely will be remedied for the Year 2000 Issue on time or that a failure to remedy the problem by another company would not have a material adverse effect on the company.

The company will utilize both internal and external resources to replace or upgrade and test its software for the Year 2000 modifications. In 1998 the company plans to replace the business systems at eleven of its operating units and to modify or upgrade the business software at fifteen of its operating units. The business software being replaced or upgraded will add functionality and efficiency in the business processes of the company. The total cost of those projects is estimated to total $25 million and will be funded through operating cash flow. Of the total project cost, approximately $17 million is attributable to the purchase of new hardware/software, which will be capitalized with the remaining $8 million expensed as incurred. The company believes these projects will be completed on a timely basis, mitigating the impact of the Year 2000 Issue. However, the costs of the project and the date by which the company plans to complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be correct and actual results could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

EXXON CORPORATION (DEC)

Year 2000 Issue

The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define a specific year. Absent corrective actions, a computer program that has date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruptions to various activities and operations.

The corporation initiated assessments in prior years to identify the work efforts required to assure that systems supporting the business successfully operate beyond the turn of the century. Comprehensive plans for achieving Year 2000 compliance were finalized during 1997, and implementation work was underway at year-end. While plans are in place, significant work remains to be done. Most required systems modifications are expected to be completed in 1998. Also during 1998, attention will continue to be focused on compliance attainment efforts of vendors and others, including key system interfaces with customers and suppliers. Notwithstanding the substantive work efforts described above, the corporation could potentially experience disruptions to some aspects of its various activities and operations as a result of non-compliant systems utilized by unrelated third party governmental and business entities. Contingency plans are therefore under development in order to attempt to mitigate the extent of such potential disruption to business operations. The total cost to the corporation of achieving Year 2000 compliant systems is not expected to be material to Exxon's operations, financial condition or liquidity.

FEDERAL-MOGUL CORPORATION (DEC)

Year 2000 Costs

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. The Company has established a team that has completed an awareness program and assessment project to address the Year 2000 issue. In addition, the Board of Directors has received status reports related to the Company's progress in addressing the Year 2000 issue. The Company has determined that it will be required to modify or replace portions of its software so that its computer systems will properly utilize dates beyond December 31, 1999. The Company has initiated remediation, and is implementing the action plan to address the Year 2000 issue. The Company presently believes that with modifications to existing software and conversions to new software, the Year 2000 issue can be mitigated. However, if such modifications and conversions are not made, or are not completed timely, the Year 2000 issue could have a material impact on the operations of the Company.

The Company has initiated formal communications with a substantial majority of its significant suppliers and large customers to determine their plans to address the Year 2000 issue. While the Company expects a successful resolution of all issues, there can be no guarantee that the systems of other companies on which the Company's systems rely will be converted in a timely manner, or that a failure to convert by a supplier or customer, or a conversion that is incompatible with the Company's systems, would not have a material adverse effect on the Company. The Company has determined it has no exposure to contingencies related to the Year 2000 issue for the products it has sold.

The Company has contracts in place with external resources and has allocated internal resources to reprogram or replace, and test the software for Year 2000 modifications. The Company plans to complete the Year 2000 project within one year. The total cost of the Year 2000 project is estimated to be $17 million and is being funded through operating cash flows. Of the total project cost, approximately $11 million is attributable to the purchase of new software which will be capitalized. The remaining $6 million represents maintenance and repair of existing systems and will be expensed as incurred. The Company expects a substantial majority of the costs will be incurred in 1998, and any remaining costs incurred in 1999 are expected to be immaterial. As of December 31, 1997, the Company had incurred and expensed approximately $0.7 million related to the completed awareness program and assessment project and the implementation of their remediation plan.

The costs of the project and the date which the Company plans to complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events in-

cluding the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes and similar uncertainties.

As a result of the Company's due diligence related to the proposed T&N acquisition and Fel-Pro acquisition, the Company expects costs to address the Year 2000 issue for Fel-pro to be immaterial, and T&N costs for repair and maintenance of existing systems are expected to approximate $8 million.

FIRST DATA CORPORATION (DEC)

Impact of Year 2000

Most of the Company's business units are faced with "Year 2000" remediation issues. Many computer programs were written with a two digit date field and if these programs are not made Year 2000 compliant, they will be unable to correctly process date information on or after the Year 2000. While these issues impact all of the Company's data processing systems to some extent, they are most significant in connection with various mainframe "legacy" computer programs. Moreover, remediation efforts go beyond the Company's internal computer systems and require coordination with clients, vendors, government entities and other third parties to assure that their systems and related interfaces are compliant. Given the different computer systems operated by the Company's business units, the type and extent of the Year 2000 issues and the cost of remediation vary significantly among the Company's business units. Failure to achieve timely remediation of business units' computer systems that process client information and transactions would have a material adverse effect on the Company's business, operations and financial results.

In response to the Year 2000 concerns, the Company created a Year 2000 Task Force to coordinate and monitor the business units' progress in their Year 2000 remediation efforts. The Task Force reports directly to the Company's executive management and also provides regular reports to the Board of Directors. In addition, at the direction of the Audit Committee of the Board of Directors, the Company engaged the Gartner Group to provide an independent analysis and assessment of its Year 2000 remediation efforts. The Gartner Group provides regular progress reports to executive management and the Board of Directors and regularly meets with the Audit Committee to discuss its reports.

The Company's plans call for all mission critical systems to be renovated and for compliance testing underway by the end of 1998. Acceptance testing with clients and other third parties will take place between late 1998 and mid-1999 with time frames differing by business unit. Completion of all third party interface testing is dependent upon those third parties completing their own internal remediation. The Company could be adversely affected to the extent third parties with which it interfaces have not properly addressed their Year 2000 issues.

In 1997, the Company spent approximately $32 million on its Year 2000 remediation efforts. The Company currently anticipates expenditures for Year 2000 remediation efforts and testing in the range of $75 million to $90 million in 1998 and in the range of $35 million to $45 million in 1999.

The cost of the project and the date on which the Company believes it will complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated.

HUMANA INC. (DEC)

Impact of the Year 2000 Issue

The Company has conducted an assessment of its computer systems to identify the systems that could be affected by the "Year 2000" issue, which results from computer programs having been written to define the applicable year using two digits rather than four digits. The Company believes that, with modifications to existing software, the Year 2000 issue will not pose significant operational problems for its computer system as so modified. The Company plans to complete the majority of the Year 2000 modifications by December 31, 1998. At present, the Company anticipates that the incremental costs incurred in connection with the Year 2000 project will approximate $12 to $15 million.

The cost of the project and the date on which the Company plans to complete the necessary Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, the ability of the Company's significant suppliers, customers and others with which it conducts business to identify and resolve their own Year 2000 issues and similar uncertainties.

KMART CORPORATION (JAN)

Other Matters

The Company is currently working to resolve the potential impact of the Year 2000 on the processing of date-sensitive information by the Company's computerized information systems. The Year 2000 problem is the result of computer programs being written using two digits (rather than four) to define the applicable year. Any of the Company's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations or system failures. Costs of addressing potential problems are estimated to be approximately $50 million and are not expected to have a material adverse impact

on the Company's financial position, results of operations or cash flows in future periods. However, if the Company or its vendors are unable to resolve such processing issues in a timely manner, it could result in a material financial risk. Accordingly, the Company plans to devote the necessary resources to resolve all significant Year 2000 issues in a timely manner.

LTV CORPORATION (DEC)

Year 2000 Compliance

As is the case with most other companies using computers in their operations, the Company is faced with the task of addressing the Year 2000 problem during the next two years. The Company is currently engaged in a comprehensive project to upgrade its computer software in its information technology, manufacturing and facilities systems to programs that will be Year 2000 compliant. In addition, over a two-year period, the Company currently estimates that it will expense approximately $55 million related to Year 2000 compliant work, of which $8 million was expensed in 1997. Failure by the Company and/or vendors working on this project to complete the Year 2000 compliance work in a timely manner could have a material adverse effect on the Company's operations. LTV expects to be Year 2000 compliant in early 1999.

MINNESOTA MINING AND MANUFACTURING COMPANY (DEC)

Year 2000 Issue

In November 1996, the company established a corporate-wide project team to ensure an uninterrupted transition to the year 2000. The effort encompasses software, hardware, EDI, manufacturing and lab equipment, environmental and safety systems, facilities, utilities, supplier readiness and date-sensitive 3M products. If necessary modifications and conversions are not made on a timely basis, the year 2000 issue could have a material adverse effect on company operations.

The target is to resolve serious information systems compliance issues in the United States by July 1998 and internationally by December 1998. The company expects to resolve all other potential compliance issues by July 1999. The company is in contact with suppliers and electronic commerce customers to assess their compliance. There can be no absolute assurance that there will not be a material adverse effect on the company if third parties do not convert their systems in a timely manner and in a way that is compatible with the company's systems.

Costs related to the year 2000 issue are expensed as incurred and are funded through operating cash flows. Through 1997, the company had expensed incremental costs of $15 million, with remaining incremental costs estimated at $55 million.

Time and cost estimates are based on currently available information. Developments that could affect estimates include, but are not limited to, the availability and cost of trained personnel; the ability to locate and correct all relevant computer code and equipment; and planning and modification success of 3M business partners.

MOBIL CORPORATION (DEC)

Year 2000 Issue

Many existing computer programs will be unable to properly recognize dates in the year 2000 and beyond. During 1997, Mobil conducted a company-wide study of its systems and operations, including systems being developed to improve business functionality, to identify those of its computer hardware, software and process control systems that do not properly recognize dates after December 31, 1999, and those that are linked to third parties' systems. Based on this study, Mobil commenced a major project to ensure that well in advance of the year 2000, all of Mobil's systems that are critical to the company's operations properly recognize such dates. The project is utilizing both internal and external resources to reprogram or replace, and test, affected computer hardware, software and process control systems to ensure that they are year 2000 compliant. Mobil has also initiated communications with third parties whose computer systems' functionality could impact Mobil. These communications will facilitate coordination of year 2000 conversions and will, additionally, permit Mobil to determine the extent to which the company may be vulnerable to failures of third parties to address their own year 2000 issues.

The costs of Mobil's year 2000 compliance effort are being funded with cash flows from operations. Some of these costs relate solely to the modification of existing systems, which other are for new systems which will improve business functionality. In total, these costs are not expected to be substantially different from the normal, recurring costs that are incurred for systems development and implementation, in part due to the reallocation of internal resources and the deferral of other projects. As a result, these costs are not expected to have a material adverse effect on Mobil's overall results of operations or cash flows.

The assessment of the costs of Mobil's year 2000 compliance effort, and the timetable for Mobil's planned completion of its own year 2000 modifications, are management's best estimates. These estimates were based upon numerous assumptions as to future events, including assumptions as to the continued availability of certain resources, in particular personnel with expertise in this area, and as to the ability of such personnel to locate and either re-program or replace, and test, all affected computer hardware, software and process control systems in accordance with Mobil's planned schedule. There can be no guarantee that these estimates will prove accurate, and actual results could differ from those estimated if these assumptions prove inaccurate. Based upon progress to date, however, Mobil believes that it is unlikely that the foregoing factors will cause actual results to differ significantly from those estimated. As to the systems of the third parties that are linked to Mobil's, there can be no guarantee that those of such systems that are not now year 2000 compliant will be timely converted to year 2000 compliance. Additionally, there can be no guarantee that third parties of business importance to Mobil will successfully and timely reprogram or replace, and test, all of their own computer hardware, software and process control systems. While the failure of a single third party to timely achieve year 2000 compli-

ance should not have a material adverse effect on Mobil's results of operations in a particular period, the failure of several key third parties to achieve such compliance could have such an effect. Mobil is developing contingency plans to alter business relationships in the event certain third parties fail to become year 2000 compliant.

PACCAR INC. (DEC)

Year 2000 Status:

PACCAR began its formal assessment of Year 2000 compliance issues in the second quarter of 1996. The Company has completed the evaluation of virtually all computer systems and applications used by the Company and its subsidiaries. PACCAR has prioritized the non-compliant systems and expects to substantially complete modifications to all significant systems by the end of 1998. Outside specialists have been retained to assist in the process to the extent considered necessary. Total cost to complete these projects is estimated to be $25 million, which is not expected to be material to the Company's financial position or results of operations. In addition, major suppliers and dealers have been contacted to identify any electronic interface systems which could be vulnerable to a supplier's or dealer's internal Year 2000 problems. The Company is working closely with these vendors and dealers to ensure that any significant issues are resolved in a timely manner.

THE PENN TRAFFIC COMPANY (JAN)

Year 2000

Many of the Company's computer systems will require modification or replacement over the next two years in order to render these systems compliant with the year 2000. The Company has established processes for evaluating and managing the risks and costs associated with this issue. The Company expects to have all critical systems compliant. Based on current information, the Company estimates that the cost of the year 2000 compliance during the fiscal years ended January 30, 1999, and January 29, 2000, will be approximately $10 million (including the purchase of certain new hardware and software). The business of the Company could be adversely affected should the Company or other entities with whom the Company does business be unsuccessful in completing critical modifications in a timely manner.

POLAROID CORPORATION (DEC)

Year 2000 Date Conversion

The Year 2000 problem is the result of computer programs being written with two digits instead of four digits to define the applicable year. The Company's management has initiated a company-wide program to prepare the Company's computer systems for the Year 2000. A comprehensive review of the Company's computer systems and software has been conducted to identify the systems and software that could be affected by this issue. A plan to resolve this issue is currently being developed and implemented. The Company presently believes that with modifications to existing systems and software and converting to new software, the Year 2000 problem will not pose a significant operational problem to the Company. The Company is also reviewing the possible impact of the Year 2000 problem on its customers and suppliers. However, without the modifications and conversions, the Year 2000 problem could have a material impact on the operations of the Company. The Company expects the Year 2000 related modifications and conversions to be substantially completed by the middle of 1999. The cost to modify existing software is expected to cost approximately $10 to $15 million, based on available information, of which approximately $1 million had been expended through December 31, 1997.

Market Risk Information Excerpts From Management's Discussion And Analysis

ANHEUSER-BUSCH COMPANIES, INC. (DEC)

Risk Management

In the ordinary course of business, Anheuser-Busch is exposed to foreign currency, interest rate and commodity price risks. These exposures primarily relate to the sale of product to foreign customers, purchases from foreign suppliers, acquisition of raw materials from both domestic and foreign suppliers, and changes in interest rates. The company utilizes derivative financial instruments, including forward exchange contracts, futures contracts, options and swap agreements to manage certain of these exposures that it considers practical to do so. Anheuser-Busch has well-established policies and procedures governing the use of derivatives. The company hedges only firm commitments or anticipated transactions and company policy prohibits the use of derivatives for speculation, including the sale of free-standing options. The company neither holds nor issues financial instruments for trading purposes.

Specific hedging strategies depend on several factors, including the magnitude of the exposure, offset through contract terms, cost and availability of appropriate instruments, the anticipated time horizon, basis, opportunity cost and the nature of the item being hedged. The company's overall risk management goal is to strike a balance between managing its exposure to market volatility and obtaining the most favorable transaction costs possible within the constraints of its financial objectives. Exposures the company currently is unable to hedge, or has elected not to hedge, primarily relate to its floating-rate debt, "to-arrive" inventory purchase contracts, net investments in foreign-currency-denominated operations and translated earnings of foreign subsidiaries.

Derivatives are either exchange-traded instruments which are highly liquid, or over-the-counter instruments transacted with highly-rated financial institutions. No credit loss is anticipated, as the counterparties to over-the-counter instruments have long-term debt ratings from Standard and Poor's or Moody's no lower than A+ or A1, respectively, or the position is secured by a letter of credit from a bank having a similar rating. The fair value of derivative financial instruments is monitored based on

the estimated amounts the company would receive or have to pay when terminating the contracts. The company also monitors the effectiveness of its hedging structures on an on-going basis.

Following is a volatility analysis of the company's derivatives portfolio which indicates potential changes in the fair value of the company's derivative holdings under certain market movements. The company applies sensitivity analysis for commodity price exposures and value-at-risk (VAR) analysis for foreign currency and interest rate exposures.

Estimated Fair Value Volatility at December 31, 1997 (In millions)

Foreign Currency Risk (VAR):	
Forwards, Options	$(0.7)
Interest Rate Risk (VAR):	
Swaps	$(2.2)
Commodity Price Risk (Sensitivity):	
Futures, Swaps, Options	$(15.9)

The sensitivity analysis for commodities reflects the impact of a hypothetical 10% adverse change in the market price for the company's principal commodities. In actuality, commodity price volatility is dependent on many factors impacting supply and demand that are impossible to forecast. Therefore, changes in fair value over time could differ substantially from the hypothetical change shown above.

VAR forecasts fair value changes using a statistical model (Monte Carlo simulation method for currencies and covariance method for interest rates) which incorporates historical correlations among various currencies and interest rates. The VAR model assumes the company could liquidate its currency and interest rate positions in a single day (one-day holding period). The volatility amount provided represents the maximum one-day loss each portfolio could experience for 19 out of every 20 trading days (95% confidence level).

The preceding volatility analysis ignores changes in the exposures inherent in the underlying hedged transactions. Because the company does not hold or trade derivatives for speculation or profit, all changes in derivative values are effectively offset by corresponding changes in the underlying exposures. See Note 4 for additional information.

ASHLAND INC. (SEP)

Derivative Instruments

Ashland is exposed to various market risks, including changes in certain commodity prices, foreign currency rates and interest rates. To manage the volatility relating to these natural business exposures, Ashland enters into various derivative transactions in accordance with its established policies. Ashland does not hold or issue derivative instruments for trading purposes.

Ashland selectively uses commodity futures contracts to reduce its exposure to certain risks inherent within its refining business. Such contracts are used principally to hedge the value of intransit crude oil cargoes, hedge exposure under fixed-price petroleum product sales contracts, obtain higher prices for crude oil sales, protect against margin compression caused by increasing crude oil prices, take advantage of attractive refining margins and lock in costs on a portion of the natural gas fuel needs of the refineries. Ashland also uses forward exchange contracts to hedge certain foreign currency transaction exposures of its operations. The potential loss from a hypothetical 10% adverse change in commodity prices or foreign currency rates on Ashland's open commodity futures and foreign exchange contracts at September 30, 1997, would not materially affect Ashland's consolidated financial position, results of operations or cash flows.

Ashland uses interest rate swap agreements to obtain greater access to the lower borrowing costs normally available on floating-rate debt, while minimizing refunding risk through the issuance of long-term, fixed-rate debt. Long-term debt at September 30, 1997, included about $280 million of floating-rate debt, and the interest rates on an additional $370 million of fixed-rate debt were converted to LIBOR floating rates through unleveraged interest rate swap agreements. As a result, Ashland's annual interest costs in 1998 will fluctuate based on short-term interest rates on about $650 million of Ashland's consolidated long-term debt outstanding at September 30, 1997, as well as on any short-term notes and commercial paper.

ATLANTIC RICHFIELD COMPANY (DEC)

Market-Sensitive Instruments and Risk Management

The following discussion of the company's risk-management activities includes "forward-looking statements" that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

This analysis presents the hypothetical loss in earnings, cash flows or fair value of the financial instruments, derivative instruments, and derivative-commodity instruments which are held by the company at December 31, 1997 and are sensitive to changes in interest rates, foreign exchange rates and commodity prices.

To minimize the effects of interest rate and foreign currency fluctuations, ARCO enters into the following transactions using derivatives: 1) foreign currency forward, option and swap contracts; 2) interest rate swaps; and 3) financial futures contracts and over-the-counter Treasury options which are limited to investment portfolio hedging, alteration of portfolio duration and changing asset mix. ARCO and its subsidiaries also engage in hedging strategies involving forward and futures contracts, swaps and options covering part of its natural gas and crude oil production to minimize the effects of commodity price fluctuations.

The company uses simple, non-leveraged derivative instruments that are placed with major institutions whose creditworthiness is continually monitored. Risk management strategies are reviewed and approved by senior management before being implemented. Policy controls limit the maximum amount of positions that can be taken in any given instruments.

In the normal course of business, the company also faces risks that are either nonfinancial or non-quantifiable. Such risks principally include country risk, credit risk and legal risk and are not represented in the following analyses.

Interest Rate Risk
The fair value of the company's cash and short-term investment portfolio at December 31, 1997, approximated carrying value due to its short-term duration. Market risk was estimated as the potential decrease in fair value resulting from a hypothetical 10% increase in interest rates for the issues contained in the investment portfolio and was not materially different from the year-end carrying value.

At December 31, 1997, the fair value of notes payable approximated carrying value due to its short-term maturities. Market risk was estimated as the potential increase in fair value resulting from a hypothetical 10% decrease in the company's weighted average short-term borrowing rate at December 31, 1997, and was not materially different from the year-end carrying value.

The fair value of the company's long-term debt, including current maturities, was estimated to be $5.4 billion at December 31, 1997, and exceeded the carrying value by $798 million. Market risk was estimated as the potential increase in fair value resulting from a hypothetical 10% decrease in the company's weighted average long-term borrowing rate at December 31, 1997, or $185 million.

Foreign Exchange Rate Risk
The company has bought foreign currency contracts (principally involving European currencies and Australian dollars) to hedge anticipated foreign currency commitments and future cash flows from overseas operations with varying maturities ranging from 1998 to 2000.

The hypothetical loss in cash flows of the combined foreign-exchange positions at year end is estimated to be $17 million. A hypothetical adverse change of 10% in year-end exchange rates (a weakening of the U.S. dollar), is assumed. The future cash flows were translated to U.S. dollars by using the hypothetical exchange rate and the cash value of the currency contract, multiplied by the difference between the hypothetical and strike exchange rates to the contract amount.

At December 31, 1997, approximately $1 billion of financial instruments, primarily short-term debt, were denominated in foreign currencies. Assuming a hypothetical adverse change of 10% in year-end exchange rates (a weakening of the U.S. dollar), the fair value of those instruments would increase by $80 million.

Commodity Price Risk
From time to time, the company uses various hedging arrangements, predominantly natural gas swaps and crude oil futures and options, to manage the company's exposure to price risk from its natural gas and petroleum liquids production. These hedging arrangements have the effect of locking in for specified periods (at predetermined prices or ranges of prices) the prices the company will receive for the volumes to which the hedge relates. As a result, while these hedging arrangements are structured to reduce the company's exposure to decreases in price associated with the hedging community, they also limit the benefit the company might otherwise have received from any price increases associated with the hedged commodity.

At December 31, 1997, ARCO had entered into a series of crude oil futures and options contracts and a series of forward natural gas contracts. Based on year-end forward prices ARCO had a net deferred loss of $55 million of those contracts. The hypothetical incremental loss in earnings for the combined commodity positions at year end is estimated to be $14 million, assuming an increase in crude oil and natural gas year-end forward prices of 10%.

To calculate the hypothetical loss, the relevant parameters of the commodity contracts are the type of commodity and the delivery price. The hypothetical loss on the commodity contracts was estimated by calculating the cash value of the contracts as the difference between the hypothetical and contract delivery prices, then multiplying it by the contract amount.

Equity Price Risk
Other investments at December 31, 1997, included marketable equity securities which are recorded at a fair value of $1.4 billion, including net unrealized gains of $979 million. Those securities have exposure to price risk. The estimated potential loss in fair value resulting from a hypothetical 10% decrease in prices quoted by stock exchanges is $140 million.

FMC CORPORATION (DEC)

Derivative Financial Instruments

FMC's primary financial market risks include fluctuations in interest rates and currency exchange rates. The company manages these risks by using derivative financial instruments in accordance with established policies and procedures. FMC does not use derivative financial instruments for trading purposes.

When FMC sells or purchases products or services outside the United States, transactions are frequently denominated in currencies other than U.S. dollars. At December 31, 1997, the foreign currencies to which the company had the most significant exchange rate exposure were the Spanish peseta, Swedish krona, Japanese yen, Italian lira, British pound, German mark, Belgian franc, Norwegian krone and Irish punt. Exposure to variability in currency exchange rates is mitigated, when possible, through the use of natural hedges, whereby purchases and sales in the same foreign currency and with similar maturity dates offset one another. Additionally, FMC initiates hedging activities by entering into foreign exchange forward contracts with third parties when the use of natural hedges is not possible. The maturity dates of the currency exchange agreements which provide hedge coverage are consistent with those of the underlying purchase or sales commitments.

To monitor its currency exchange rate risks, the company uses sensitivity analysis, which measures the impact on earnings of a 10 percent devaluation of the foreign currencies to which it has exposure. Based on its sensitivity analysis at December 31, 1997, fluctuations in currency exchange rates in the near term would not materially affect FMC's consolidated operating results, financial position or cash flows. FMC's management believes that its hedging activities have been effective in reducing its limited risks related to currency exchange rate fluctuations.

FMC utilizes interest rate swaps to manage its exposure to fluctuations in earnings due to changes in interest rates. The company's interest rate swap portfolio is an integral part of its risk management strategy and as

such, all swaps are linked to an underlying debt obligation. At December 31, 1997, the company had in place one interest rate swap denominated in British pounds with a notional amount of 30.0 million ($49.3 million at December 31, 1997) which matures in May 1998. The swap settles monthly, and the receive and pay rates are British pounds Libor and 6.885 percent, respectively.

For more information on derivative financial instruments, see Notes 1 and 7 to the consolidated financial statements.

FORTUNE BRANDS, INC. (DEC)

Market Risk

The Company is exposed to various market risks, including changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes. The Company enters into financial instruments to manage and reduce the impact of changes in foreign currency exchange rates and interest rates. The counterparties are major financial institutions.

Foreign Exchange Contracts

The Company enters into forward foreign exchange contracts principally to hedge the currency fluctuations in transactions denominated in foreign currencies, thereby limiting the Company's risk that would otherwise result from changes in exchange rates. During 1997, the principal transactions hedged were short-term intercompany loans, intercompany purchases and dividends declared by foreign operating companies. The periods of the forward foreign exchange contracts correspond to the periods of the hedged transactions. Gains and losses on forward foreign exchange contracts and the offsetting losses and gains on hedged transactions are reflected in the income statement.

At December 31, 1997, the Company had outstanding forward foreign exchange contracts to purchase $72 million and sell $164 million of various currencies (principally pound sterling) with a weighted average maturity of 121 days.

The estimated fair value of foreign currency contracts represents the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices. At December 31, 1997, the difference between the fair value of all outstanding contracts and the contract amounts was immaterial. A 10% fluctuation in exchange rates for these currencies would change the fair value by approximately $9 million. However, since these contracts hedge foreign currency denominated transactions, any change in the fair value of the contracts would be offset by changes in the underlying value of the transaction being hedged.

Interest Rates

The Company enters into interest rate swap agreements to manage its exposure to interest rate changes. The swaps involve the exchange of fixed and variable interest rate payments without exchanging the notional principal amount. Payments or receipts on the agreements are recorded as adjustments to interest expense. At December 31, 1997, the Company had outstanding interest rate swap agreements denominated in dollars, maturing at various dates through 1999, with an aggregate notional principal amount of $200 million. Under these agreements the Company receives a floating rate based on thirty day commercial paper rates and pays a fixed interest rate. These swaps effectively change the Company's payment of interest on $200 million of variable rate debt to fixed rate debt.

The fair value of these interest rate swap agreements represent the estimated receipts or payments that would be made to terminate the agreements. At December 31, 1997, the Company would have paid $6.6 million to terminate the agreements. A 1% decrease in the thirty day commercial paper rates would increase the amount paid by approximately $3 million. The fair value is based on dealer quotes, considering current interest rates.

The fair market value of long-term fixed interest rate debt is subject to interest rate risk. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The estimated fair value of the Company's total long-term debt (including current portion) at December 31, 1997 was $1,013 million. A 1% increase from prevailing interest rates at December 31, 1997 would result in a decrease in fair value of total long-term debt by approximately $51 million. Fair values were determined from quoted market prices, where available, and from investment bankers using current interest rates considering credit ratings and the remaining terms to maturity.

See Notes 1 and 14 for a discussion of the accounting policies for Derivative Financial Instruments and information on Financial Instruments, respectively.

PHARMACIA & UPJOHN, INC. (DEC)

Market risk

Market risk represents the risk of changes in value of a financial instrument, derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates and equity prices.

The company handles market risks in accordance with established policies and thereby enters into various derivative transactions. No such transactions are entered into for trading purposes.

Because the company's cash and investments exceed short and long-term debt, the exposure to interest rate risk relates primarily to the investment portfolios. Most of the investments in the long term portfolio are at fixed rates. The company is actively managing the investment portfolios to increase return on investment, but, in order to ensure liquidity, will only invest in instruments with high credit quality where a secondary market exists. The company does not hold any derivatives related to its interest rate exposure. The company is in a position to keep all investments until final maturity. The company also maintains long-term debt at fixed rates.

The sensitivity analysis presents the hypothetical change in fair value of those financial instruments held by the company at December 31, 1997 which are sensitive to changes in interest rates. Market risk is estimated as the potential change in fair value resulting from an immediate hypothetical one percentage point parallel shift in the yield curve. The fair values of the company's investments and loans have been based on quoted market prices or discounted future cash flows. As the carrying amounts on short-term loans and investments maturing in less than 180 days approximate the fair value, these are not included in the sensitivity analysis. The fair value of investments over 180 days is $656 million. The fair value of the debt included in the analysis is $800 million. Although not expected, a one percentage point change in the interest rates would change the fair value of investments over 180 days by $17 million and debt by $24 million.

The company's management of currency exposure is primarily focused on reducing the negative impact on consolidated cash flow and earnings as a result of currency fluctuations. The company enters into foreign exchange forward and option contracts to actively manage the net exposure in accordance with established hedging policies. The company hedges intercompany loans and deposits as well as a portion of both firm commitments and anticipated transactions. The company has concentrated most of the currency exposure in production facilities in Sweden, Italy and Belgium. The largest exposures from these units are against other European currencies, Japanese yen and U.S. dollar.

Certain derivatives entered into to hedge anticipated transactions are exposed to currency fluctuations. A ten percent decrease in the Swedish krona and Italian lira would have a negative impact on fair value of those derivatives by $10 million and $3 million, respectively, and a ten percent increase in the Japanese yen would have a negative impact of $8 million.

The company also has investments in equity securities. All such investments are classified as long term investments. The fair market value of these investments is $187 million, of which 84 percent is listed on a stock exchange or quoted in an over-the-counter market. If the market price on those securities would decrease by ten percent the fair value of those equities would decrease by $16 million.

PRAXAIR, INC. (DEC)

Market Risks and Sensitivity Analyses

Like other global companies, Praxair is exposed to market risks relating to fluctuations in interest rates and currency exchange rates. The objective of financial risk management at Praxair is to minimize the negative impact of interest rate and foreign exchange rate fluctuations on the Company's earnings, cash flows and equity.

To manage these risks, Praxair uses various derivative financial instruments, including, interest rate swap, forward starting interest rate swap and interest rate cap and option agreements, and currency swap, forward and option contracts. These derivative financial instruments are generally held to maturity and Praxair only uses commonly traded and non-leveraged instruments. These contracts are entered into with major financial institutions thereby minimizing the risk of credit loss. Also, refer to Notes 1 and 6 to the consolidated financial statements for a more complete description of Praxair's accounting policies and use of such instruments.

As required by new Securities and Exchange Commission (SEC) rules, the following analyses present the sensitivity of the market value, earnings and cash flows of Praxair's financial instruments to hypothetical changes in interest and exchange rates as if these changes occurred at December 31, 1997. The range of changes chosen for these analyses reflect Praxair's view of changes which are reasonably possible over a one-year period. Market values are the present values of projected future cash flows based on the interest rate and exchange rate assumptions. These forward looking disclosures are selective in nature and only address the potential impacts from financial instruments. They do not include other potential effects which could impact Praxair's business as a result of these changes in interest and exchange rates.

Interest Rate and Debt Sensitivity Analysis

At December 31, 1997, Praxair has debt totaling $3,305 million and interest rate swaps with a net notional value of $1,150 million. Interest rate swaps are entered into as a hedge of underlying debt instruments to effectively change the characteristics of the interest rate without actually changing the debt instrument. At December 31, 1997, most of Praxair's interest rate swap agreements convert outstanding floating rate debt to fixed rate debt for a period of time. For fixed rate debt, interest rate changes affect the fair market value but do not impact earnings or cash flows. Conversely for floating rate debt, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors are held constant.

At December 31, 1997 after adjusting for the effect of interest rate swap agreements, Praxair has fixed rate debt of $2,637 million and floating rate debt of $668 million. Holding other variables constant (such as foreign exchange rates and debt levels) a one percentage point decrease in interest rates would increase the unrealized fair market value of the fixed rate debt by approximately $105 million. The earnings and cash flows impact for the next year resulting from a one percentage point increase in interest rates would be approximately $6 million, holding other variables constant.

Exchange Rate Sensitivity Analysis

Praxair's exchange rate exposures result primarily from its investments and ongoing operations in South America (primarily Brazil), Europe (primarily Spain and Italy), Canada, Mexico, Asia (primarily China, India, Korea and Thailand) and certain other business transactions such as the procurement of equipment from foreign sources. Among other techniques, Praxair utilizes foreign exchange forward contracts to hedge these exposures. At December 31, 1997 Praxair had $324 million notional amount of foreign exchange contracts of which $254 million hedged recorded balance sheet exposures or firm commitments.

Holding other variables constant, if there were a ten percent adverse change in foreign currency exchange rates, the market value of foreign currency contracts outstanding at December 31, 1997 would decrease by ap-

proximately $21 million. Of this decrease, only about $4 million would impact earnings since the gain (loss) on the majority of these contracts would be offset by an equal (gain) loss on the underlying exposure being hedged.

SEGMENT INFORMATION

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, its foreign operations and export sales, and its major customers. *SFAS No. 14* describes the information to be presented and the formats for presenting such information. Effective for fiscal years beginning after December 15, 1997, *Statement of Financial Accounting Standards No. 131* supersedes *SFAS No. 14.*

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

TABLE 1-3: SEGMENT INFORMATION

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Industry segments				
Revenue	306	312	327	350
Operating income or loss	271	279	297	301
Identifiable assets	297	307	323	343
Depreciation expense	300	311	322	339
Capital expenditures	297	303	319	339
Geographic areas				
Revenue	283	281	272	259
Operating income or loss	213	208	221	201
Identifiable assets	269	258	259	250
Depreciation expense	17	16	23	16
Capital expenditures	18	17	24	17
Export sales	168	154	167	160
Sales to major customers	145	137	166	170

Industry Segments

BAKER HUGHES INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Millions)

Note 10. Segment and Related Information

The Company adopted SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information,* in 1997 which changes the way the Company reports information about its operating segments. The information for 1996 and 1995 has been restated from the prior year's presentation in order to conform to the 1997 presentation.

The Company's nine business units have separate management teams and infrastructures that offer different products and services. The business units have been aggregated into three reportable segments (oilfield, chemicals and process equipment) since the long-term financial performance of these reportable segments is affected by similar economic conditions.

Oilfield: This segment consists of five business units - Baker Hughes INTEQ, Baker Oil Tools, Baker Hughes Solutions, Centrilift and Hughes Christensen - that manufacture and sell equipment and provide services and solutions used in the drilling, completion, production and maintenance of oil and gas wells. The principle markets for this segment include all major oil and gas producing regions of the world including North America, Latin America, Europe, Africa and the Far East. Customers include major multi-national, independent and national or state-owned companies.

Chemicals: Baker Petrolite is the sole business unit reported in this segment. They manufacture specialty chemicals for inclusion in the sale of integrated chemical technology solutions for petroleum production, transportation and refining. The principle geographic markets for this segment include all major oil and gas producing regions of the world. This segment also provides chemical technology solutions to other industrial markets throughout the world including petro-chemicals, steel, fuel additives, plastics, imaging and adhesives. Customers include major multi-national, independent and national or state-owned oil companies as well as other industrial manufacturers.

Process Equipment: This segment consists of three business units—EIMCO Process Equipment, Bird Machine Company and Baker Hughes Process Systems—that manufacture and sell process equipment for separating solids from liquids and liquids from liquids through filtration, sedimentation, centrifugation and floatation processes. The principle markets for this segment include all regions of the world where there are significant industrial and municipal wastewater applications and base metals activity. Customers include municipalities, contractors, engineering companies and pulp and paper, minerals, industrial and oil and gas products.

The accounting policies of the reportable segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements. The Company evaluates the performance of its operating segments based on income before income taxes, accounting changes, nonrecurring items and interest income and expense. Intersegment sales and transfer are not significant.

Summarized financial information concerning the Company's reportable segments is shown in the following table. The "Other" column includes corporate related items, results of insignificant operations and, as it relates to segment profit(loss), income and expense not allocated to reportable segments.

	Oilfield	Chemicals	Process Equipment	Other	Total
1997					
Revenues	$2,862.6	$417.2	$386.1	$19.5	$3,685.4
Segment profit (loss)	416.8	41.9	36.3	(281.9)	213.1
Total assets	3,014.3	1,009.5	363.7	368.8	4,756.3
Capital expenditures	289.7	24.8	6.4	21.8	342.7
Depreciation and amortization	143.2	20.5	8.4	4.1	176.2
1996					
Revenues	$2,397.9	$247.6	$352.8	$29.4	$3,027.7
Segment profit (loss)	329.1	23.3	31.2	(84.7)	298.9
Total assets	2,464.6	270.3	258.9	303.6	3,297.4
Capital expenditures	157.5	16.6	6.6	1.5	182.2
Depreciation and amortization	123.6	12.2	6.7	3.0	145.5
1995					
Revenues	$2,072.2	$223.7	$319.6	$22.0	$2,637.5
Segment profit (loss)	249.6	17.8	29.7	(92.0)	205.1
Total assets	2,423.7	259.8	187.3	295.8	3,166.6
Capital expenditures	119.1	11.0	5.0	3.8	138.9
Depreciation and amortization	123.9	12.4	5.4	2.4	144.1

The following table presents the details of "Other" segment profit (loss).

	1997	1996	1995
Corporate expenses	$(44.3)	$(40.2)	$(39.7)
Interest expense-net	(46.8)	(52.1)	(50.8)
Unusual charge	(52.1)	(39.6)	
Acquired in-process research and development	(118.0)		
Nonrecurring charge to cost of sales for Petrolite inventories	(21.9)		
Gain on sale of Varco stock		44.3	
Other	1.2	2.9	(1.5)
Total	$(281.9)	$(84.7)	$(92.0)

The following table presents revenues by country based on the location of the use of the product or services.

	1997	1996	1995
United States	$1,319.7	$1,047.2	$972.9
United Kingdom	288.0	277.9	207.6
Venezuela	244.2	160.0	122.7
Canada	204.5	165.1	157.5
Norway	175.0	145.6	104.2
Indonesia	128.0	92.7	54.5
Nigeria	83.5	64.1	33.5
Oman	77.2	56.8	45.7
Other (approximately 60 countries)	1,165.3	1,018.3	938.9
Total	$3,685.4	$3,027.7	$2,637.5

The following table presents property by country based on the location of the asset.

	1997	1996	1995
United States	$593.3	$359.9	$353.0
United Kingdom	145.3	77.7	67.6
Venezuela	33.3	25.1	19.0
Germany	21.4	19.3	18.4
Norway	20.0	10.9	11.3
Canada	16.9	9.1	8.0
Singapore	11.7	17.7	25.0
Other countries	141.0	79.3	72.8
Total	$982.9	$599.0	$575.1

IMC GLOBAL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars In Millions Except Per Share Amounts)

22. Operating Segments

In June 1997, SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," was issued effective for fiscal years ending after December 15, 1998. The statement allows, and the Company has chosen, the early adoption of this statement for the year ended December 31, 1997.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. The Company's operations were restructured into a decentralized organizational structure with five stand-alone business units in July 1996. Financial data for periods reported prior to the restructuring have been restated to conform to the presentation according to SFAS No. 131. See also Note 3, "Vigoro Merger and Restructuring Charges."

The Company has three reportable segments: IMC-Agrico Crop Nutrients, IMC Kalium and IMC AgriBusiness. The Company produces and markets phosphate crop nutrients through the IMC-Agrico Crop Nutrients business unit. Potash crop nutrients, industrial grade potash and salt are produced and marketed through the IMC Kalium business unit. The IMC AgriBusiness business unit distributes crop nutrients, and related products, including nitrogen, through retail and wholesale distribution networks.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. All intersegment sales prices are market based. The Company evaluates performance based on operating earnings of the respective business units.

Segment information for the years 1997, 1996 and 1995 was as follows:

	1997				
	IMC-AGRICO CROP NUTRIENTS	IMC KALIUM	IMC AGRIBUSINESS	OTHER[a]	TOTAL
Net sales from external customers	$1,312.5	$537.7	$872.6	$265.8	$2,988.6
Intersegment net sales	172.3	79.7	—	32.3	284.3
Gross margins	298.7	237.7	163.7	38.5	738.6
Operating earnings	257.4	214.8	43.6	(212.8)	303.0
Depreciation, depletion and amortization	100.5	35.9	20.8	26.0	183.2
Total assets	1,752.2	891.1	487.3	1,543.3	4,673.9
Capital expenditures	82.3	123.3	30.0	8.4	244.0
	1996				
Net sales from external customers	$1,492.5	$392.2	$797.7	$258.6	$2,941.0
Intersegment net sales	168.8	72.6	—	155.8	397.2
Gross margins[b]	411.4	159.8	154.4	45.7	771.3
Operating earnings	365.7	130.5	43.3	(78.1)	461.4
Depreciation, depletion and amortization	96.3	30.1	17.4	27.2	171.0
Total assets	1,670.8	697.4	440.7	676.3	3,485.2
Capital expenditures	84.1	83.3	32.7	8.9	209.0
	1995				
Net sales from external customers	$1,581.6	$418.9	$807.7	$132.2	$2,940.4
Intersegment net sales	130.0	70.4	—	109.2	309.6
Gross margins	395.5	204.2	145.8	33.2	778.7
Operating earnings	357.3	177.5	52.0	(20.2)	566.6
Depreciation, depletion and amortization	93.3	31.6	18.3	23.2	166.4
Total assets	1,597.9	617.1	435.2	871.6	3,521.8
Capital expenditures[c]	—	—	—	—	146.0

a Segment information below the quantitative thresholds are attributable to two business units (IMC-Agrico Feed Ingredients and IMC Vigoro) and corporate headquarters. The Company produces and markets animal feed ingredients through IMC-Agrico Feed Ingredients. IMC Vigoro manufactures and distributes consumer lawn and garden products; produces and markets professional products for turf, nursery and horticulture markets; and produces and distributes potassium-based ice melter products. Corporate headquarters includes the elimination of inter-business unit transactions, the write-down of the Company's Main Pass interest and the goodwill recorded as a result of the FTX merger in 1997. See Note 2, "Freeport-McMoRan Inc. Merger." See also Note 3, "Vigoro Merger and Restructuring Charges."

b Before special one-time merger and restructuring charges of $26.3 million related to the Vigoro Merger. See Note 3, "Vigoro Merger and Restructuring Charges."

c Due to restructuring of the Company into business units as of July 1, 1996, it is impracticable to disclose this data on a restated segment basis.

Financial information relating to the Company's operations by geographic area was as follows:

	NET SALES[d]		
	1997	1996	1995
United States	$1,916.8	$1,796.8	$1,799.3
China	459.6	485.0	509.9
Other	612.2	659.2	631.2
Consolidated	$2,988.6	$2,941.0	$2,940.4

[d] Revenues are attributed to countries based on location of customer. Sales through Canpotex Limited (Canpotex), one of the Company's export associations, have been allocated based on the Company's share of total Canpotex sales.

	LONG-LIVED ASSETS		
	1997	1996	1995
United States	$3,233.2	$2,188.8	$2,151.6
Canada	378.5	362.8	354.5
Consolidated	$3,611.7	$2,511.6	$2,506.1

OGDEN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. Information Concerning Business Segments

Ogden elected to change the reporting of its business segments as of January 1, 1997, and restated its prior years' presentation to conform to this revised segment reporting. Two of Ogden's core businesses formerly reported as part of the Services segment—Entertainment and Aviation—have been designated as separate business segments. All other operations formerly in the Services segment, mainly the Facility Management and Technology groups, were transferred to the Other segment except the Facility Management operations at Ogden's waste-to-energy plants and its environmental business, which have been transferred to the Energy segment. Noncore businesses scheduled for disposition are included in the Other segment.

In connection with Ogden's restructuring plan, in 1997 Facility Services' New York City operations and the Charlotte, North Carolina, operations of Atlantic Design were sold. In 1996, the environmental laboratory business of Energy was sold, and in addition, the Other segment sold the operations of W.J. Schafer Associates, Ogden Professional Services, and the Facility Services group's operations outside of New York City and discontinued its asbestos abatement operations.

The Entertainment segment consists principally of interests in themed attractions; live theater; concerts; gaming; large-format theaters and films; performing artist management; recorded music and video development; food, beverage, and novelty concession operations; and facility management at arenas, stadiums, amphitheaters, civic-convention centers, and other recreational facilities. Most of these services are provided at a wide variety of public and private facilities including stadiums, convention and exposition centers, arenas, parks, amphitheaters, and fairgrounds located in the United States, Mexico, Canada, Argentina, Germany, Australia, Spain, and the United Kingdom. Entertainment also operates a racetrack and four off-track betting parlors in Illinois.

The Aviation segment provides specialized support services to airlines at locations in the United States, Canada, Europe, Latin America, and the Pacific Rim. The specialized support services provided by this group include comprehensive ground handling, ramp, passenger, cargo and warehouse, aviation fueling, and in-flight catering services. These services are performed through joint ventures, consortia, contracts with individual airlines, consolidated agreements with several airlines, and contracts with various airport authorities.

The operations of Ogden's Energy segment are conducted by Ogden Energy Group, Inc., through four principal business groups—independent power, waste to energy, water and wastewater, and environmental consulting and engineering (collectively, "Energy").

Revenues and income from continuing operations (expressed in thousands of dollars) for the years ended December 31, 1997, 1996, and 1995, were as follows:

	1997	1996	1995
Revenues:			
Entertainment	$425,922	$391,.933	$301,315
Aviation	362,264	426,746	451,046
Energy	712,272	724,281	769,754
Other	248,267	488,121	663,878
Total revenues	$1,749,725	$2,031,081	$2,184,993
Income (Loss) from Operations:			
Entertainment	$30,545	$20,259	$(9,458)
Aviation	34,015	14,940	1,381
Energy	94,433	90,464	64,716
Other	528	16,745	22,518
Total income from operations	159,521	142,408	79,157
Equity in Net Income (Loss) of Investees and Joint Ventures:			
Entertainment	(3,091)	(1,196)	(392)
Aviation	3,343	1,231	368
Energy	1,605	325	4,423
Other	179	3,244	2,467
Total	161,557	146,012	86,023
Corporate unallocated income and expenses—net	(22,178)	(22,941)	(30,132)
Corporate interest—net	(8,601)	(13,430)	(15,365)
Consolidated Income Before Income Taxes and Minority Interest	$130,778	$109,641	$40,526

In 1995, income from operations of Entertainment, Aviation, Energy, and Other reflects pretax charges of $6,500,000, $10,800,000, $32,400,000, and $19,600,000, respectively, reflecting the adoption of SFAS No. 121 and other unusual charges (see Notes 20 and 21).

Ogden's revenues include $53,600,000, $137,600,000, and $280,846,000 from the United States government

contracts for the years ended December 31, 1997, 1996, and 1995, respectively.

Total revenues by segment reflect sales to unaffiliated customers. In computing income from operations, none of the following have been added or deducted: unallocated corporate expenses, nonoperating interest expense, interest income, and income taxes.

A summary (expressed in thousands of dollars) of identifiable assets, depreciation and amortization, and capital additions of continuing operations for the years ended December 31, 1997, 1996, and 1995, is as follows (reportable amounts for 1995 are shown as originally reported since the Corporation cannot practically restate these amounts):

	Identifiable Assets	Depreciation and Amortization	Capital Additions
1997			
Entertainment	$317,313	$14,731	$52,523
Aviation	250,474	13,129	19,008
Energy	2,808,571	72,835	39,967
Other	81,512	2,423	2,131
Corporate	181,425	1,259	2,572
Consolidated	$3,639,295	$104,377	$116,201
1996			
Entertainment	$294,653	$13,980	$17,618
Aviation	219,510	15,444	10,401
Energy	2,681,820	77,487	28,157
Other	203,748	6,909	6,037
Corporate	197,801	1,443	1,978
Consolidated	$3,597,532	$115,263	$64,191
1995			
Services	$813,591	$37,936	$49,940
Energy	2,646,979	70,805	42,875
Corporate	192,101	863	11
Consolidated	$3,652,671	$109,604	$92,826

Ogden's areas of operations are principally in the United States. Operations outside of the United States are worldwide but primarily in Europe, South America, and Asia. No single foreign country or geographic area is significant to the consolidated operations. Foreign operations' revenues, income from operations, and identifiable assets were $248,970,000, $22,513,000, and $387,294,000, respectively, for 1997 and $238,500,000, $10,900,000, and $275,100,000, respectively, for 1996.

SERVICE CORPORATION INTERNATIONAL (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)

Note Fourteen. Major Segments of Business

The Company conducts funeral and cemetery operations in 17 countries and offers financial services in the United States.

	Funeral	Cemetery	Financial services	Corporate	Consolidated
Revenues:					
1997	$1,727,003	$724,862	$16,537	$ —	$2,468,402
1996	1,663,387	612,421	18,386	—	2,294,194
1995	1,166,247	463,754	22,125	—	1,652,126
Income from operations:					
1997	$408,083	$271,897	$7,632	$(66,781)	$620,831
1996	380,841	214,721	8,890	(63,215)	541,237
1995	295,151	160,442	9,628	(53,600)	411,621
Identifiable assets:					
1997	$6,553,708	$3,309,431	$200,562	$243,162	$10,306,863
1996	5,905,246	2,638,775	148,193	177,556	8,869,770
1995	5,110,145	2,157,906	218,963	185,373	7,672,387
Depreciation and amortization:					
1997	$127,359	$21,611	$5	$8,575	$157,550
1996	103,696	18,601	9	7,513	129,819
1995	72,477	11,772	33	8,259	92,541
Capital expenditures:[(1)]					
1997	$273,191	$404,100	$2	$14,698	$691,991
1996	234,673	268,039	—	11,582	514,294
1995	442,227	480,372	10	6,090	928,699
Number of operating locations at year end (unaudited):					
1997	3,244	441	—	—	3,685
1996	2,987	390	—	—	3,377
1995	2,836	360	—	—	3,196

[(1)] Includes $461,459, $321,142 and $803,468 for the three years ended December 31, 1997, respectively, for purchases of property, plant, and equipment and cemetery property of acquired businesses.

Geographic segment information was as follows:

	United States	France	Other European	Other foreign	Consolidated
Revenues:					
1997	$1,588,831	$485,264	$225,087	$169,220	$2,468,402
1996	1,409,409	537,079	184,943	162,763	2,294,194
1995	1,178,407	190,091	151,225	132,403	1,652,126
Income from operations:					
1997	$471,237	$54,541	$44,747	$50,306	$620,831
1996	400,622	52,204	37,376	51,035	541,237
1995	314,698	18,743	34,214	43,966	411,621
Identifiable assets:					
1997	$7,340,407	$1,171,877	$1,059,238	$735,341	$10,306,863
1996	6,135,950	1,252,738	923,692	557,390	8,869,770
1995	5,256,876	1,169,484	777,247	468,780	7,672,387
Number of operating locations at year end (unaudited):					
1997	1,574	1,101	712	298	3,685
1996	1,441	1,056	631	249	3,377
1995	1,274	1,067	618	237	3,196
Number of funerals (unaudited):					
1997	231,243	148,223	102,985	50,678	533,129
1996	217,471	150,269	92,491	50,039	510,270
1995	198,682	49,298	81,101	44,381	373,462

Geographic Areas

H.J. HEINZ COMPANY (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Business Segment Information: Information concerning business segment and geographic data is in Management's Discussion and Analysis.

SEGMENT AND GEOGRAPHIC DATA

The company is engaged principally in one line of business—processed food products—which represents more than 90% of consolidated sales. The following table presents information about the company by geographic area. There were no material amounts of sales or transfers among geographic areas and no material amounts of United States export sales.

(Dollars in thousands)	Domestic	Foreign	Worldwide	North America	Europe	Asia/Pacific	Other
1997							
Sales	$5,169,779	$4,187,228	$9,357,007	$5,586,730	$2,281,364	$1,129,788	$359,125
Operating income	174,280	581,991	756,271	208,585	320,347	166,552	60,787
Operating income excluding restructuring related items*	704,880	613,309	1,318,189	751,685	374,202	130,515	61,787
Identifiable assets	4,474,740	3,963,047	8,437,787	4,941,301	2,241,006	995,762	259,718
Capital expenditures†	192,682	184,775	377,457	213,574	102,677	31,442	29,764
Depreciation and amortization expense	203,587	136,903	340,490	221,249	81,932	29,944	7,365
1996							
Sales	$5,235,847	$3,876,418	$9,112,265	$5,598,286	$2,133,690	$1,085,747	$294,542
Operating income	739,807	547,765	1,287,572	801,090	336,481	114,239	35,762
Identifiable assets	4,801,790	3,821,901	8,623,691	5,099,632	2,289,919	978,292	255,848
Capital expenditures	185,874	148,913	334,787	195,517	65,485	40,294	33,491
Depreciation and amortization expense	206,912	136,897	343,809	224,824	72,530	30,674	15,781
1995							
Sales	$4,628,507	$3,458,287	$8,086,794	$4,982,959	$1,881,013	$1,006,198	$216,624
Operating income	656,897	498,912	1,155,809	715,592	282,941	121,951	35,325
Identifiable assets	4,812,122	3,435,066	8,247,188	5,161,418	1,979,351	919,988	186,431
Capital expenditures	188,099	153,689	341,788	201,912	72,384	48,435	19,057
Depreciation and amortization expense	197,009	118,258	315,267	213,243	68,122	28,214	5,688

* Excludes domestic and foreign charges for restructuring and related costs of $530.6 million and $116.6 million, respectively. Also excludes gains on the sale of an ice cream business in New Zealand and real estate in the U.K. of $72.1 million and $13.2 million, respectively.

† Excludes property, plant and equipment acquired through acquisitions.

NIKE, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 - Industry Segment And Operations By Geographic Areas:

The Company operates predominantly in one industry segment, that being the design, production, marketing and selling of sports and fitness footwear, apparel and accessories. During 1997, 1996 and 1995, sales to one major customer amounted to approximately 12%, 12% and 14% of total sales, respectively. The geographic distributions of the Company's identifiable assets, operating income and revenues are summarized in the following table.

(In thousands) Year Ended May 31,	1997	1996	1995
Revenues from unrelated entities:			
United States	$5,529,132	$3,964,662	$2,997,864
Europe	1,833,722	1,334,340	980,444
Asia/Pacific	1,245,217	735,094	515,652
Latin America/Canada and other	578,468	436,529	266,874
	$9,186,539	$6,470,625	$4,760,834
Total revenues:			
United States	$5,531,957	$3,972,815	$3,004,260
Europe	1,833,722	1,341,738	985,882
Asia/Pacific	1,245,217	735,094	515,652
Latin America/Canada and other	730,046	503,591	298,323
Less inter-geographic revenues	(154,403)	(82,613)	(43,283)
	$9,186,539	$6,470,625	$4,760,834
Operating income:			
United States	$968,993	$697,094	$501,685
Europe	170,612	145,722	113,800
Asia/Pacific	174,997	123,585	64,168
Latin America/Canada and other	71,342	55,851	37,721
Less corporate, interest and other income (expense) and eliminations	(90,722)	(123,162)	(67,510)
	$1,295,222	$899,090	$649,864
Assets:			
United States	$2,994,017	$2,371,991	$1,659,552
Europe	1,272,918	941,552	771,752
Asia/Pacific	665,776	386,485	306,390
Latin America/Canada and other	328,681	188,839	209,389
Total identifiable assets	5,261,392	3,888,837	2,947,053
Corporate cash and eliminations	99,815	62,791	195,692
Total assets	$5,361,207	$3,951,628	$3,142,745

WASTE MANAGEMENT, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tables in Millions)

Note 14. Company's Operations in Different Geographic Areas

As discussed in Note 1, the Company believes that all of its material operations are part of the waste management services industry, and it currently reports as a single industry segment. Foreign operations in 1997 were conducted in ten countries in Europe, seven countries in the Asia Pacific region, and Canada, Mexico, Brazil, Israel and Argentina. However, during the year, WMNA sold most of its Canadian operations, and WM International sold substantially all of its operations in France, Spain and Austria. WM International also learned in late September that its joint venture company's bid to continue to provide waste collection and cleaning services to the City of Buenos Aires, which represented a substantial portion of its business in Argentina, was not successful.

Information relating to the Company's continuing operations is set forth in the following table (operating income is defined as revenue less operating expenses, special charges, asset impairment loss and selling and administrative expenses):

	United States	Europe	Other Foreign	Consolidated
1994				
Revenue	$ 6,654.6	$ 1,322.7	$ 560.6	$ 8,537.9
Operating income	1,166.2	184.2	63.2	1,413.6
Identifiable assets	11,587.0	3,471.0	748.3	15,806.3
1995				
Revenue	$ 7,060.2	$ 1,527.3	$ 512.7	$ 9,100.2
Operating income	1,069.0	2.4	32.8	1,104.2
Identifiable assets	12,384.1	3,682.4	772.7	16,839.2
1996				
Revenue	$ 7,103.1	$ 1,539.2	$ 583.3	$ 9,225.6
Operating income	972.2	(12.8)	74.5	1,033.9
Identifiable assets	12,752.4	3,503.0	828.2	17,083.6
1997				
Revenue	$ 7,222.4	$ 1,411.8	$ 554.4	$ 9,188.6
Operating income	(855.1)	27.3	65.5	(762.3)
Identifiable assets	10,438.0	2,613.7	537.4	13,589.1

No single customer accounted for as much as 3% of consolidated revenue in 1994, 1995, 1996 or 1997.

WM International operates facilities in Hong Kong which are owned by the Hong Kong government. The Hong Kong economy has been impacted by the economic uncertainty associated with many of the countries in the region. High and volatile interest rates have resulted from speculation regarding its currency. In addition to Hong Kong, WM International has operations in Indonesia and Thailand. These countries have experienced illiquidity, volatile currency exchange rates and interest rates, and reduced economic activity. WM International, and therefore the Company, will be affected for the foreseeable future by economic conditions in this region, although it is not possible to determine the extent of such impact. At December 31, 1997, WM International had a net investment of $107.5 million in these countries (including Hong Kong). Pretax income from Hong Kong was $25.7 million in 1997. Income from Indonesia and Thailand has not been significant to date.

Major Customers

BALL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Business Segment Information (In Part)

The Company has two business segments: packaging, and aerospace and technologies.

Packaging
The packaging segment includes the businesses that manufacture metal and PET (polyethylene terephthalate) containers, primarily for use in beverage and food packaging. The Company's packaging operations are located in and serve North America (the U.S. and Canada) and Asia (primarily China). Packaging operations in Asia have increased as a result of the early 1997 acquisition of a controlling interest in M.C. Packaging (Hong Kong) Limited (M.C. Packaging). The results of that business are included within the packaging segment since its acquisition date. Ball also has investments in packaging companies in Brazil and Thailand which are accounted for under the equity method, and, accordingly, those results are not included in segment earnings or assets. See the notes, "Acquisitions" and "Dispositions and Other," for additional information regarding these and other transactions affecting segment results.

Aerospace and Technologies
The aerospace and technologies segment includes: the aerospace systems division, comprised of civil space systems, technology operations, defense systems, commercial space operations and systems engineering; and the telecommunication products division, comprised of advanced antenna and video systems and communication and video products. See the note, "Dispositions and Other," for information regarding transactions affecting segment results.

Major Customers
Packaging segment sales to PepsiCo, Inc., and affiliates represented approximately 12 percent of consolidated net sales in 1997 and 1996, and less than 10 percent of consolidated net sales in 1995. Sales to Anheuser-Busch Companies, Inc., represented less than 10 percent of consolidated net sales in 1997 and approximately 11 percent and 14 percent of consolidated net sales in 1996 and 1995, respectively. Sales to all bottlers of Pepsi-Cola and Coca-Cola branded beverages comprised approximately 36 percent of consolidated net sales in both 1997 and 1996 and 32 percent of consolidated net sales in 1995. Sales to various U.S. government agencies by the aerospace and technologies segment, either as a prime contractor or as a subcontractor, represented approximately 14 percent, 15 percent and 13 percent of consolidated net sales in 1997, 1996 and 1995, respectively.

HARMON INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Business Segment Information

The Company and its subsidiaries operate in one reportable segment of railroad electronics and related products.

Two customers accounted for net sales of approximately $66,340,000 and $17,406,000 for the year ended December 31, 1997, net sales of approximately $77,302,000 and $16,126,000 for the year ended December 31, 1996 and net sales of approximately $19,091,000 and $15,532,000 for the year ended December 31, 1995. At December 31, 1997, the Company had significant receivable balances from five customers totaling approximately $18,360,000. The Company has no other unusual credit risks or concentrations.

JOHNSON CONTROLS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Segment Information

The Company operates in two business segments, automotive and controls. The automotive segment is primarily engaged in the design and manufacture of complete seat systems, seating components and interior systems for cars, light trucks and vans and the manufacture of automotive batteries for the replacement and original equipment markets. The controls segment is primarily engaged in the installation and service of control systems, the service of mechanical equipment and other systems in non-residential buildings, and for on-site integrated facilities management services. Reference is made to page 20 for business segment financial data.

All operating revenues and expenses are allocated to business segments and geographical areas in determining their operating incomes. Other income (expense), excluded from the determination of segment operating income, includes interest income and expense, equity in earnings of partially-owned affiliates, gains and losses from sales of long-term assets, foreign currency gains and losses and other miscellaneous expenses. Unallocated assets are corporate cash and cash equivalents, investments in partially-owned affiliates and other nonoperating assets.

The Company has sales to the automotive industry. Ford Motor Company accounted for 17% of the Company's net sales in 1997, 14% in 1996 and 8% in 1995. General Motors Corporation accounted for 11%, 8%, and 11% in 1997, 1996 and 1995, respectively. Chrysler Corporation accounted for 11%, 10% and 12% in 1997, 1996 and 1995, respectively. As of September 30, 1997, the Company had accounts receivable totaling $502 million from these manufacturers.

Export Sales

AULT INCORPORATED (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Operations Information

Foreign manufacturing is done by the Korean subsidiary, including its wholly-owned subsidiary located in China, and certain nonaffiliated companies in China and Thailand. All United States manufacturing is done by Ault Incorporated. A summary of the Company's manufacturing operations by geographic area is presented below:

	June 1, 1997	June 2, 1996	May 28, 1995
United States:			
Customer sales	$39,022,322	$33,359,291	$26,785,479
Sales to subsidiary	—	—	—
Total	$39,022,322	$33,359,291	$26,785,479
Operating profit	$ 2,639,853	$ 1,560,693	$ 710,964
Total assets	24,231,186	14,414,074	11,823,983
Capital expenditures	336,000	194,129	144,894
Depreciation and amortization	323,228	314,810	359,280
Korea and China:			
Customer sales	$ 989,468	$ 414,584	$ 268,942
Sales to parent	7,965,817	10,496,364	8,751,528
Total	$ 8,955,285	$10,910,948	$ 9,020,470
Operating profit (loss)	$ (114,268)	$ 62,970	$ 90,209
Total assets	7,435,977	6,502,582	6,198,105
Capital expenditures	868,925	162,183	1,626,273
Depreciation and amortization	169,747	197,011	171,280
Adjustments and eliminations:			
Intercompany sales	7,965,817	10,496,364	8,751,528
Operating profit (loss)	56,454	—	(44,620)
Total assets	(5,572,702)	(2,186,545)	(2,592,808)
Consolidated:			
Sales	40,011,790	33,773,875	27,054,421
Operating profit	2,582,039	1,565,661	756,553
Total assets	26,094,460	18,730,111	15,429,280
Capital expenditures	1,204,925	356,312	1,771,167
Depreciation and amortization	492,975	511,821	530,560

Sales from the subsidiary to the parent company are based upon profit margins which represent competitive pricing of similar products.

Export sales: The Company also had foreign export sales amounting to 20.4, 19.4, and 16.7 percent of total sales for the years ended June 1, 1997. June 2, 1996, and May 28, 1995, respectively.

The sales were made principally to the following locations:

	Years Ended		
	June 1, 1997	June 2, 1996	May 28, 1995
Canada	7.8%	8.9%	6.5%
Elsewhere	12.6%	10.5%	10.2%
	20.4%	19.4%	16.7%

Other foreign production: In addition to the manufacturing done by the Korean subsidiary, the Company has subcontracting agreements for the purchase of finished assemblies from certain manufacturers in China and Thailand in amounts approximating $15,248,000, $9,941,000, and $5,314,000 for the years ended June 1, 1997, June 2, 1996, and May 28, 1995, respectively.

SUN MICROSYSTEMS, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Industry-Segment, Geographic, and Customer Information

Sun, which operates in a single industry segment, designs, manufactures, markets, and services network computing systems and software solutions that feature networked desktops and servers. No customer accounted for 10% or more of revenues in fiscal 1997, 1996, or 1995. Operations of Sun's overseas subsidiaries consist of sales, service, distribution, and manufacturing.

Intercompany transfers between geographic areas are accounted for at prices that approximate arm's length transactions. In addition, United States export sales approximated 3.0%, 3.8%, and 3.6% of net revenues during fiscal 1997, 1996, and 1995, respectively.

Information regarding geographic areas at June 30, 1997, 1996, and 1995, and for each of the years then ended, is as follows:

Geographic Area

(In thousands)	United States	Europe	Japan	Rest of World	Eliminations	Total
June 30, 1997, and for the year then ended:						
Sales to unaffiliated customers	$4,709,343	$2,177,319	$958,753	$752,931	$ —	$8,598,346
Intercompany transfers	978,981	2,018,531	17,973	61,724	(3,077,209)	—
Net revenues	$5,688,324	$4,195,850	$976,726	$814,655	$(3,077,209)	$8,598,346
Operating income	$477,136	$522,575	$13,958	$8,116	$4,733	$1,026,518
Identifiable assets	$4,079,585	$2,408,106	$360,814	$385,763	$(2,536,994)	$4,697,274
Liabilities	$2,351,239	$1,284,970	$350,076	$369,868	$(2,400,816)	$1,955,337

NATURAL BUSINESS YEAR

A natural business year is the period of 12 consecutive months which ends when the business activities of an entity have reached the lowest point in their annual cycle. In many instances, the natural business year of a company ends 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.

For 1997, 148 survey companies were on a 52-53 week fiscal year. During 1997, seven survey companies changed the date of their fiscal year end. Examples of fiscal year end changes and of fiscal year definitions follow.

TABLE 1-4: MONTH OF FISCAL YEAR END

	1997	**1996**	**1995**	**1994**
January	24	21	23	23
February	10	11	11	12
March	14	15	15	15
April	10	10	8	8
May	14	14	16	16
June	53	57	58	59
July	11	11	14	14
August	14	15	15	15
September	36	37	35	37
October	22	23	23	22
November	15	14	17	17
Subtotal	**223**	**228**	**235**	**238**
December	377	372	365	362
Total Companies	**600**	**600**	**600**	**600**

Change in Date of Fiscal Year End

BOWNE & CO. INC.

Consolidated Balance Sheets

December 31, 1997 and 1996	1997	1996

Consolidated Statements of Income

Year Ended December 31, 1997	Year Ended October 31, 1996	1995	Two Months Ended December 31, 1996	Three Months Ended January 31, 1996 Unaudited

Consolidated Statements of Cash Flows

Year Ended December 31, 1997	Year Ended October 31, 1996	1995	Two Months Ended December 31, 1996	Three Months Ended January 31, 1996 Unaudited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

On October 30, 1997, the Company elected to change the date of its fiscal year-end to December 31. As a result, a transition period for the two months ended December 31, 1996, three months ended January 31, 1996 (unaudited), was previously reported on a transition report on Form 10-Q and is also presented herein. Consequently, the consolidated Balance Sheets have been prepared at December 31. The Statements of Income and Cash Flows present information for the year ended December 31, 1997, the two months ended December 31, 1996, and the years ended October 31, 1996 and 1995.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders Bowne & Co., Inc.

We have audited the accompanying consolidated balance sheets of Bowne & Co., Inc. and Subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for the year ended December 31, 1997, the two months ended December 31, 1996, and the years ended October 31, 1996 and 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bowne & Co., Inc. and Subsidiaries at December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for the year ended December 31, 1997, the two months ended December 31, 1996, and the years ended October 31, 1996 and 1995, in conformity with generally accepted accounting principles.

CISCO SYSTEMS, INC.

Consolidated Balance Sheets

	July 26, 1997	July 28, 1996

Consolidated Statements of Operations

Years Ended	July 26, 1997	July 28, 1996	July 30, 1995

Consolidated Statements of Cash Flows

Years Ended	July 26, 1997	July 28, 1996	July 30, 1995

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Fiscal Year. The Company's fiscal year is the 52 or 53 weeks ending on the last Saturday in July. The fiscal years ended July 26, 1997, July 28, 1996, and July 30, 1995 all comprised 52-week years. Prior to fiscal year 1997, the Company's fiscal year was the 52- or 53-week period ending on the last Sunday in July.

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors and Shareholders
Cisco Systems, Inc.
San Jose, California

We have audited the accompanying consolidated balance sheets of Cisco Systems, Inc. and its subsidiaries as of July 26, 1997 and July 28, 1996 and the related consolidated statements of operations, cash flows, and shareholders' equity for each of the three years in the period ended July 26, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cisco Systems, Inc. and its subsidiaries as of July 26, 1997 and July 28, 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended July 26, 1997, in conformity with generally accepted accounting principles.

HARRIS CORPORATION

Consolidated Balance Sheet

	June 27 1997	June 30 1996

Consolidated Statement Of Income

	Fiscal Years Ended		
	1997	1996	1995

Consolidated Statement Of Cash Flows

	Fiscal Years Ended		
	1997	1996	1995

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (In Part)

Fiscal Year–In 1997, the Corporation changed its fiscal year to end on the Friday nearest June 30. Fiscal years prior to 1997 ended on June 30. Each of the years presented consists of 52 weeks.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To Harris Directors and Shareholders:

We have audited the accompanying consolidated balance sheets of Harris Corporation and subsidiaries as of June 27, 1997, and June 30, 1996, and the related consolidated statements of income, retained earnings, and cash flows for each of the three fiscal years in the period ended June 27, 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Harris Corporation and subsidiaries at June 27, 1997 and June 30, 1996, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended June 27, 1997, in conformity with generally accepted accounting principles.

LOWE'S COMPANIES, INC.

Consolidated Balance Sheets

	January 30, 1998	January 31, 1997

Consolidated Statements of Earnings

Fiscal Years Ended On	January 30, 1998	January 31, 1997	January 31, 1996

Consolidated Statements of Cash Flows

Fiscal years Ended On	January 30, 1998	January 31, 1997	January 31, 1996

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Fiscal Year–Effective February 1, 1997, the Company adopted a 52 or 53 week fiscal year, changing the year end date from January 31 to the Friday nearest January 31. The fiscal year ended January 30, 1998 had 52 weeks. All references herein for the years 1997, 1996 and 1995 represent the fiscal years ended January 30, 1998 and January 31,1997 and 1996, respectively.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
of Lowe's Companies, Inc.

We have audited the accompanying consolidated balance sheets of Lowe's Companies, Inc. and subsidiaries as of January 30, 1998 and January 31, 1997, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three fiscal years in the period ended January 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Lowe's Companies, Inc. and subsidiaries at January 30, 1998 and January 31, 1997, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 30, 1998 in conformity with generally accepted accounting principles.

WAUSAU-MOSINEE PAPER CORPORATION

Consolidated Balance Sheets

	As of December 31, 1997	As of August 31, 1996

Consolidated Statements of Income

For the year ended December 31, 1997	For the years ended August 31, 1996	1995

Consolidated Statements of Cash Flows

For the year ended December 31, 1997	For the years ended August 31, 1996	1995

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Basis of Presentation - The consolidated financial statements include the accounts of the company and its subsidiaries. All significant intercompany transactions, balances and profits have been eliminated in consolidation. The consolidated statements give retroactive effect to the merger with Mosinee Paper Corporation ("Mosinee").

On December 17, 1997, Wausau Paper Mills Company ("Wausau") completed a merger with Mosinee ("the Mosinee merger") in which Mosinee became a wholly owned subsidiary of Wausau. Simultaneous with the consummation of the merger, Wausau changed its name to Wausau-Mosinee Paper Corporation ("the company"). Prior to the merger, Wausau's fiscal year-end was August 31 and Mosinee's was December 31. Subsequent to the merger, the company adopted a calendar year-end. As a result of the change in fiscal year and the merger accounted for as a pooling of interests, the company's 1997 financial statements have been recast to a twelve-month period ending December 31, 1997. The financial statements have been restated to retroactively combine Mosinee's financial statements as if the merger had occurred at the beginning of the earliest period presented.

The consolidated statements of income and cash flows for the years ended August 31, 1996 and 1995 reflect the results of operations and cash flows for Wausau for the years then ended combined with Mosinee for the years ended December 31, 1996 and 1995. The consolidated balance sheet as of August 31, 1996 reflects the financial position of Wausau on that date combined with the financial position of Mosinee as of December 31, 1996. As a result of Wausau and Mosinee having different fiscal years and the change in the company's fiscal year, Wausau's results of operations for the four-month period ended December 31, 1996, have been excluded from the reported results of operations and, therefore, have been added to the company's retained earnings at January 1, 1997. Wausau had net sales, expense, and net income of $179,075,000, $165,255,000, and $13,820,000 for the four-month period ended December 31, 1996.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors
Wausau-Mosinee Paper Corporation
Mosinee, Wisconsin

We have audited the accompanying consolidated balance sheets of Wausau-Mosinee Paper Corporation and Subsidiaries as of December 31, 1997 and August 31, 1996 and the related consolidated statements of income, cash flows and shareholders' equity for the years ended December 31, 1997, August 31, 1996 and August 31, 1995. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wausau-Mosinee Paper Corporation and Subsidiaries at December 31, 1997 and August 31, 1996 and the results of its operations and cash flows for the years ended December 31, 1997, August 31, 1996 and August 31, 1995, in conformity with generally accepted accounting principles.

Definition of Fiscal Year

ALBERTSON'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Fiscal Year End. The Company's fiscal year is generally 52 weeks and periodically consists of 53 weeks because the fiscal year ends on the Thursday nearest to January 31 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.

CINCINNATI MILACRON INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Fiscal Year End
The company's fiscal year ends on the Saturday closest to December 31 of each year. Fiscal year ends are as follows:

1997: December 27, 1997
1996: December 28, 1996
1995: December 30, 1995

In November, 1997, the Board of Directors approved management's plan to change the company's fiscal year to a calendar year ending on December 31st. In 1998, the transition year, the company's fiscal year will begin December 28, 1997, and end December 31, 1998. The change is not expected to have a material effect on financial condition, results of operations or cash flows for the year 1998.

GANNETT CO., 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 Sunday of the calendar year. The company's 1997 fiscal year ended on Dec. 28, 1997, and encompassed a 52-week period. The company's 1996 fiscal year encompassed a 52-week period and its 1995 fiscal year encompassed a 53-week period.

THE L.S. STARRETT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant Accounting Policies (In Part)

The consolidated financial statements include the accounts of The L.S. Starrett Company and subsidiaries, a manufacturer of industrial, professional and consumer products. All subsidiaries are wholly-owned and all significant intercompany items have been eliminated. The Company's fiscal year ends on the last Saturday in June. Results for fiscal 1996 include 53 weeks compared to 52 weeks in 1997 and 1995. The fiscal years of the Company's subsidiaries in Scotland and Brazil end in May. Brazil's fiscal year was changed this year from April to May and consequently the current year includes 13 months of operations. The extra week in fiscal 1996 and the extra month of Brazil's operations in 1997 were not significant.

TOYS "R" US, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary Of Significant Accounting Policies (In Part)

Fiscal Year

The Company's fiscal year ends on the Saturday nearest to January 31. Reference to 1997, 1996 and 1995 are for the 52 weeks ended January 31, 1998 and February 1, 1997, and for the 53 weeks ended February 3, 1996, respectively.

WOOLWORTH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Reporting Year

The reporting period for the Company and its subsidiaries is the 52 or 53-week period ending on the last Saturday in January. The 1997 reporting year represents the 53 weeks ended January 31, 1998. The 1996 and 1995 reporting years represent the 52 weeks ended January 25, 1997 and January 27, 1996, respectively.

Beginning with 1998, the Company plans to change its reporting period to the Saturday closest to the last day in January.

In 1997, the Company changed the reporting period for its Foot Locker Europe operations from a calendar year ending December 31, to the 53-week period ended on the last Saturday in January. The results of operations for the period from January 1 through January 31, 1998 were charged to retained earnings in the current year in order to report only 12 months' operating results.

In 1996, the Company changed the reporting period for its German operations from a calendar year ending December 31, to the 52-week period ended on the last Saturday in January. The results of operations for the period from January 1 through January 25, 1997 were charged to retained earnings for the reporting year ended January 25, 1997 in order to report only 12 months' operating results.

COMPARATIVE FINANCIAL STATEMENTS

Rule 14a-3 of the Securities Exchange Act of 1934 requires that annual reports to stockholders should include comparative balance sheets, and statements of income and of cash flows 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 14a-3.

In their annual reports, the survey companies usually present an income statement as the first financial statement followed by either a balance sheet or a statement of changes in retained earnings. For 1997, 346 survey companies presented an income statement as the first financial statement followed by a balance sheet; 22 survey companies presented an income statement as the first financial statement followed by a statement of changes in retained earnings; and 192 survey companies presented a balance sheet as the first financial statement followed by an income statement. The remaining 40 survey companies presented an income statement as the first financial statement followed by either a statement of change in stockholders' equity or a statement of cash flows.

Prior to 1986, the financial statements, with rare exception, were presented on consecutive pages. Beginning in 1986 certain survey companies did not present their financial statements on consecutive pages but interspersed the Management's Discussion and Analysis of Financial Condition and Results of Operations among the financial statements by having comments discussing the content of a financial statement follow the presentation of a financial statement. Such interspersed material was not covered by an auditor's report and was not presented in lieu of notes. For 1997, 15 survey companies did not present their financial statements on consecutive pages.

ROUNDING OF AMOUNTS

Table 1-5 shows that most of the survey companies state financial statement amounts in either thousands or millions of dollars.

TABLE 1-5: ROUNDING OF AMOUNTS

	1997	1996	1995	1994
To nearest dollar	30	33	40	43
To nearest thousand dollars:				
Omitting 000	349	352	354	352
Presenting 000	13	17	20	22
To nearest million dollars	208	198	186	183
Total Companies	**600**	**600**	**600**	**600**

NOTES TO FINANCIAL STATEMENTS

Securities and Exchange Commission *Regulations S-X* and *S-K,* 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 without considering appended notes which disclose information of the sort listed below:

Changes in accounting principles.

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.

Computation of earnings per share.

Subsequent events.

Quarterly data.

Segment information.

Financial instruments.

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

	1997	1996	1995	1994
General reference only	445	431	431	416
General and direct references	155	169	168	182
Direct reference only	—	—	1	1
No reference to notes	—	—	—	1
Total Companies	**600**	**600**	**600**	**600**

DISCLOSURE OF ACCOUNTING POLICIES

APB Opinion No. 22 requires that the significant accounting policies of an entity be presented as an integral part of the financial statements of the entity. *Opinion No. 22* sets forth guidelines as to the content and format of disclosures of accounting policies. *Opinion No. 22* states that the preferable format is to present a Summary of Significant Accounting Policies preceding notes to financial statements or as the initial note.

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			
	1997	1996	1995	1994
Depreciation methods	586	581	584	582
Consolidation policy	583	583	585	591
Use of estimates	582	577	358	—
Inventory pricing	555	555	560	556
Property	526	509	510	496
Cash equivalents	509	492	495	483
Earnings per share calculation	475	482	470	460
Amortization of intangibles	439	419	415	380
Financial instruments	398	327	311	282
Interperiod tax allocation	358	362	384	410
Translation of foreign currency	358	351	338	320
Employee benefits	290	253	219	181
Nature of operations	274	239	204	105
Research and development costs	178	181	165	153
Fiscal years	158	156	156	145
Environmental costs	145	130	122	111
Advertising costs	129	123	—	—
Credit risk concentrations	126	100	91	71
Capitalization of interest	75	86	89	79

AMERON INTERNATIONAL CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note One: Summary Of Significant Accounting Policies

Principles of Consolidation
The consolidated financial statements include the accounts of Ameron International Corporation and all wholly-owned subsidiaries (the Company). All material intercompany accounts and transactions have been eliminated.

Reclassifications
Certain prior year balances have been reclassified to conform with the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenue from sales of protective coatings, fiberglass pipe, construction products and certain other products is recorded at the time the goods are shipped or when title passes. Revenue from sales of concrete and steel pipe is recorded at the time the pipe is inspected and accepted by the customer.

Research & Development Costs

Research and development costs are expensed as incurred. Such costs were approximately $5,534,000 in 1997, $4,400,000 in 1996 and $4,300,000 in 1995.

Environmental Clean-up Costs

The Company expenses environmental clean-up costs related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible. Expenditures that extend the life of the related property or mitigate or prevent future environmental contamination are capitalized. The Company determines its liability on a site by site basis and records a liability at the time when it is probable and can be reasonably estimated. The estimated liability of the Company is not discounted or reduced for possible recoveries from insurance carriers.

Income Taxes

The Company follows Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes." Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Net Income Per Share

Net income per share is computed on the basis of the weighted average number of common shares outstanding each year, plus common stock equivalents related to dilutive stock options. The number of shares used in the computation of per share data was 4,094,885 in 1997, 3,982,006 in 1996 and 3,954,544 in 1995.

Cash & Cash Equivalents

Cash equivalents include time deposits with maturities of three months or less when purchased.

Inventory Valuation

Inventories are valued at the lower of cost or market. Cost is principally determined by either the first-in, first-out or average cost methods. Such cost includes raw materials, direct labor and manufacturing overhead. Certain steel inventories are valued using the last-in, first-out cost method.

Equity Method of Accounting

Investments in significant 30- to 50-percent-owned affiliates are accounted for by the equity method of accounting, whereby the investment is carried at cost of acquisition, plus the Company's equity in undistributed earnings or losses since acquisition. Reserves are provided where management determines that the investment or equity in earnings is not realizable.

Property, Plant & Equipment

Items capitalized as property, plant and equipment, including improvements to existing facilities, are recorded at cost. The book value of obsolete assets is charged to depreciation expense when they are scrapped. 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. Maintenance and repair costs are expensed as incurred. Interest costs applicable to the construction of major plant and expansion projects were immaterial for the periods presented.

Depreciation Method

Depreciation is computed principally using the straight-line method based on estimated useful lives of the assets. Annual rates of depreciation are as follows:

	Percentage of Cost
Buildings	2.50-10.00
Machinery and equipment	
Autos, trucks and trailers	6.67-50.00
Cranes and tractors	10.00-15.00
Manufacturing equipment	6.67-33.33
Other	5.00-66.67

Depreciation expense was $15,729,000 in 1997, $16,078,000 in 1996 and $16,065,000 in 1995.

Amortization of Intangibles

Goodwill and other intangible assets are amortized on a straight-line basis over periods ranging up to 40 years.

Self Insurance

The Company utilizes third-party insurance subject to varying retention levels or self insurance. Such self insurance relates to losses and liabilities primarily associated with workers' compensation claims and general, product and vehicle liability. Losses are accrued based upon the Company's estimates of the aggregate liability for claims incurred using certain actuarial assumptions followed in the insurance industry and based on Company experience.

Foreign Currency Translation

The functional currency for the majority of the Company's foreign operations is the applicable local currency. The translation from the applicable foreign currencies to 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 resulting translation adjustments are recorded as a component of shareholders' equity. Gains or losses resulting from foreign currency transactions are included in other income.

Derivative Financial Instruments and Risk Management
The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates. Derivative financial instruments are used by the Company to reduce those risks. The Company does not hold or issue financial or derivative financial instruments for trading or speculative purposes. The magnitude and volume of such transactions were not material for the periods presented.

Stock Options
In 1997, the Company adopted Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation." As permitted under this standard, the Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued to Employees" in accounting for its stock options and other stock-based employee awards. Pro forma information regarding net income and earnings per share, as calculated under the provisions of SFAS 123, are disclosed in Note 14.

Long-Lived Assets
In 1997, the Company adopted Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of," which requires impairment losses to be recorded on long-lived assets used in operations when indications of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. As of November 30, 1997, the carrying value of the Company's assets held for sale, in aggregate, was $3,400,000. The fair market value of these assets total $7,300,000. The adoption of SFAS 121 did not have a material effect on the Company's financial position or results of operations.

Pending Accounting Changes
In 1997, Statement of Financial Accounting Standards No. 128 (SFAS 128), "Earnings per Share," was issued. The Company is required to adopt SFAS 128 for annual and interim periods ending after December 15, 1997. The Company will be required to restate earnings per share for all prior periods reported.

In 1997, Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income," was issued. The statement must be adopted by the Company no later than the fiscal year ending November 30, 1998.

ARDEN GROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of these consolidated financial statements.

Basis of Presentation and Principles of Consolidation
The consolidated financial statements of Arden Group, Inc. (the "Company") include the accounts of the Company and its direct and indirect subsidiaries. All intercompany accounts and transactions are eliminated in consolidation. The Company operates exclusively in the supermarket business in the greater Los Angeles, California area.

Fiscal year
The Company operates on a fiscal year ending on the Saturday closest to December 31. Fiscal years for the financial statements included herein ended on January 3, 1998 (53 weeks), December 28, 1996 (52 weeks), and December 30, 1995 (52 weeks).

Cash and Cash Equivalents
The Statements of Cash Flows classify changes in cash or cash equivalents (short-term, highly liquid investments readily convertible into cash with an original maturity at date of purchase of three months or less) according to operating, investing or financing activities. Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and temporary cash investments. At times, cash balances held at financial institutions were in excess of federally insured limits. The Company places its temporary cash investments with high-credit, quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. The Company believes no significant concentration of credit risk exists with respect to these cash investments.

Marketable Securities
Marketable securities consist of mutual funds, fixed-income securities, preferred stock, common stock, mortgage-backed government securities and collateralized mortgage obligations. Marketable securities are stated at market value as determined by the most recently traded price of each security at the balance sheet date. By policy, the Company invests primarily in high-grade marketable securities. All marketable securities are defined as trading securities or available-for-sale securities under the provisions of Statement of Financial Accounting Standards No. ("SFAS") 115, "Accounting for Certain Investments in Debt and Equity Securities."

Management determines the appropriate classification of its investments in marketable securities at the time of purchase and reevaluates such determination at each balance sheet date. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and unrealized holding gains and losses are included in earnings. Debt securities for which the Company does not have the intent or ability to hold to maturity and equity securities are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. The cost of investments sold is determined on the specific identification or the first-in, first-out method.

Accounts and Notes Receivable
The Company closely monitors extensions of credit and has not experienced significant losses related to its receivables. At January 3, 1998, the Company did not have significant credit risk concentrations. No single group or customer represents greater than 2% of total accounts and notes receivable. Issuance costs related to Gelson's charge cards are not significant and are expensed as incurred.

Inventories
The cost of supermarket nonperishable inventories is determined by the retail inventory method using the last-in, first-out (LIFO) method, which is lower than market. Perishable supermarket and other inventories are valued at the lower of cost (first-in, first-out or average) or market.

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.

Property, Plant and Equipment
Owned property, plant and equipment is valued at cost. Depreciation is provided on the straight-line method at rates based on the estimated useful lives of individual assets or classes of assets. Improvements to leased properties or fixtures are amortized over their estimated useful lives or lease period, whichever is shorter.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. Amortization of capitalized leased assets is computed on the straight-line method over the term of the lease.

Normal repairs and maintenance are expensed as incurred. Expenditures which materially increase values, change capacities or extend useful lives are capitalized. Replacements are capitalized and the property, plant and equipment accounts are relieved of the items being replaced. The related costs and accumulated depreciation of disposed assets are eliminated and any gain or loss on disposition is included in income.

Environmental Costs
Costs incurred to investigate and remediate contaminated sites are expensed as incurred.

Store Opening Costs
Noncapital expenditures incurred in opening a new store are expensed as incurred.

Advertising and Sales Promotion Costs
Advertising and sales promotion costs are expensed as incurred and totaled $1,496,000, $2,075,000 and $1,559,000 in 1997, 1996 and 1995, respectively.

Income Taxes
The Company accounts for income taxes under the provisions of SFAS 109, "Accounting for Income Taxes." Under SFAS 109, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse.

Net Income Per Common Share
SFAS 128, "Earnings Per Share," was adopted in the fourth quarter of 1997 and supersedes the Company's previous standards for computing net income per share under Accounting Principles Board No. 15. The new standard requires dual presentation of net income per common share and net income per common share assuming dilution on the face of the income statement. Basic net income per share is computed by dividing the net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. The Company does not have any dilutive shares for any of the three fiscal years in the period ended January 3, 1998. The financial statements present basic net income per share.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions for the reporting period and as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

Fair Value of Financial Instruments
SFAS 107, "Disclosure About Fair Value of Financial Instruments," requires certain disclosures regarding the fair value of financial instruments. Cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and amounts due to and from affiliates are reflected in the consolidated financial statements at fair value because of the short-term maturity of these instruments. The fair value of long-term debt closely approximates its carrying value. The Company uses quoted market prices, when available, or discounted cash flows to calculate these fair values.

Long-Lived Assets
In fiscal year 1996, the Company adopted SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The adoption of SFAS 121 had no impact on the Company's financial position or on its results of operations.

In accordance with SFAS 121, long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an assets may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows of the individual stores and consolidated undiscounted net cash flows for long-lived assets, not identifiable to individual stores.

Reclassifications
Certain prior period amounts have been reclassified to conform to the current year presentation.

New Accounting Standards

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS 130, "Reporting Comprehensive Income," which established standards for reporting and display of comprehensive income and its components. This statement requires a separate statement to report the components of comprehensive income for each period reported. The provisions of this statement are effective for fiscal years beginning after December 15, 1997. Management believes this statement may require expanded disclosure in the Company's financial statements.

In June 1997, the FASB also issued SFAS 131, "Disclosures About Segments of an Enterprise and Related Information." The standard requires that companies disclose "operating segments" based on the way management disaggregates the company for making internal operating decisions. The new rules will be effective for the 1998 fiscal year. Abbreviated quarterly disclosure will be required beginning first quarter of 1999, with both 1999 and 1998 information. The Company does not believe that the new standard will have a material impact on the reporting of its segments.

BESTFOODS (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of accounting policies

Principles of consolidation – Consolidated financial statements include the accounts of the Company and its subsidiaries. The accounts of subsidiaries outside of the U.S., except for those in Canada, are based on fiscal years ending September 30.

Foreign currency translation – Assets and liabilities of foreign subsidiaries other than those in highly inflationary economies are translated at current exchange rates with the related translation adjustments reported as a separate component of stockholders' equity. Income statement accounts are translated at the average exchange rate during the period. In highly inflationary economies where the U.S. dollar is considered the functional currency, monetary assets and liabilities are translated at current exchange rates with the related adjustment included in net income. Non-monetary assets and liabilities are translated at historical exchange rates.

Cash and cash equivalents – Cash equivalents consist of all investments purchased with an original maturity of three months or less, and which have virtually no risk of loss in value. At December 31, 1997, and 1996, the Company had cash equivalents of $5 million and $6 million, respectively.

Inventories are stated at the lower of cost or market. In the U.S., vegetable oils are valued at cost on the last-in, first-out method. Other U.S. inventories are valued at cost on the first-in, first-out method. Had the first-in, first-out method been used for all U.S. inventories, the carrying value of these inventories would have increased by $9 million and $8 million in 1997 and 1996, respectively. Outside the U.S., inventories generally are valued at average cost.

Plants and properties are stated at cost. Depreciation is generally computed on the straight-line method over the estimated useful lives of depreciable assets ranging from 2% to 10% for buildings and 5% to 20% for all other assets. Where permitted by law, accelerated depreciation methods are used for tax purposes. Long-lived assets are reviewed for impairment whenever the facts and circumstances indicate that the carrying amount may not be recoverable.

Intangibles – The Company amortizes, on a straight-line basis, the excess cost of net assets over periods not exceeding 40 years. Other intangible assets, including trademarks, licenses, and patents, are amortized over their economic lives. Intangible assets are reviewed for impairment whenever the facts and circumstances indicate that the carrying amount may not be recoverable.

Income taxes – Deferred income taxes reflect the differences between the assets and liabilities recognized for financial reporting purposes and amounts recognized for tax purposes. Deferred taxes are based on tax laws as currently enacted. The Company makes provisions for estimated U.S. and foreign income taxes, less available tax credits and deductions, that may be incurred on the remittance by the Company's subsidiaries of undistributed earnings, except those deemed to be indefinitely reinvested.

Earnings per common share – Effective December 31, 1997, FAS 128 "Earnings per Share" requires a dual presentation of earnings per share-basic and diluted. Basic earnings per common share has been computed by dividing net income, less preferred stock dividends net of taxes of $11 million in 1997, 1996, and 1995, by the weighted average number of common shares outstanding of 143.7 million in 1997, 144.7 million in 1996, and 146.1 million in 1995. Diluted earnings per share has been computed by dividing net income, less the additional cost incurred if preferred stock was converted, net of tax of $2 million in 1997 and $3 million in 1996 and 1995, divided by the weighted average number of common shares outstanding, including the dilutive effects of stock options and conversion of the Company's preferred stock, of 149.3 million in 1997, 149.8 million in 1996, and 151.3 million in 1995.

Financial instruments – The Company hedges its exposure in foreign currency cash flows to cover planned dividends, fees and royalties, intercompany loans, and other similar transactions. The Company also hedges certain transactions in foreign operations such as cross-border sourcing of raw materials, packaging supplies, and machinery/equipment with foreign exchange contracts. In addition, the Company hedges certain net investments with borrowings denominated in the particular foreign currency. As a matter of policy, the Company does not speculate on foreign currencies. Gains and losses, both realized and unrealized, on financial instruments that hedge operating activities and related cash flows, flow through income in the same period as the items being hedged. Gains and losses, both realized and unrealized, on financial instruments that hedge the Company's investments in foreign operations are recognized as part of the cumulative translation adjustment in stockholders' equity.

The company also hedges its exposure to commodities fluctuations with commodity futures contracts for certain of its North American raw material purchases. The Company's products are manufactured from a number of raw materials, including soybean and other edible oils,

peanuts, and wheat, all of which are, and are expected to continue to be, in adequate supply. Such raw materials may or may not be hedged at any given time based on management's decisions as to the need to fix the cost of such raw materials to protect the Company's profitability. Realized gains and losses arising from such hedging transactions are considered an integral part of the cost of these commodities and are included in the cost when purchased. At December 31, 1997, and 1996, the outstanding commodity contracts were not material to the Company's financial position or results of operations.

Risks and uncertainties – The Company operates in more than 60 countries, and in each country, the business is subject to varying degrees of risk and uncertainty. It insures its business and assets in each country against insurable risks in a manner that it deems appropriate. Because of its diversity the Company believes that the risk of loss from non-insurable events in any one business or country would not have material adverse affect on the Company's operations as a whole. Additionally, the Company believes there is no concentration of risk with any single customer or supplier, or small group of customers or suppliers, whose failure or non-performance would materially affect the Company's results.

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Segment Information – The Company is in one business segment, the consumer foods business, and follows the requirements of FAS 131, "Disclosures about Segments of an Enterprise and Related Information."

Reclassifications – Certain prior year amounts have been reclassified to conform to the 1997 presentation.

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1. Accounting Policies

A summary of the significant accounting policies used in the preparation of the accompanying financial statements follows:

Principles of Consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries. All significant intercompany transactions have been eliminated.

The Company's investments in 20% to 50% owned companies in which it has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method. Accordingly, the Company's share of the earnings of these companies is included in consolidated net income. Investments in other companies are carried at cost.

Revenue Recognition

Substantially all revenues are recognized when finished products are shipped to unaffiliated customers or services have been rendered, with appropriate provision for uncollectible accounts. In conformance with oil industry practice, revenues resulting from sales of crude oil purchased from third parties are recognized net of the related acquisition costs.

Consolidated Statement of Cash Flows

Cash and cash equivalents include cash on hand and in the bank as well as all short term securities held for the primary purpose of general liquidity. Such securities normally mature within three months from the date of acquisition. Cash flows associated with items intended as hedges of identifiable transactions or events are classified in the same category as the cash flows from the items being hedged.

Inventory Pricing

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for a significant portion of domestic inventories and the first-in, first-out (FIFO) method or average cost method for other inventories. Refer to Note 5.

Properties and Plants

Properties and plants are stated at cost, with the exception of the All American Pipeline System and related assets, which are stated at fair value as of December 31, 1996. Depreciation is computed using the straight line method. Accelerated depreciation is used for income tax purposes, where permitted. Refer to Note 6.

Derivative Financial Instruments

Derivative financial instrument contracts are utilized by the Company to manage interest rate and foreign exchange risks. The Company has established a control environment which includes policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. Company policy prohibits holding or issuing derivative financial instruments for trading purposes.

To qualify for hedge accounting, the contracts must meet defined correlation and effectiveness criteria, be designated as hedges and result in cash flows and financial statement effects which substantially offset those of the position being hedged. Amounts receivable or payable under derivative financial instrument contracts, when recognized, are reported on the Consolidated Balance Sheet as both current and long term receivables or liabilities.

Interest Rate Contracts – The differentials to be received or paid are recognized in income over the life of the contracts as adjustments to Interest Expense.

Foreign Exchange Contracts – As exchange rates change, gains and losses on contracts designated as hedges of existing assets and liabilities are recognized in income as Foreign Currency Exchange, while gains and losses on contracts designated as hedges of net investments in foreign subsidiaries are recognized in Shareholders' Equity as Foreign Currency Translation Adjustment. Gains and losses on contracts designated as hedges of identifiable foreign currency firm commit-

ments are not recognized until included in the measurement of the related foreign currency transaction.

Gains and losses on terminations of hedge contracts are recognized as Other (Income) and Expense when terminated in conjunction with the termination of the hedged position, or to the extent that such position remains outstanding, deferred as Prepaid Expenses or Deferred Charges and amortized to Interest Expense or Foreign Currency Exchange over the remaining life of that position. Derivative financial instruments that the Company temporarily continues to hold after the early termination of a hedged position, or that otherwise no longer qualify for hedge accounting, are marked-to-market, with gains and losses recognized in income as Other (Income) and Expense. Refer to Note 7.

Stock-Based Compensation
Compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. Compensation cost for stock appreciation rights and performance equity units is recorded annually based on the quoted market price of the Company's stock at the end of the period. Refer to Note 9.

Advertising Costs
Costs incurred for producing and communicating advertising are generally expensed when incurred. Costs incurred under the Company's domestic cooperative advertising program with dealers and franchisees are recorded subsequent to the first time the advertising takes place, as related revenues are recognized. Refer to Note 14.

Income Taxes
Income taxes are recognized during the year in which transactions enter into the determination of financial statement income, with deferred taxes being provided for temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. Refer to Note 15.

Environmental Cleanup Matters
The Company expenses environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalized. The Company determines its liability on a site by site basis and records a liability at the time when it is probable and can be reasonably estimated. The Company's estimated liability is reduced to reflect the anticipated participation of other potentially responsible parties in those instances where it is probable that such parties are legally responsible and financially capable of paying their respective shares of the relevant costs. The estimated liability of the Company is not discounted or reduced for possible recoveries from insurance carriers. Refer to Note 18.

Foreign Currency Translation
Financial statements of international subsidiaries are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and a weighted average exchange rate for each period for revenues, expenses, gains and losses. Where the local currency is the functional currency, translation adjustments are recorded as a separate component of Shareholders' Equity. Where the U.S. dollar is the functional currency, translation adjustments are recorded in income.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes to financial statements. Changes in such estimates may affect amounts reported in future periods.

Per Share of Common Stock
Basic earnings per share has been computed based on the average number of common shares outstanding. Diluted earnings per share reflects the increase in average common shares outstanding that would result from the assumed exercise of outstanding stock options, calculated using the treasury stock method. All earnings per share amounts in these notes to financial statements are basic earnings per share.

Reclassification
Certain items previously reported in specific financial statement captions have been reclassified to conform with the 1997 presentation.

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 annual reports of the survey companies. As shown in Table 1-8, most of the accounting changes disclosed by the survey companies were changes made to conform to requirements stated in authoritative pronouncements which became effective during 1997. Table 1-8 does not include those survey companies disclosing, for the first time, pro forma information in accordance with *Statement of Financial Accounting Standards No. 123* or those survey companies presenting, for the first time, earnings per share information in accordance with Statement of *Financial Accounting Standards No. 128.*

Examples of accounting change disclosures follow.

TABLE 1-8: ACCOUNTING CHANGES

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Impairment of long-lived assets (SFAS 121)	39	134	87	3
Business process reengineering costs (EITF 97-13)	28	—	—	—
Environmental remediation liabilities (SOP 96-1)	21	6	—	—
Transfer of financial assets (SFAS 125)	19	—	—	—
Reporting period for subsidiaries	5	4	3	1
Inventories	4	5	3	5
Depreciation method	3	4	3	—
Depreciable lives	3	3	2	6
Reporting entity	1	1	6	1
Investments (SFAS 115)	—	1	47	108
Postretirement benefits (SFAS 106)	—	1	1	44
Postemployment benefits (SFAS 112)	—	—	18	80
Impairment of loans (SFAS 114)	—	—	6	1
Reinsurance contracts	—	—	—	2
Income taxes (SFAS 109)	—	—	—	89
Other	10	11	18	23

Impairment of Long-Lived Assets

BAKER HUGHES INCORPORATED

Consolidated Statements Of Operations

(In millions, except per share amounts)

Years Ended September 30,	1997	1996	1995
Income before cumulative effect of accounting changes	$109.1	$176.4	$120.0
Cumulative effect of accounting changes:			
Impairment of long-lived assets to be disposed of (net of $6.0 income tax benefit)	(12.1)		
Postemployment benefits (net of $7.9 income tax benefit)			(14.6)
Net income	$97.0	$176.4	$105.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. (In Part): Summary Of Significant Accounting Policies

Impairment of assets: The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, effective October 1, 1996. The statement sets forth guidance as to when to recognize an impairment of long-lived assets, including goodwill, and how to measure such an impairment. The methodology set forth in SFAS No. 121 is not significantly different from the Company's prior policy and therefore, the adoption of SFAS No. 121 did not have a significant impact on the consolidated financial statements as it relates to impairment of long-lived assets used in operations. However, SFAS No. 121 also addresses the accounting for long-lived assets to be disposed of and requires these assets to be carried at the lower of cost or fair market value, rather than the lower of cost or net realizable value, the method that was previously used by the Company. The Company recognized a charge to income of $12.1 million ($.08 per share), net of a tax benefit of $6.0 million, as the cumulative effect of a change in accounting in the first quarter of 1997.

NORTHWESTERN STEEL AND WIRE COMPANY (JUL)

NOTES TO FINANCIAL STATEMENTS

Summary Of Significant Accounting Policies (In Part)

Long-Lived Assets
Effective August 1, 1996, the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS121), which requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value is required. The adoption did not have a material effect on the Company's financial position or results of operation.

RAYCHEM CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary Of Significant Accounting Policies (In Part)

New Accounting Standards
In the first quarter of 1997, the company adopted the Financial Accounting Standards Board (FASB) Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (FAS 121). The statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The statement also requires that long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value less cost to sell, except for assets that are covered by Accounting Principles Board (APB) Opinion No. 30. There was no impact on the company's results of operations or financial condition upon adoption of Statement No. 121.

THE READER'S DIGEST ASSOCIATION, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

One (In Part): Summary of Significant Accounting Policies

Change in Accounting Principles
In 1997, the company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." This statement requires that certain assets be reviewed for impairment and, if impaired, remeasured at fair value, whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. This adoption did not have a material effect on the company's results of operations, financial position or cash flow for 1997.

Business Process Reengineering Costs

BETZDEARBORN INC.

Consolidated Statements Of Operations

(In millions, except per share amounts)	Year Ended December 31, 1997	1996	1995
Earnings Before Cumulative Effect Of Accounting Change	$92.2	$64.3	$68.3
Cumulative effect of change in accounting for business process reengineering, net of $3.3 income taxes	(6.0)	—	—
Net Earnings	$86.2	$64.3	$68.3
Basic Earnings per Common Share:			
Before cumulative effect of accounting change	$3.02	$2.13	$2.30
Accounting change	(.21)	—	—
Basic earnings per Common Share	$2.81	$2.13	$2.30
Diluted Earnings per Common Share:			
Before cumulative effect of accounting change	$2.80	$2.01	$2.16
Accounting change	(.19)	—	—
Diluted earnings per Common Share	$2.61	$2.01	$2.16

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary Of Significant Accounting Policies

Accounting Change—On November 20, 1997, the FASB Emerging Issues Task Force ("EITF") announced a consensus on Issue No. 97-13, "Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project That Combines Business Process Reengineering and Information Technology Transformation." This issue addressed how an entity should account for third-party or internally generated costs associated with projects that combine business process reengineering activities and information technology transformation and how the total costs of a business process reengineering consulting contract performed by a third party should be allocated to the project's various individual activities. The EITF reached a consensus that the cost of business process reengineering activities, whether done internally or by third parties, is to be expensed as incurred. Also, the EITF reached a consensus that any unamortized portion of those identifiable costs should be written off as a cumulative effect type adjustment in the quarter that contains November 20, 1997.

The Company is engaged in a major project that combines business process reengineering activities and information technology transformation. The business process reengineering activities are being performed by both internal staff and by third parties. The amount of business process reengineering activities capitalized as of September 30, 1997 was $9.3 million, of which approximately $4.1 million was capitalized prior to 1997. Consequently, the Company recorded a write-off in the fourth quarter of 1997 for the cumulative effect of this change in accounting and will prospectively include the continuing costs of business process reengineering activities as operating expenses.

KELLOGG COMPANY

Consolidated Statement Of Earnings

Year ended December 31, (millions, except per share data)	1997	1996	1995
Earnings before cumulative effect of accounting change	$564.0	$531.0	$490.3
Cumulative effect of accounting change (net of tax)	(18.0)	—	—
Net earnings	$546.0	$531.0	$490.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting policies

Change in accounting principle

On November 20, 1997, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board reached a consensus in EITF-97-13 that the costs of business process reengineering activities are to be expensed as incurred. This consensus also applies to business process reengineering activities that are part of an information technology project. Beginning in 1996, the Company has undertaken an Enterprise Business Applications (EBA) initiative that combines design and installation of business processes and software packages to achieve global best practices. Under the EBA initiative, the Company had capitalized certain external costs associated with business process reengineering activities as part of the software asset. EITF Issue 97-13 prescribes that previously capitalized business process reengineering costs should be expensed and reported as cumulative effect of a change in accounting principle. Accordingly, for the fourth quarter of 1997, the Company reported a charge of $18.0 million (net of tax benefit of

$7.7 million) or $0.4 per share for write-off of business process reengineering costs. Such costs were expensed as incurred during the fourth quarter of 1997, and were insignificant.

WITCO CORPORATION

Consolidated Statements of Operations

(In thousands except per share data) For the years ended December 31	1997	1996	1995
Income (loss) before cumulative effect of accounting change	$100,068	$(315,087)	$104,445
Cumulative effect of accounting change-net of income tax benefit of $3,319	(5,191)	—	—
Net income (loss)	$ 94,877	$(315,087)	$104,445

NOTES TO FINANCIAL STATEMENTS
(In thousands except per share data)

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

Accounting Changes: Pursuant to Emerging Issues Task Force Issue No. 97-13, the Company changed its accounting policy in the fourth quarter of 1997 regarding the accounting for costs associated with projects that combine business process reengineering activities and information technology transformation. Under the consensus, all future costs for business process reengineering must be expensed as incurred and the unamortized balance of these costs as of September 30, 1997 of $5,191 (net of income taxes), or $.09 per common share, were written-off as a cumulative catch-up adjustment in the fourth quarter. The change in accounting method would not have had a material effect on the Statement of Operations for the years ended December 31, 1996 or 1995, if adopted in those periods.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 130 and No. 131, "Reporting Comprehensive Income" and "Disclosures about Segments of an Enterprise and Related Information," respectively, both of which are required to be adopted for fiscal years beginning after December 15, 1997. SFAS No. 130 will require the Company to report in its financial statements all non-owner related changes in equity for the periods being reported. SFAS No. 131 will require the Company to disclose revenues, earnings and other financial information pertaining to the business segments by which the Company is managed, as well as what factors management used to determine these segments. The Company is currently evaluating the effects SFAS No. 130 and No. 131 will have on its financial statement and related disclosures.

Environmental Remediation Liabilities

IMC GLOBAL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary Of Significant Accounting Policies

Accrued Environmental Costs

The Company's activities include the mining of phosphate and potash, the manufacturing and blending of crop nutrients, and the blending of crop nutrients with pesticide products. These operations are subject to extensive federal, state, provincial and local environmental regulations in the United States and Canada, including laws related to air and water quality; management of hazardous and solid wastes; management and handling of raw materials and products; and the restoration of lands disturbed by mining and production activities. Expenditures that relate to an existing condition caused by past operations of the Company or prior land owners, and which do not contribute to current or future revenue generation, are charged to operations. Liabilities are recorded for identified sites when litigation has commenced or a claim, or assessment has been asserted or is probable and the likelihood of an unfavorable outcome is probable.

In 1997, the Company adopted Statement of Position 96-1, "Environmental Remediation Liabilities," promulgated by the American Institute of Certified Public Accountants, which provides new guidance for the accrual of environmental remediation costs. Adoption of this statement did not have a material adverse effect on the Company's financial statements.

INTERNATIONAL FLAVORS & FRAGRANCES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

New Accounting Pronouncements

Effective January 1, 1997, the Company adopted Statement of Position 96-1 (SOP 96-1), Accounting for Environmental Remediation Liabilities, issued by the American Institute of Certified Public Accountants. SOP 96-1 establishes guidance for when environmental liabilities should be recorded and the factors to be considered in determining amounts recognized. The effect of adopting this standard was not material to the Company.

In June 1997, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 130 (FAS 130) and 131 (FAS 131), Reporting Comprehensive Income, and Disclosure about Segments of an Enterprise and Related Information, respectively, and in February 1998, Statement of Financial Accounting Standards No. 132 (FAS 132), Employers' Disclosures about Pensions and Other Postretirement Benefits. FAS 130 establishes standards for the reporting and display of comprehensive income and its components, and requires that an enterprise classify items of other comprehensive income by their nature in a financial statement,

and display the accumulated balance of other comprehensive income separately in the statement of financial position. FAS 131 establishes standards for the way public business enterprises report information about operating segments in reports to shareholders. FAS 132 standardizes employer disclosures about pension and other postretirement plans; the Standard does not change the measurement or recognition of such plans. All Standards are effective for periods beginning after December 15, 1997. The Company is currently evaluating the Standards and the reporting implications thereof.

USX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): New Accounting Standards

Environmental remediation liabilities — Effective January 1, 1997, USX adopted American Institute of Certified Public Accountants Statement of Position No. 96-1, "Environmental Remediation Liabilities" (SOP 96-1), which provides additional interpretation of existing accounting standards related to recognition, measurement and disclosure of environmental remediation liabilities. As a result of adopting SOP 96-1, USX identified additional environmental remediation liabilities of $46 million, of which $28 million was discounted to a present value of $13 million and $18 million was not discounted. Assumptions used in the calculation of the present value amount included an inflation factor of 2% and an interest rate of 7% over a range of 22 to 30 years. Estimated receivables for recoverable costs related to adoption of SOP 96-1 were $4 million. The net unfavorable effect of adoption on income from operations at January 1, 1997, was $27 million.

Transfer Of Financial Assets

LAM RESEARCH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Transfer of Financial Assets
During fiscal 1997, the Company adopted Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (FAS 125), which requires the Company to recognize the financial and servicing assets it controls and the liabilities it has incurred and to derecognize financial assets when control has been surrendered in accordance with criteria provided. FAS 125 is required to be applied to sales of receivables by the Company occurring after January 1, 1997. The effect of adopting FAS 125 for the six months ended June 30, 1997 was not material.

SEARS, ROEBUCK AND CO. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary Of Significant Accounting Policies

Credit Card Receivables
Credit card receivables arise primarily under open-end revolving credit accounts used to finance purchases of merchandise and services offered by the Company. These accounts have various billing and payment structures, including varying minimum payment levels and finance charge rates. Based on historical payment patterns, the full receivable balance will not be realized within one year.

Credit card receivables are shown net of an allowance for uncollectible accounts. The Company provides an allowance for uncollectible accounts based on impaired accounts, historical charge-off patterns, and management judgement.

Uncollectible accounts are generally charged off automatically when the customer's past due balance is eight times the scheduled minimum monthly payment, except that accounts may be charged off sooner in the event of customer bankruptcy. Finance charge revenue is recorded until such time as an account is charged off. Finance charges on charged-off accounts are presented as a reduction of credit revenues.

Effective for fiscal year 1997, the Company adopted SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 125 requires that the Company recognize gains on its domestic credit card securitizations which qualify as sales and that an allowance for uncollectible accounts not be maintained for receivable balances which are sold. Prior to adoption of SFAS No. 125, the Company maintained an allowance for uncollectible sold accounts as a recourse liability and did not recognize gains on securitizations. Adoption of SFAS No. 125 increased net income $136 million in 1997.

SYBASE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Transfer of Financial Assets
The Company finances certain software license and service agreements with customers through the sale, assignment and transfer of the future payments under those agreements to financing institutions, principally on a non-recourse basis. The Company records such transfers as sales of the related accounts receivable when it is considered to have surrendered control of such receivables under the provisions of Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," (Statement 125). The Company adopted Statement 125 effective January 1, 1997. The adoption of this statement did not have a material effect on the Company's consolidated financial statements.

UNISYS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Accounting Changes

Effective January 1, 1997, the company adopted SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement requires that if a transfer of financial assets does not meet certain criteria for recording the transaction as a sale, the transfer must be accounted for as a secured borrowing. The adoption of SFAS No. 125 did not have a material effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

Reporting Period For Subsidiaries

UNITED TECHNOLOGIES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary Of Accounting Principles

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Intercompany transactions have been eliminated. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

Beginning January 1, 1997, international operating subsidiaries, which had generally been included in the consolidated financial statements based on fiscal years ending November 30, are now included in the consolidated financial statements based on fiscal years ending December 31. December 1996 results from these international subsidiaries, which were not significant, are included in retained earnings.

XEROX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Basis of Consolidation. The consolidated financial statements include the accounts of Xerox Corporation and all majority-owned subsidiaries (the Company). All significant intercompany accounts and transactions have been eliminated.

Effective 1997, Fuji Xerox changed its reporting period from a fiscal year ending October 20 to a fiscal year ending December 20. The results of operations during the period between the end of the 1996 fiscal year and the beginning of the new fiscal year (the stub period) amounted to a gain of $8. The gain was credited to retained earnings to avoid reporting more than 12 months' results of operations in one year.

Inventory

FRUIT OF THE LOOM, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Inventories. Inventory costs include material, labor and factory overhead. Inventories are stated at the lower of cost (first-in, first-out) or market.

During the fourth quarter of 1997, the Company changed its method of determining the cost of inventories from the LIFO method to the FIFO method as it experienced reduced costs from offshore assembly operations and expects continuing cost reductions. The cost of inventories on a LIFO basis at December 31, 1997 was approximately equal to their replacement cost. Accordingly, the Company believes that the FIFO method will result in a better measurement of operating results. All previously reported results have been restated to reflect the retroactive application of this accounting change as required by generally accepted accounting principles. The accounting change increased the net loss for 1997 by $27,800,000, or $.37 per share. Due principally to the effect of LIFO allowance liquidations, net earnings previously reported for 1996 were reduced by $4,600,000 or $.06 per share, and the net loss previously reported for 1995 increased by $500,000 or $.01 per share.

Depreciation Method

THE DOW CHEMICAL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

B (In Part): Accounting Change

For property released to operations beginning January 1, 1997, the Company has changed from an accelerated method to the straight-line method of depreciation. The change reflects improvements in the Company's engineering and maintenance practices which result in property not being subject to high maintenance costs or substantially reduced productivity in the later years of its useful life. In addition, the change to the straight-line method conforms to predominant industry practice. This change did not have a material effect on 1997 income.

In 1997, the Company adopted the American Institute of Certified Public Accountants' Statement of Position 96-1 (Environmental Remediation Liabilities), which requires the accrual of future incremental operations, maintenance and management costs directly related to remediation. The Company's adoption of Statement of

Position 96-1 did not have a material effect on 1997 income.

ROCK-TENN COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment. Property, plant and equipment are stated at cost. Cost includes major expenditures for improvements and replacements which extend useful lives or increase capacity and interest costs associated with significant capital additions. For the year ended September 30, 1997, the Company capitalized interest of approximately $1,214,000 and none in fiscal years 1996 and 1995. For financial reporting purposes, depreciation and amortization is provided on both the declining balance and straight-line methods over the estimated useful lives of the assets as follows:

Buildings and building improvements	15-40 years
Machinery and equipment	3-20 years
Leasehold improvements	Term of lease
Transportation equipment	3-8 years

Depreciation expense for the years ended September 30, 1997, 1996 and 1995 was approximately $53,698,000, $44,889,000 and $40,069,000, respectively.

Effective October 1, 1996, the Company changed its method of depreciation for machinery and equipment placed in service after September 30, 1996 to the straight-line method. This change was applied on a prospective basis to assets acquired after that date. The Company's previous policy of depreciation for additions of machinery and equipment was the 150% declining balance method. Assets placed in service prior to the effective date of the change continue to be depreciated using accelerated methods. The Company changed its method of depreciation based upon 1) management's shift in operating style over the last several years to focus on capital and technological improvements and related changes in maintenance, 2) management's belief that the straight-line method provides a better matching of costs and revenues and 3) the fact that the straight-line method is the predominant industry practice. Given the Company's circumstances, management believes the straight-line method is preferable. There is no cumulative effect of this change. The effect of this change on net income for the year ended September 30, 1997 was to increase net income by approximately $3,011,0000 or $.09 per share.

Long-Term Construction-Type Contracts

ROHR, INC. (JUL)

Consolidated Statements Of Shareholders' Equity

(in thousands)

	Common Stock Par Value $1 per Share	Additional Paid-In Capital	Retained Earnings	Minimum Pension Liability Adjustment
Balance at July 31, 1994 as previously reported	$18,042	$102,598	$82,168	$(55,899)
Change in accounting (Note 2)	—	—	(90,328)	—
Balance at July 31, 1994 (restated)	18,042	102,598	(8,160)	(55,899)
Stock plans activity	26	289	—	—
Net Income	—	—	22,944	—
Minimum pension liability adjustment	—	—	—	17,481
Balance at July 31, 1995 (restated)	18,068	102,887	14,784	(38,418)
Stock plans activity	253	1,472	—	—
Conversion of 7.75% Convertible Subordinated Notes	4,009	38,297	—	—
Net Income	—	—	22,278	—
Minimum pension liability adjustment	—	—	—	11,987
Balance at July 31, 1996 (restated)	22,330	142,656	37,062	(26,431)
Stock plans activity	133	2,621	—	—
Pension retirement contribution	2,867	44,633	—	—
Net Loss	—	—	(6,022)	—
Minimum pension liability adjustment	—	—	—	26,431
Balance at July 31, 1997	$25,330	$189,910	$31,040	$ —

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Change In Accounting

In the fourth quarter of fiscal 1997, the Company changed its accounting principle related to long-term programs and contracts and restated its historical results to reflect the application of the new principle. The change eliminated the use of program accounting so that all current and future programs will be accounted for under the contract method of accounting as described in Note 1. Prior to the change, approximately half of the Company's revenues were accounted for under the program method of accounting and approximately half were accounted for under the contract method of accounting. Under contract accounting, the Company accounts for the direct sale of spare parts to airlines separately from the sale of production units. Previously, on programs that were accounted for under the program method of accounting, the Company combined the estimated costs and revenues associated with a program's production units and spare parts into a single profit center.

While the Company's previous method of accounting was in accordance with generally accepted accounting principles, the Company believes that the new principle is preferable. By accounting for spare parts sales separately from long-term production contracts, the amount of deferred costs included in inventory has been reduced. The change will also decrease the significance of the projections used in calculating the Company's financial results by eliminating the need to project spare parts sales into the future. In addition, under the changed principle, the Company's financial results will more clearly reflect its current operating activities and cash flow. The Company also believes that the change in accounting principle will enhance internal accountability.

The effect of this change in accounting for the periods through July 31, 1996, was a charge of $59.6 million, net of income tax benefits of $40.0 million. In accordance with Accounting Principles Board Opinion No. 20, "Accounting Changes," prior year financial statements have been restated to reflect this change on a retroactive basis. The effect of the change on fiscal 1997 results was to increase operating income by $15.1 million (composed of $25.5 million of additional operating income less $10.4 million of additional loss on the MD-90 contract, in each case arising from the change in accounting). The effect of the change in accounting on fiscal 1997 net income was to increase net income by $9.0 million, or 35 cents per share (composed of $15.3 million, or 60 cents per share, of additional net income less $6.3 million, or 25 cents per share, arising from the additional loss on the MD-90 program). The total impact on fiscal 1996 and fiscal 1995 was to increase net income by $19.1 million (92 cents per share) and $11.7 million (64 cents per share), respectively.

Cash Equivalents Redefined

CLEVELAND-CLIFFS INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Accounting Policy and Disclosure Changes

In June, 1997, the Company redefined its accounting policy for cash equivalents to include highly liquid debt instruments with a put option. Included in cash equivalents at December 31, 1997 are $4.9 million ($13.1 million at December 31, 1996 - reclassified) variable rate demand notes. These investments are revalued every seven days and can be put with seven days notice. The notes are guaranteed by letters of credit from highly rated financial institutions. The carrying value of these instruments approximates fair value on the reporting dates.

Revenue Recognition

THE DUN & BRADSTREET CORPORATION (DEC)

Consolidated Statements Of Operations

Years Ended December 31, Dollar amounts in millions, except per share data	1997	1996	1995
Income (Loss) from Continuing Operations	$311.0	$(27.3)	$217.5
Discontinued Operations:			
Income from Discontinued Operations, Net of Income Taxes of $155.9 and $9.7 for 1996 and 1995, respectively	—	141.1	103.3
Loss on Disposal, Net of Income Tax Benefit of $62.4	—	(158.2)	—
Income (Loss) from Discontinued Operations	—	(17.1)	103.3
Income (Loss) before Cumulative Effect of Accounting Changes	311.0	(44.4)	320.8
Cumulative Effect of Accounting Changes, Net of Income Tax Benefits of $104.1	(150.6)	—	—
Net Income (Loss)	$160.4	$(44.4)	$320.8
Basic Earnings (Loss) Per Share of Common Stock			
Continuing Operations	$ 1.82	$ (1.6)	$ 1.28
Discontinued Operations	—	(.100)	.61
Before Cumulative Effect of Accounting Changes	1.82	(.26)	1.89
Cumulative Effect of Accounting Changes	(.88)	—	—
Basic Earnings (Loss) Per Share of Common Stock	$.94	$ (.26)	$ 1.89
Diluted Earnings (Loss) Per Share of Common Stock			
Continuing Operatings	$ 1.80	$ (.16)	$ 1.27
Discontinued Operations	—	(.10)	.60
Before Cumulative Effect of Accounting Changes	1.80	(.26)	1.87
Cumulative Effect of Accounting Changes	(.87)	—	—
Diluted Earnings (Loss) Per Share of Common Stock	$ .93	$ (.26)	$ 1.87

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Accounting Changes. Effective January 1, 1997, the Company changed its revenue recognition method for its Credit Information Services business to recognize revenue as products and services are used by its customers. Previously, the Company recognized revenue ratably over the contract period. This change is consistent with the Company's change in focus from a sales contract basis to a product usage basis in order to drive revenue growth and increase customer satisfaction.

Additionally, the Company changed certain of its revenue recognition methods in the Marketing Information Services, Receivables Management Services and Moody's Investors Service ("Moody's") businesses to recognize revenue over the service period from previously recognizing revenues and cost at the time of shipment or billing. In the opinion of management, these accounting changes bring revenue recognition methods more in line with the economics of the business and provide a better measure of operating results.

In accordance with Accounting Principles Board Opinion ("APB") No. 20, "Accounting Changes," the cumulative effect of changing the accounting for certain of the Company's revenue recognition policies resulted in a pre-tax, non-cash charge of $254.7 million ($150.6 million after tax or $.88 per share basic, $.87 per share diluted). On a pro-forma basis these changes would have increased 1996 and decreased 1995 net income by $3.7 million and $7.5 million, respectively. The impact on basic and diluted earnings per share would have been an increase in 1996 of $.02 per share and a decrease in 1995 of $.04 per share.

Future Accounting Changes

BURLINGTON RESOURCES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Recent Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, *Reporting Comprehensive Income,* which is effective for fiscal years beginning after December 15, 1997.

SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. It requires (a) classification of items of other comprehensive income by their nature in a financial statement and (b) display of the accumulated balance of other comprehensive income separate from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The Company plans to adopt SFAS No. 130 for the quarter ended March 31, 1998.

In June 1997, the FASB also issued SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information,* which is effective for fiscal years beginning after December 15, 1997.

SFAS No. 131 establishes standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. This Statement supersedes SFAS No. 14, *Financial Reporting for Segments of a Business Enterprise,* but retains the requirement to report information about major customers. The Company plans to adopt SFAS No. 131 for the year ended December 31, 1998.

CURTISS-WRIGHT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

L. Newly Issued Accounting Pronouncements

Reporting Comprehensive Income: In June 1997, the Financial Accounting Standards Board issued Statement No. 130, "Reporting Comprehensive Income" (SFAS No. 130). This statement establishes standards for reporting and display of comprehensive income and its components within financial statements. Comprehensive income consists of all changes in equity during a period except those resulting from investments by owners and distributions to owners. SFAS No. 130 also requires that all components of comprehensive income be disclosed in a separate financial statement or on the face of the income statement.

The Corporation have reviewed the provisions of SFAS No. 130 based on its current Consolidated Statement of Stockholders' Equity. For the year ended December 31, 1997, the Corporation would have reported comprehensive income totaling $26,726,000, consisting of net income less equity adjustments from foreign currency translations on an after-tax basis. This statement is effective for the Corporation beginning January 1, 1998 and requires reclassification of prior period information for comparative purposes.

Disclosures about Segments of an Enterprise and Related Information: In June 1997, the Financial Accounting Standards Board also issued Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131). This statement requires a change in reporting business segments to a "management approach," utilizing financial information that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. SFAS No. 131 also requires descriptive information about how the operating segments were determined, the products and services provided by segments and a reconciliation of segment revenues, profits or losses and assets, to those of the total Corporation.

The Corporation is reviewing its current operating segments in conjunction with on-going changes in its business operations and the statement's aggregation criteria. This statement is effective for the Corporation's 1998 fiscal year beginning January 1, 1998 and requires reclassification of prior period information for comparative purposes. Information as required by SFAS No. 131 on an interim basis is not effective in the initial year of application.

ELCOR CORPORATION (JUN)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pending Accounting Pronouncement

The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants has issued an exposure draft on "Reporting on the Costs of Start-Up Activities." If the exposure draft were to be finalized in its proposed form, it would require

companies to expense on a current basis previously capitalized start-up costs. At June 30, 1997, the company had $8,967,000 of unamortized capitalized start-up costs. While the company does not agree with the accounting treatment proposed in the AcSEC exposure draft and believes that capitalizing costs incurred in constructing major new facilities provides a better matching of revenues and expenses, the company will adopt this statement of position if and when it is finalized.

ELI LILLY AND COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Implementation of New Financial Accounting Standards

In June 1997, SFAS No. 130, "Reporting Comprehensive Income," was issued. The statement must be adopted by the company in the first quarter of 1998. Under provisions of this statement, the company will be required to include a financial statement presentation of comprehensive income and its components to conform to these new requirements. As a consequence of this change, certain reclassifications will be necessary for previously reported amounts to achieve the required presentation of comprehensive income. Implementation of this disclosure standard will not affect the company's financial position or results of operations.

In June 1997, SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," was issued. The statement must be adopted by the company on December 31, 1998. Under provisions of this statement, the company will be required to modify or expand the financial statement disclosures for operating segments, products and services, and geographic areas. Implementation of this disclosure standard will not affect the company's financial position or results of operations.

In December 1997, SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," was issued and is effective for the company's 1998 fiscal year. The statement revises current disclosure requirements for employers' pensions and other retiree benefits. Implementation of this disclosure standard will not affect the company's financial position or results of operations.

LITTON INDUSTRIES, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Other New Accounting Standards. In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income", which establishes standards for reporting and display of comprehensive income and its components. Comprehensive income includes "all changes in equity during a period except those resulting from investments by owners and distributions to owners". SFAS No. 130 is effective for the Company starting in its fiscal year 1999 and is expected to impact the Company's reporting of currency effects from translating the financial statements of non-U.S. subsidiaries and divisions currently included as a component of Shareholders' Investment.

Also in June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which establishes new requirements on the reporting of information about operating segments, products and services, geographic areas and major customers. SFAS No. 131 is effective for the Company starting in its fiscal year 1999.

In January 1997, the Securities and Exchange Commission issued new disclosure requirements for accounting policies on and market risk inherent in derivative and other financial instruments. Except for certain foreign currency hedging contracts involving immaterial amounts, the Company does not have derivative or other financial instruments which are subject to market risk.

A.O. SMITH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Organization And Significant Accounting Policies

New Accounting Standards

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130. "Reporting Comprehensive Income," which establishes the standards for reporting and displaying comprehensive income and its components (revenues, expenses, gains, and losses) as part of a full set of financial statements. This statement requires that all elements of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The statement is effective for fiscal years beginning after December 15, 1997. Since this statement applies only to the presentation of comprehensive income, it will not have any impact on the corporation's results of operations, financial position, or cash flows.

In June 1997, the Financial Accounting Standards Board also issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes the standards for the manner in which public enterprises are required to report financial and descriptive information about their operating segments. The statement defines operating segments as components of an enterprise for which separate financial information is available and evaluated regularly as a means for assessing segment performance and allocating resources to segments. A measure of profit or loss, total assets, and other related information are required to be disclosed for each operating segment. In addition, this statement requires the annual disclosure of information concerning revenues derived from the enterprise's products or services, countries in which it earns revenue or holds assets, and major customers. The statement is also effective for fiscal years beginning after December 15, 1997. The adoption of SFAS No. 131 will not affect the corporation's results of operations or financial position, but may affect the disclosure of segment information.

VIAD CORP (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Recent Accounting Pronouncements. In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130, which will become effective in 1998, establishes standards for reporting and displaying comprehensive income and its components in the financial statements. Reclassification of financial statements for earlier periods is required. Viad is in the process of determining its preferred format. The adoption of SFAS No. 130 will not affect Viad's consolidated financial position, results of operations or cash flows as previously reported.

In June 1997, the FASB also issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 requires disclosure of certain financial and descriptive information for each reportable operating segment based on management's internal organizational decision-making structure. SFAS No. 131 also establishes standards for disclosures related to products and services, geographic areas and major customers. The new disclosures required by SFAS No. 131 will be effective for Viad's financial statements for the year ending December 31, 1998. Financial statement disclosures for prior periods are required to be restated. Viad is in the process of evaluating the disclosure requirements. The adoption of SFAS No. 131 will not affect Viad's consolidated financial position, results of operations or cash flows as previously reported.

In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits." SFAS No. 132, effective for the year ending December 31, 1998, requires additional disclosures and eliminates certain existing disclosures, but does not affect recognition or measurement of net pension or postretirement benefit cost. Restatement of financial statement disclosures for prior periods is required. Viad is in the process of evaluating the disclosure requirements. The adoption of SFAS No. 132 will not affect Viad's consolidated financial position, results of operations or cash flows as previously reported.

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.

Effective for financial statements for fiscal year ending after December 15, 1988, *Statement of Financial Accounting Standards No. 94* amends *ARB No. 51* by requiring the consolidation of subsidiaries having nonhomogeneous operations. Consequently, with rare exception, the survey companies consolidate nonhomogeneous operations. Table 1-9 shows the nature of nonhomogeneous operations consolidated by the survey companies.

Examples of consolidation practice disclosures follow.

TABLE 1-9: NONHOMOGENEOUS OPERATIONS CONSOLIDATED

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Credit	49	53	45	48
Insurance	21	21	26	28
Leasing	9	4	6	8
Real Estate	5	7	9	11
Banks	3	5	6	5

BORG-WARNER SECURITY CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation
The consolidated financial statements include all significant subsidiaries. As of September 30, 1996, the Company's courier services unit has been treated as a discontinued operation. The assets, liabilities, results of operations and adjustments to carrying values of net assets and cash flows of the courier unit have been segregated and reported as discontinued operations for all periods presented, and previously reported results have been restated (see Note 4). On January 24, 1997, the Company's armored services unit entered into a business combination with Loomis Armored. The combined company, known as Loomis, Fargo & Co., is owned 51 percent by the former Loomis shareholders and 49 percent by the Company. The Company accounts for its investment in Loomis, Fargo under the equity method. The business combination impacts the comparison of the Company's 1997 results to prior periods because the armored unit was included in the Company's results of operations for only 23 days in 1997 (see Note 3).

ADOLPH COORS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of consolidation: The consolidated financial statements include the accounts of Adolph Coors Company (ACC); its principal subsidiary, Coors Brewing Company (CBC); and the majority-owned and controlled domestic and foreign subsidiaries of both ACC and CBC (collectively referred to as the Company). All significant intercompany accounts and transactions have been eliminated. The equity method of accounting is used for the Company's 50% or less owned affiliates over which the Company has the ability to exercise significant influence (see Note 10). The Company has other investments that are accounted for at cost.

DILLARD'S, INC. (JAN)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary Of Significant Accounting Policies

Consolidation—The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, including its real estate subsidiary, Construction Developers, Inc. (which leases property principally to the Company), its wholly-owned finance subsidiary, Dillard Investment Co., Inc. ("DIC"), and Dillard National Bank ("DNB"), a wholly-owned subsidiary of DIC (which grants credit card loans to the Company's customers). Intercompany accounts and transactions are eliminated in consolidation. Investments in and advances to joint ventures in which the Company has a 50% ownership interest are accounted for by the equity method.

FEDDERS CORPORATION (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except per share and share data)

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

Principles of consolidation
The accompanying consolidated financial statements include the accounts of the Company and all of its wholly-owned and majority-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Note 12: Joint Venture

On November 7, 1995, the Company entered into a joint venture with the Ningbo General Air Conditioner Factory ("Ningbo"), Ningbo City, Zhejiang Province, People's Republic of China ("P.R.C.") to manufacture room air conditioners in China. The joint venture, Fedders Xinle Co. Ltd., was capitalized with a Company contribution of approximately $8,400 of cash plus know-how for a 60% interest in the joint venture. Ningbo contributed the factory, equipment and other assets valued at $5,600 for a 40% interest. The equivalent of approximately $10,300 in long-term financing was provided by a P.R.C. bank for the joint venture and is not guaranteed by the Company. At August 31, 1997, $6,131 was outstanding under this long-term financing. The financial statements of the joint venture are consolidated herein.

IMC GLOBAL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary Of Significant Accounting Policies

Basis of Presentation
The consolidated financial statements include the accounts of IMC Global Inc. (Company) and all subsidiaries which are more than 50.0 percent owned and controlled; the Company proportionately consolidates its interest in certain oil and gas investments and proportionately consolidated its 25.0 percent interest in the sulphur operations of Main Pass 299 (Main Pass). Additionally, its interest in McMoRan Oil & Gas Co. (MOXY) is proportionately consolidated at a rate of 56.4 percent of the exploration costs and 47.0 percent of the profits derived from oil and gas producing properties. All significant intercompany accounts and transactions are eliminated in consolidation. Certain amounts in the consolidated financial statements for periods prior to December 31, 1997, have been reclassified to conform to the current presentation.

PHELPS DODGE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Consolidation. The consolidated financial statements include the accounts of the Corporation and its majority-owned subsidiaries. Interests in mining joint ventures in which the Corporation owns more than 50 percent are reported using the proportional consolidation method. Interests in other majority-owned subsidiaries are reported using the full consolidation method; the consolidated financial statements include 100 percent of the assets and liabilities of these subsidiaries and the ownership interests of minority participants are recorded as "Minority interests in consolidated subsidiaries." All material intercompany balances and transactions are eliminated.

Investments in unconsolidated companies owned 20 percent or more are recorded on an equity basis. Investments in companies less than 20 percent-owned, and for which the Corporation does not exercise significant influence, are carried at cost.

THOMAS & BETTS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Principles of Consolidation
The consolidated financial statements include the accounts of the Corporation and its wholly owned domestic and foreign subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Corporation uses the equity method of accounting for its investments in 20-to-50-percent-owned companies. Under generally accepted accounting principles (GAAP), there is a presumption that the equity method should be used to account for those investments. If the Corporation were to determine that it no longer had the ability to exercise significant influence over the operating and financial policies of those companies, GAAP would require the Corporation to use the cost method rather than the equity method to account for those investments. The Corporation regularly monitors its relationships with those companies.

UNISYS 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 all majority-owned subsidiaries including Unisys Receivables, Inc. ("URI") to which the company sells accounts receivable which URI then sells to a master trust. Investments in companies representing ownership interests of 20% to 50% are accounted for by the equity method.

WALBRO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation:
The consolidated financial statements include the accounts of Walbro Corporation and its wholly-owned and majority-owned subsidiaries (the Company). Investment in joint ventures are accounted for under the equity method (Note 2). Significant transactions and balances among the Company and its subsidiaries have been eliminated in the consolidated financial statements.

Note 2 (In Part): Joint Ventures.

The investments in joint ventures as of December 31 are as follows:

		Percent Beneficial Ownership	
	1997	1996	1995
Marwal Systems, S.N.C. (France)	49%	49%	49%
Mitsuba-Walbro, Inc. (Japan)	50%	50%	50%
Marwal do Brasil, Ltda.	49%	49%	49%
Korea Automotive Fuel Systems, Ltd.	49%	49%	49%
Marwal de Mexico S.A. de C.V.	52%	52%	—
Marwal Argentina S.A.	49%	—	—

The above joint ventures are generally involved in the design and manufacture of precision fuel systems products for the global automotive market.

All of the above investments in joint ventures are accounted for using the equity method. Certain adjustments are made to the joint ventures' income so that recorded income is stated in accordance with United States generally accepted accounting principles. At December 31, 1997 and 1996, the cumulative effect of these adjustments was to increase the Company's equity in its joint ventures by approximately $3,158,000 and $2,631,000, respectively. At December 31, 1997, the amount included in retained earnings as undistributed earnings of foreign joint ventures was approximately $11,680,000.

In 1996, the Company entered into a joint venture (Marwal de Mexico S.A. de C.V.) with its 49% owned joint venture, Marwal Systems, S.N.C. The Company owns 5% of the venture directly and Marwal Systems S.N.C. owns the remaining 95%. Marwal de Mexico S.A. de C.V. manufactures fuel pumps and fuel modules for the Central American and Mexican automotive markets.

In the 4th Quarter 1996, the Company expanded its Marwal joint venture locations to include Marwal Argentina S.A. This is a joint venture 1% owned by Walbro, 1% by Magneti Marelli, and 98% owned by Marwal Systems S.N.C. marwal Argentina builds fuel sending units for the Argentinean automotive market.

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 1997 the survey companies reported 38 business combinations accounted for as a pooling of interests of which 18 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 business combination disclosures follow.

TABLE 1-10: BUSINESS COMBINATIONS

Poolings of Interests	**1997**	**1996**	**1995**	**1994**
Prior year financial statements restated	20	17	19	7
Prior year financial statements not restated	18	15	13	12
Total	**38**	**32**	**32**	**19**
Purchase Method	**278**	**256**	**244**	**215**

Poolings of Interests

FORT JAMES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Acquisitions, Dispositions and Other Transactions

1997

Effective August 13, 1997, in connection with the merger, the Company issued 104.8 million shares of its Common Stock in exchange for all the outstanding common stock of Fort Howard based on a conversion ratio of 1.375 shares (the merger exchange ratio) of the Company's Common Stock for each share of Fort Howard common stock, for a total value of $4.6 billion. The merger qualified as a tax-free reorganization and has been accounted for as a pooling of interests. Accordingly, the Company's consolidated financial statements have been restated for all periods prior to the business combination to include the combined financial results of James River and Fort Howard. Net sales, income before extraordinary item and net income for the individual companies reported prior to the merger were as follows:

(in millions)	Six months Ended June 29, 1997	Year Ended Dec. 29, 1996	Year Ended Dec. 31, 1995
	(unaudited)		
Net sales:			
James River	$2,794.3	$5,971.9	$7,141.2
Fort Howard	812.2	1,580.8	1,620.9
Reclassifications	65.6	154.4	125.8
Total	$3,672.1	$7,707.1	$8,887.9
Income before extraordinary item:			
James River	$ 138.3	$ 157.3	$ 126.4
Fort Howard	108.6	170.7	33.5
Total	$ 246.9	$ 328.0	$ 159.9
Net income:			
James River	$ 138.3	$ 157.3	$ 126.4
Fort Howard	106.7	162.6	14.7
Total	$ 245.0	$ 319.9	$ 141.1

The consolidated financial information presented above reflects reclassifications of customer freight expenses and certain trade promotions to conform the classifications of Fort Howard to those of Fort James. The conforming of the accounting practices of Fort James and Fort Howard resulted in no adjustments to net income or shareholders' equity. There were no significant intercompany transactions between Fort James and Fort Howard.

WAUSAU - MOSINEE PAPER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Basis of Presentation - The consolidated financial statements include the accounts of the company and its subsidiaries. All significant intercompany transactions, balances and profits have been eliminated in consolidation. The consolidated statements give retroactive effect to the merger with Mosinee Paper Corporation ("Mosinee").

On December 17, 1997, Wausau Paper Mills Company ("Wausau") completed a merger with Mosinee ("the Mosinee merger") in which Mosinee became a wholly owned subsidiary of Wausau. Simultaneous with the consummation of the merger, Wausau changed its name to Wausau-Mosinee Paper Corporation ("the company"). Prior to the merger, Wausau's fiscal year-end was August 31 and Mosinee's was December 31. Subsequent to the merger, the company adopted a calendar year-end. As a result of the change in fiscal year and the merger accounted for as a pooling of interests, the company's 1997 financial statements have been recast to a twelve-month period ending December 31, 1997. The financial statements have been restated to retroactively combine Mosinee's financial statements as if the merger had occurred at the beginning of the earliest period presented.

The consolidated statements of income and cash flows for the years ended August 31, 1996 and 1995 reflect the results of operations and cash flows for Wausau for the years then ended combined with Mosinee for the years ended December 31, 1996 and 1995. The consolidated balance sheet as of August 31, 1996 reflects the financial position of Wausau on that date combined with the financial position of Mosinee as of December 31, 1996. As a result of Wausau and Mosinee having different fiscal years and the change in the company's fiscal year, Wausau's results of operations for the four-month period ended December 31, 1996, have been excluded from the reported results of operations and, therefore, have been added to the company's retained earnings at January 1, 1997. Wausau had net sales, expense, and net income of $179,075,000, $165,255,000, and $13,820,000 for the four-month period ended December 31, 1996.

Note 2 (In Part): Mergers and Acquisitions

On December 17, 1997, the company completed the Mosinee merger. The merger qualified as a tax-free exchange and was accounted for as a pooling of interests. Wausau issued 1.4 shares of common stock for each share of Mosinee outstanding common stock. A total of 21,281,795 shares (after adjustment for fractional shares) of the company's common stock was issued as a result of the merger, and Mosinee's outstanding stock options were converted into options to purchase approximately 596,000 common shares. In connection with the merger, the company incurred $13,503,000 ($13,203,000 after taxes, or $.23 per common share) of merger-related costs which were charged to operations during the year ended December 31, 1997.

The following table presents a reconciliation of net sales and net earnings previously reported by the company to those presented in the accompanying consolidated financial statements.

(all dollar amounts in thousands)	For the year ended December 31, 1997	For the years ended August 31, 1996	1995
Net Sales:			
Wausau	$594,913	$542,669	$515,743
Mosinee	338,214	314,490	305,570
Combined	$933,127	$857,159	$821,313
Net Earnings:			
Wausau	$ 40,379	$ 41,229	$ 31,251
Mosinee	25,019	26,899	15,185
Combined	$ 65,398	$ 68,128	$ 46,436

Purchase Method

CMI CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

(2) Acquisition Of Businesses And Product Lines

On December 17, 1997, the Company acquired substantially all of the assets of Rexworks, Inc's TRASHMASTER Landfill compaction product line and three hard materials grinding machines for approximately $20.5 million which included assumption of certain liabilities related to the product lines. The purchase price was allocated to the assets acquired based on their estimated fair values, and approximately $16 million was allocated to receivables and inventory. The excess of the purchase price over the fair value of the net assets acquired (goodwill) was approximately $4.1 million and is being amortized on a straight-line basis over 15 years.

The financial statements reflect the preliminary allocation of the purchase price. The allocation has not been finalized due to certain pre-acquisition contingencies identified by the Company relating to impairment of assets and contingent liabilities. Accordingly, in 1998 goodwill associated with the acquisition may increase.

In October 1997, the Company acquired all of the outstanding stock of Brownwood Ross Company for $2.4 million in cash, and certain assets of C.S. Johnson Corporation for $425,000 in cash and 75,000 shares of the Company's common stock (valued at $375,000), and the assumption of approximately $321,000 in liabilities. The purchase price was allocated to the assets acquired based on their estimated fair values.

The 1997 acquisitions described above were accounted for by the purchase method of accounting for business combinations. Accordingly, the accompanying consolidated statements of operations do not include any revenues or expenses related to these acquisitions prior to the respective closing dates. The cash portions of the

acquisitions were financed through available cash and borrowings from the Company's line of credit. Following are the Company's unaudited pro forma results for 1997 and 1996 assuming the acquisitions occurred on January 1, 1996 (in thousands, except for per share data):

	1997	1996
Net revenues	$189,199	$176,635
Net earnings	4,146	6,566
Net earnings per common share:		
Basic	.19	.32
Diluted	.19	.32
Weighted average outstanding common shares:		
Basic	21,281	20,501
Diluted	21,375	20,783

These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which would have actually resulted had the combinations been in effect on January 1, 1996, or of future results of operations.

GENERAL MILLS, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Acquisition

On January 31, 1997, the Company acquired the branded ready-to-eat cereal and snack mix businesses of Ralcorp Holdings, Inc., including its Chex and Cookie Crisp brands. This acquisition included a Cincinnati, Ohio, manufacturing facility that employs 240 people, and trademark and technology rights for the branded products in the Americas. The purchase price of $570 million (subject to a purchase price adjustment) involves a combination of the issuance of about $355 million in General Mills common stock (approximately 5.4 million shares) to Ralcorp shareholders and the assumption of about $215 million of Ralcorp public debt and accrued interest. This acquisition has been accounted for under the purchase method of accounting. The purchase price has been preliminary allocated based on estimated fair values at date of acquisition, pending final determination of certain acquired balances. This preliminary allocation has resulted in acquired goodwill of approximately $555 million, which is being amortized on a straight-line basis over 40 years. The results of the acquired businesses have been included in the consolidated financial statements since the acquisition date. 1997 earnings were reduced approximately $.05 per share by the acquisition.

The following unaudited pro forma information presents a summary of our consolidated results of operations and the acquired branded ready-to-eat cereal and snack mix businesses of Ralcorp as if the acquisition had occurred on May 29, 1995.

	Fiscal Year	
In Millions, Except per Share Data	1997	1996
Sales	$5,892.0	$5,809.6
Net earnings	459.4	487.7
Net earnings per share	2.84	2.97

These unaudited pro forma results have been prepared for comparative purposes only and include certain adjustments, such as additional amortization expense as a result of goodwill and an increased interest expense on acquisition debt. They do not purport to be indicative of the results of operations that actually would have resulted had the combination occurred on May 29,1995, or of future results of operations of the consolidated entities.

HARCOURT GENERAL, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Acquisition Of Nec

In June 1997, the Company completed the acquisition of National Education Corporation (NEC) for a cash purchase price of approximately $854.4 million. NEC is a global provider of print and multimedia-based products and services for the education and training marketplace, and a provider of distance education in vocational, academic and professional studies.

The NEC acquisition has been accounted for by the purchase method of accounting and, accordingly, the results of operations of NEC for the period from June 5, 1997 are included in the accompanying consolidated financial statements. Assets acquired and liabilities assumed have been recorded at their estimated fair values, and are subject to adjustment when additional information concerning asset and liability valuations is finalized. NEC's accounting policies have been conformed with those of the Company with respect to revenue recognition of certain subscription contracts and deferred expenses.

Based on an independent appraisal, approximately $174 million of the purchase price was allocated to purchased in-process research and development. Accordingly, the Company recorded a non-recurring charge for this purchased in-process research and development at the date of acquisition.

The excess of cost over the estimated fair value of net assets acquired was allocated to goodwill. A total of $730.6 million was allocated to goodwill, of which $302.1 million will be amortized on a straight-line basis over 25 years. The remaining goodwill will be amortized on a straight-line basis over 40 years.

The following unaudited pro forma information presents the results of operations of the Company as if the acquisition had taken place on November 1, 1995 and excludes the write-off of purchased in-process research and development of $174 million:

(in thousands, except per share amounts)	Year ended Oct. 31, 1997	Year ended Oct. 31, 1996
Revenues	$3,876,966	$3,578,720
Net earnings	$ 85,506	$ 80,987
Earnings per share	$ 1.18	$ 1.11

These pro forma results of operations have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred on the date indicated, or which may result in the future.

The NEC acquisition was initially funded with $300 million of borrowings under the Company's revolving credit agreement and cash and short-term investments of approximately $554 million. The borrowings under the revolving credit agreement were subsequently funded with long-term senior debt.

Through NEC, the Company acquired approximately 82% of the issued and outstanding shares of Steck-Vaughn Publishing Corporation (Steck-Vaughn). In September 1997, the Company signed a definitive merger agreement to acquire the balance of the issued and outstanding shares of Steck-Vaughn for $14.75 per share, or approximately $41 million in aggregate. The transaction will be consummated in fiscal 1998, and therefore the consolidated financial statements included herein do not give effect to the acquisition of such shares, which will result in an increase in goodwill of approximately $30 million.

HONEYWELL INC. (DEC)

NOTES TO FINANCIAL STATEMENTS
(Dollars in Millions Except Per Share Amounts)

2 (In Part): Acquisitions and Sale of Assets

Honeywell acquired seven companies in 1997, 17 companies in 1996, and nine companies in 1995 for $650.2, $411.2, and $37.7 in cash, respectively. These acquisitions were accounted for as purchases, and accordingly, the assets and liabilities of the acquired entities have been recorded at their estimated fair values at the dates of acquisition. The excess of purchase price over the estimated fair values of the net assets acquired, in the amount of $323.7 in 1997, $294.7 in 1996, and $32.4 in 1995, has been recorded as goodwill and is amortized over estimated useful lives.

The largest acquisition in 1997, consisting of approximately $600 in cash, was Measurex Corporation, a supplier of computer-integrated measurement, control and information systems and services. The allocation of the purchase price for Measurex resulted in goodwill of $305.9 and intangibles, including patents/developed technology, work force value, and customer lists, of $202.5 which will be amortized over an average of approximately 26 years. Honeywell assumed approximately 1.8 million options to purchase Measurex common stock and converted such options to Honeywell options to acquire approximately 671,000 shares of Honeywell stock with an average exercise price of $52.24 and a range of exercise prices from $34.58 to $72.85. The value of the options assumed is included in the purchase price and as a component of shareowners equity in the consolidated financial statements. The options are included in the stock option discussion and analysis in Note 17 on page 45.

The pro forma results for 1997, 1996, and 1995, assuming these acquisitions had been made at the beginning of the year, would not be materially different from reported results.

MAYTAG CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Business Acquisition

On October 1, 1997, the Company acquired all of the outstanding shares of G.S. Blodgett Corporation, a manufacturer of commercial ovens, fryers and charbroilers for the food service industry, for $96.4 million. In connection with the purchase, the Company also incurred transaction costs of $4.2 million and retired debt of approximately $53.2 million. As a result, the total cost of business acquired was $148.3 million, net of cash acquired of $5.5 million. The Company funded this acquisitions through cash provided by operating activities and borrowings. This business, which has annual sales of approximately $135 million, produces and markets commercial cooking equipment primarily under the Blodgett and Pitco Frialator brands. This acquisition has been accounted for as a purchase, and the results of the operations of the acquired business have been included in the consolidated financial statements since the date of acquisition. The excess of purchase price over the fair values of net assets acquired was approximately $120 million and has been recorded as Other intangibles (goodwill) in the Statements of Consolidated Financial Condition, and is being amortized on a straight-line basis over 40 years.

Assuming this acquisition had occurred January 1, 1996, consolidated net sales would have been $3.5 billion for 1997 and $3.1 billion for 1996. Consolidated pro forma income and earnings per share would not have been materially different from the reported amounts for 1997 and 1996. Such unaudited pro forma amounts are not indicative of what the actual consolidated results of operations might have been if the acquisition had been effective at the beginning of 1996.

MICHAEL FOODS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B. (In Part): Acquisition Of Papetti's

On February 26, 1997, the Company completed its acquisition of Papetti's Hygrade Egg products, Inc. and affiliated companies (collectively "Papetti's"). The acquisition was accounted for as a purchase and the results of Papetti's operations were included in the Company's 1997 consolidated statements of operations from the date of acquisition. Total consideration included the issuance of 3,195,455 of newly issued common shares valued at $38,859,000, $44,315,000 in cash and closing costs, and the assumption of $22,825,000 of notes payable and long-term debt. The total consideration exceeded the fair value of the net assets acquired by $73,048,000, which has been recorded as goodwill and is being amortized on a straight-line basis over forty years.

In connection with the acquisition, the Company received $6,000,000 as a settlement for existing patent litigation between Papetti's and the Company and the patent licensor (see Note G). The Company also entered

into leases with the previous owners of Papetti's for the majority of Papetti's operating facilities. The future minimum rental commitments under these leases is approximately $2,100,000 per year through February, 2007. Additionally, two of the Papetti's shareholders became directors of the Company following the acquisition.

The following unaudited consolidated pro forma information utilizes the audited information for the Company for 1997 and 1996 and unaudited information for Papetti's for the period from January 1, 1997 through February 26, 1997 and for calendar year 1996. The pro forma data assumes the Papetti's acquisition, the merger with North Star Universal, Inc. (see Note H) and the 1997 long-term borrowings (see Note D) had occurred on January 1, 1997 and 1996, respectively (in thousands of dollars except per share amounts).

YEARS ENDED DECEMBER 31,	1997	1996
Net sales	$1,004,818	$982,532
Net earnings (loss)	32,992	(1,146)
Net earnings (loss) per share		
Basic	$ 1.54	$ (.06)
Diluted	1.52	(.06)

The unaudited consolidated pro forma information is not necessarily indicative of the combined results that would have occurred had the acquisition, merger and borrowings occurred on those dates, nor is it indicative of the results that may occur in the future.

SPS TECHNOLOGIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Thousands of dollars, except share data)

3. Business Acquisitions

All acquisitions have been accounted for under the purchase method. The results of operations of the acquired businesses are included in the consolidated financial statements from the dates of acquisition.

In January 1997, the Company acquired all of the outstanding shares of Postkey, Ltd. (Postkey), a manufacturer of cylindrical thread roll dies, located in Nuneaton, England for $1,200. The excess of purchase price over the fair values of the net assets acquired was approximately $860 and has been recorded as goodwill, which is being amortized on a straight-line basis over 20 years.

On February 24, 1997, the Company acquired all of the outstanding shares of Greer Stop Nut, Inc. (Greer), a manufacturer of nylon insert nuts, located in Nashville, Tennessee for $10,000. The excess of the purchase price over the fair values of the net assets acquired was approximately $5,000 and has been recorded as goodwill, which is being amortized on a straight-line basis over 40 years.

On March 7, 1997, the Company acquired the assets of RJF International Corporation's (RJF) Bonded Magnet Business, a manufacturer of flexible ferrite bonded magnets, located in Cincinnati and Marietta, Ohio for $9,200. The excess of the purchase price over the fair values of the net assets acquired was approximately $5,200 and has been recorded as goodwill, which is being amortized on a straight-line basis over 30 years.

On May 5, 1997, the Company acquired all of the outstanding shares of Lake Erie Design Co., Inc. (LED), a manufacturer of high precision ceramic cores for the investment casting industry, located in Wickliffe, Ohio for $8,100. The excess of the purchase price over the fair values of the net assets acquired was approximately $6,500 and has been recorded as goodwill, which is being amortized on a straight-line basis over 30 years.

On September 23, 1997, the Company acquired all of the outstanding shares of Mohawk Europa Limited (Mohawk), a specialty cutting tool manufacturer, located in Shannon, Ireland for $9,100. The purchase price approximated the fair value of the net assets acquired.

On December 2, 1997, the Company acquired all of the outstanding shares of Magnetic Technologies Corporation (MTC), a designer and manufacturer of magnetic, electronic, and mechanical subassemblies of copiers and printers for the electronic office equipment industry, located in Rochester, New York and Rochester, England for $14,400. Approximately $9,600 was paid in cash and the remainder in common stock of the Company. The excess of the purchase price over the fair values of the net assets acquired was approximately $8,700 and has been recorded as goodwill, which is being amortized on a straight-line basis over 40 years.

In 1996, the Company completed two acquisitions of magnetic material manufacturers. On June 14, 1996, the Company acquired all of the outstanding shares of Flexmag Industries, Inc. (Flexmag) located in Marietta, Ohio, and the assets of a related magnet business located in Seneca, South Carolina, for $21,274. On July 3, 1996, the Company acquired all of the outstanding shares of Swift Levick Magnets Ltd. (Swift Levick), located in Derbyshire, England for $18,491. The excess of the purchase price over the fair value of the net assets acquired for both acquisitions was approximately $13,300 and has been recorded as goodwill, which is being amortized on a straight-line basis over 30 years.

On October 8, 1996, the Company acquired 85 percent of the capital stock of Mecair Aerospace Industries, Inc. (Mecair), a manufacturer of aerospace fasteners, located in Point Claire (Montreal), Quebec, Canada for $8,300. The excess of the purchase price over the fair value of the net assets acquired was approximately $3,500 and has been recorded as goodwill, which is being amortized on a straight-line basis over 40 years.

The following unaudited pro forma consolidated results of operations are presented as if the Greer, RJF, LED, Mohawk, MTC, Flexmag, Swift Levick and Mecair acquisitions had been made at the beginning of the periods presented. The effects of the Postkey acquisition is not material and, accordingly, has been excluded from the pro forma presentation

	Years Ended December 31	
	1997	1996
Net sales	$620,734	$570,978
Net earnings	33,291	23,585
Basic earnings per common share	2.74	1.98
Diluted earnings per common share	2.60	1.88

The pro forma consolidated results of operations include adjustments to give effect to amortization of goodwill, interest expense on acquisition debt and certain other adjustments, together with related income tax effects. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the purchase been made at the beginning of the periods presented or the future results of the combined operations.

TRW INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Acquisitions

On February 5, 1997, the company acquired an 80 percent equity interest in the air bag and steering wheel businesses of Magna International for cash of $415 million plus assumed net debt of $50 million. These businesses supply air bag modules, inflators, propellants, steering wheels and other related automotive components. The results of operations have been included in the financial statements from the date of acquisition. The acquisition was accounted for by the purchase method; accordingly, the purchase price has been allocated to the net assets acquired based on their estimated fair values and to costs for certain restructuring actions to be completed in 1998. The purchase price in excess of the net assets is $276 million and is being amortized over 40 years.

On December 24, 1997, the company acquired the shares of BDM International, Inc. (BDM) for cash of $880 million plus assumed net debt of $85 million. BDM is an information technology company operating in the systems and software integration, computer and technical services and enterprise management and operations markets. The acquisition was accounted for by the purchase method, with the purchase price tentatively allocated to the net assets acquired based on their fair values. An independent valuation was performed primarily using the income approach for valuing the intangible assets. As a result of the valuation, $548 million was allocated to in-process research and development projects that had not reached technological feasibility and have no alternative future use. This amount was recognized as an expense with no tax benefit at the date of acquisition. The intangible assets of $306 million will be amortized over an average period of 15 years.

The following unaudited pro forma financial information reflects the consolidated results of operations of the company as if the acquisitions had taken place at the beginning of the respective periods. The pro forma information includes adjustments for interest expense that would have been incurred to finance the acquisitions, additional depreciation based on the fair market value of the property, plant and equipment acquired, write-off of purchased in-process research and development and the amortization of intangible assets arising from the transactions. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transactions been effected on the assumed dates.

In millions, except per share amounts Year ended (unaudited)	1997	1996
Sales	$11,758	$11,231
Loss from continuing operations	(85)	(392)
Loss per share	(.69)	(3.05)

Formation of Jointly Owned Companies

BAXTER INTERNATIONAL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Acquisitions And Divestitures

VIMRX Pharmaceuticals Inc.

In December 1997, the company and VIMRX Pharmaceuticals Inc. (VIMRX) formed a new cell-therapy company to develop innovative treatments for cancer and other life-threatening diseases. The company transferred certain assets of its Immunotherapy division into the new company and holds a minority ownership position along with warrants to acquire an additional ownership interest in the future. VIMRX obtained a majority interest in the new company in exchange for 11 million shares of VIMRX common stock and convertible preferred shares with a nominal value of approximately $66 million. The securities received by Baxter are reflected on the company's balance sheet in other noncurrent assets. Baxter is restricted from selling the common stock or converting the convertible preferred stock for a period of time pursuant to government regulations and contractual agreement, respectively. The company recognized a pretax gain from the transaction of $32 million. The company and VIMRX loaned $30 million and $10 million, respectively, to the new company to provide initial operating funds.

PHARMACIA & UPJOHN, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
dollar amounts in millions

6. Biotech merger

In August 1997, the company merged its biotechnology supply business, Pharmacia Biotech, with Amersham Life Science, a division of Amersham International plc., in a noncash transaction that did not result in the recognition of a gain or loss. The merger created a new company, Amersham Pharmacia Biotech Ltd. Pharmacia & Upjohn owns 45 percent of the new company which is accounted for using the equity method. In 1997, the company recorded $79 in charges related to the Biotech merger and subsequent restructuring of the new company. Of this total, $36 consisted of transaction costs to effect the merger and a write-off of certain acquired research and development costs. The related caption on the consolidated statement of earnings includes these charges as well as the company's portion of Amersham Pharmacia Biotech's earnings and losses since the merger.

THOMAS & BETTS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Mergers, Acquisitions and Divestitures

On December 28, 1997, the Corporation completed the creation of a joint venture with Exemplar Manufacturing Company, a privately owned business based in Ypsilanti, Michigan, to manufacture and sell power distribution, battery cable and wiring systems to the U.S. automotive industry. In exchange for a 49% interest in the ownership of the joint venture, the Corporation contributed net assets with a carrying value of approximately $41.0 million; no gain or loss was recognized as a result of that transaction. The joint-venture agreement provides that each venturer retains a 100% income interest in earnings generated by its respective contributed business; income from jointly developed business will be allocated in accordance with the ownership percentages. Sales generated in 1997 by the assets contributed by the Corporation to that joint venture were $85.9 million.

CONTINGENCIES

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." Paragraphs 8-16 of *SFAS No.5* set forth standards of financial accounting and reporting for loss contingencies. Paragraph 17 of *SFAS No. 5* states the accounting and reporting standards for gain contingencies. Table 1-11 lists the loss and gain contingencies disclosed in the annual reports of the survey companies.

Examples of contingency disclosures, except for tax carryforwards, follow. Examples of operating loss carryforwards are presented with the discussion of income tax expense in Section 3.

TABLE 1-11: CONTINGENCIES

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Loss Contingencies				
Litigation	433	431	422	407
Environmental	286	296	291	292
Insurance	67	68	64	59
Possible tax assessments	52	53	61	62
Government investigations	39	36	34	28
Other-described	57	54	69	68
Gain Contingencies				
Operating loss carryforward	307	277	282	279
Investment credit carryforward	42	32	43	43
Plaintiff litigation	44	40	47	44
Other-described	12	12	11	12

LOSS CONTINGENCIES

Litigation

THE BOEING COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 20 (In Part): Contingencies

Various legal proceedings, claims and investigations related to products, contracts and other matters are pending against the Company. Most significant legal proceedings are related to matters covered by insurance. Major contingencies are discussed below.

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On October 31, 1997, a federal securities lawsuit was filed against the Company in the U.S. District Court for the Western District of Washington, in Seattle. The lawsuit names as defendants the Company and three of its executive officers. Additional lawsuits of a similar nature have been filed in the same court. The plaintiffs in each lawsuit seek to represent a class of purchasers of Boeing stock between July 21, 1997, and October 22, 1997, (the "Class Period"), including recipients of Boeing stock in the McDonnell Douglas merger. July 21, 1997, was the date on which the Company announced its second quarter results, and October 22, 1997, was the date on which the Company announced charges to earnings associated with production problems being experienced on commercial aircraft programs. The lawsuits generally allege that the defendants desired to keep the Company's share price as high as possible in order to ensure that the McDonnell Douglas shareholders would approve the merger and, in the case of two of the individual defendants, to benefit directly from the sale of Boeing stock during the Class Period. The plaintiffs seek compensatory damages and treble damages. The Company believes that the allegations are without merit and that the outcome of these lawsuits will not have a material adverse effect on its earnings, cash flow or financial position.

BRISTOL-MYERS SQUIBB COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 (In Part): Contingencies

Various lawsuits, claims and proceedings of a nature considered normal to its businesses are pending against the company and certain of its subsidiaries. The most significant of these are described below.

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Other Actions

The company, one of its subsidiaries, and others are or have been defendants in a number of antitrust actions in various states filed on behalf of purported statewide classes of indirect purchasers of infant formula products and by the Attorneys General of Louisiana, Minnesota and Mississippi, alleging a price fixing conspiracy and other violations of state antitrust or deceptive trade practice laws and seeking penalties and other relief. The company has previously reported reaching settlements and receiving final court approval in the majority of these cases. The only open cases are in Louisiana and Missouri. On November 6, 1997, the court in Louisiana dismissed the plaintiffs' case. The plaintiffs are appealing that dismissal. In Missouri, the company has a motion to dismiss pending.

As of December 31, 1997, the company is a defendant in over 100 actions brought against the company and more than 30 other pharmaceutical manufacturers, drug wholesalers and pharmacy benefit managers in various federal district courts by certain chain drugstores, supermarket chains and independent drugstores, suing either individually or as representatives of a nationwide class of retail pharmacies that has been certified. These cases, which have been coordinated for pretrial purposes, all seek treble damages and injunctive relief on account of alleged antitrust violations in the pricing and marketing of brand name prescription drugs. The company, without admitting any wrongdoing, reached an amended agreement as of May 1, 1996 to settle the class action, and that settlement has become final. The largest opt-out retailer plaintiffs have purported to quantify their conspiracy damage claims against the defendants, including the company, asserting damages aggregating approximately $2.4 billion before trebling. Cases brought by retail pharmacies in state court under state law alleging similar grounds are proceeding in California, Alabama, Mississippi, Wisconsin and Minnesota; the Wisconsin and Minnesota cases are subject to settlements. Purported class actions brought by consumers in state court under state law alleging similar grounds have been brought in California, Washington, New York, Arizona, Maine, Alabama, Michigan, Minnesota, Wisconsin, the District of Columbia, Kansas, Florida, Tennessee and North Carolina. While it is not possible to predict with certainty the outcome of these cases, it is the opinion of management that these lawsuits, claims and proceedings which are pending against the company are without merit or will not have a material adverse effect on the company's operating results, liquidity or consolidated financial position.

CHEVRON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Millions of dollars, except per-share amounts

Note 8. Litigation-

The company is a defendant in numerous lawsuits, including, along with other oil companies, actions challenging oil and gas royalty and severance tax payments based on posted prices. Plaintiffs may seek to recover large and sometimes unspecified amounts, and some matters may remain unresolved for several years. It is not practical to estimate a range of possible loss for the company's litigation matters, and losses could be material with respect to earnings in any given period. However, management is of the opinion that resolution of the lawsuits will not result in any significant liability to the company in relation to its consolidated financial position or liquidity.

OXY U.S.A. brought a lawsuit in its capacity as successor in interest to Cities Service Company, which involved claims for damages resulting from the allegedly improper termination of a tender offer to purchase Cities' stock in 1982 made by Gulf Oil Corporation, acquired by Chevron in 1984. A trial with respect to the claims ended in July 1996 with a judgment against the company of $742, including interest that continues to accrue at a rate of 9.55 percent per year. The company has filed an appeal and posted a bond for 1.5 times the amount of the judgment. While the ultimate outcome of this matter cannot be determined presently with certainty, the company believes that errors were committed by the trial court that should result in the judgment being reversed on appeal.

CRANE CO (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contingencies (In Part)

Crane Co. is a defendant in a class action arising out of the contamination of a creek in eastern Ohio by a chemical pesticide sold under the trade name Mirex. This chemical was not manufactured or sold by Crane but was manufactured by another company, also a defendant, at a site adjacent to a Crane facility. The complaint seeks compensatory damages of $10 million and a like amount in punitive damages against Crane, and compensatory damages of $100 million and a like amount in punitive damages against the manufacturer. Crane has asserted cross-claims for contamination of its property and for indemnification against any liability to the plaintiffs against the manufacturer, its foreign parent company and the seller of the pesticide that arranged for its manufacture. It is expected that the lawsuit will be tried in late 1998. Based on data from environmental studies available to date, the company believes that it not only has mentorious defenses to the plaintiffs' class action but also has valid claims against the other parties. Accordingly, the company believes that these actions are not likely to have a material effect on its results of operations or financial condition.

Crane Co. is a defendant in a lawsuit under the False Claims Act seeking treble damages and attorney's fees in connection with the assumption by the Pension Benefit Guarantee Corporation of the unfunded pension liabilities (allegedly $270 million) of CF&I Steel Corporation. The company believes the allegations are without merit. The lawsuit was dismissed in May 1996 upon the company's motion for summary judgment and for judgment on the pleadings. The dismissal was affirmed on appeal by the Eighth Circuit Court of Appeals in August 1997. While the plaintiff has filed a petition seeking review by the United States Supreme Court, the company believes the dismissal will be upheld and accordingly, that the lawsuit

is not likely to have a material effect on the company's results of operations or financial condition.

The company's Crane Canada, Inc. subsidiary is the defendant in a class action pending in British Columbia, Canada alleging damages to property from water escaping from toilet tanks manufactured by Crane Canada. Crane Canada has settled past claims for property damage arising from water escaping from cracked toilet tanks on a case by case basis, and has entered into claims handling agreements with a number of property insurers to process such claims pursuant to agreed claim procedures and reimbursement formulas. Although the class certification order has been upheld on appeal, Crane Canada continues to settle property damage claims in accordance with the claims handling agreements and to enter into such agreements with additional insurers. Accordingly, the company believes that the pending legal action will not have a material impact on its liabilities. Based on the historical trends for claims related to cracked toilet tanks and the experience of Crane Canada in resolving such claims, the company believes that pending and reasonably anticipated future claims are not likely to have a material effect on its results of operations or financial condition.

As of December 31, 1997, Crane Co. was a defendant (among a number of defendants, typically 15 to 40) in approximately 642 actions filed in various state and federal courts alleging injury or death as a result of exposure to asbestos in products allegedly manufactured or sold by the company. Because of the unique factors inherent in each case and the fact that most are in preliminary stages, the company lacks sufficient information upon which judgments can be made as to their validity or ultimate disposition. Based on the information available to the company and its experience in the disposition of lawsuits of this type, the company believes that pending and reasonably anticipated future asbestos actions are not likely to have a material effect on its results of operations or financial condition.

DRESSER INDUSTRIES, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note J (In Part): Commitments and Contingencies

General Litigation

On August 28, 1997, the Eleventh Circuit Federal Court of Appeal issued its decision in favor of the Company by reversing the trial court's decision in a lawsuit brought by parties who purchased a construction equipment dealership from a third party in 1988. The Court held that the trial court judge should have granted the Company's motion for summary judgment and reversed the plaintiff's awarded judgment of $6.5 million for compensatory damages and $4.0 million for punitive damages.

The purchasers of the Company's former hand tool division sued the Company for fraud in connection with the October 1983 transaction. In May 1994, the jury returned a verdict awarding the plaintiffs $4.0 million in compensatory damages and $50.0 million in punitive damages. On October 13, 1994, the Court ordered a reduction of damages from $54.0 million to $12.0 million. On October 15, 1996, the Court of Appeals issued its decision reversing the trial court's decision as to compensatory and punitive damages and remanding the case for a new trial on damages. On remand, the trial court ordered that the new trial contemplated by the appellate decision be limited to compensatory damages only, despite the express statement that punitive damages were also reversed, and decided that the court would review the original punitive damages verdict after the retrial on compensatory damages. Dresser disagrees with this interpretation of the appellate decision and believes that the trial court erred as a matter of law. Nevertheless, Dresser is preparing to defend itself vigorously at the new trial on compensatory damages which is set for April 20, 1998, and throughout the post-trial review process.

Based on a review of the current facts and circumstances, management has provided for what is believed to be a reasonable estimate of the exposure to loss associated with these matters. While acknowledging the uncertainties of litigation, management believes that these matters will be resolved without a material effect on the Company's financial position or results of operations.

ENGELHARD CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note nineteen: Litigation and contingencies

The Company and certain of its officers and directors are defendants in a consolidated class action complaint pending in the U.S. District Court for the District of New Jersey on behalf of persons who bought Engelhard stock between April 1995 and November 1995. The complaint claims that defendants made false statements and omissions and traded on nonpublic information. The Company believes the class action to be without merit and is vigorously defending against it.

The Company is one of a number of defendants in numerous proceedings which allege that the plaintiffs contracted cancer and/or suffered other injuries from exposure to talc, asbestos or other "toxic" substances purportedly supplied by the Company and other defendants. The Company is also subject to a number of environmental contingencies (see Note 17, "Environmental Costs," on page 63) and is a defendant in a number of lawsuits covering a wide range of other matters. In some of these matters, the remedies sought or damages claimed are substantial. During 1997, 1996 and 1995, the Company provided $2.8 million, $4.3 million and $7.0 million, respectively, for existing legal proceedings. While it is not possible to predict with certainty the ultimate outcome of these lawsuits or the resolution of the environmental contingencies, management believes, after consultation with counsel, that resolution of these matters is not expected to have a material adverse effect on financial condition. These matters, if resolved in a manner different from the estimates, could have a material adverse effect on the operating results or cash flows when resolved in a future reporting period.

In July 1996, the Securities and Exchange Commission (SEC) issued a formal order of investigation concerning the sales of Engelhard stock by certain of the Company's officers and directors during 1995. Subpoe-

nas for documents and witness testimony were issued by the SEC. In response, the Company has provided documents to the SEC and witnesses have been examined by the SEC staff.

HARMON INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Litigation

Environmental matter. On September 30, 1991, the United States Environmental Protection Agency (EPA) issued a complaint against the Company alleging violations of the Resource Conservation and Recovery Act (RCRA) and RCRA regulations in the disposal of solvents at the Company's Grain Valley, Missouri, plant. The complaint sought penalties in the amount of $2,344,000 and proposed certain compliance actions. In January 1994 the administrative hearing on the penalty assessment was heard. The decision from that hearing reduced the penalties to $586,000. On January 9, 1995 the Company filed a Notice of Appeal of the initial decision with the Environmental Appeals Board (EAB) and on May 1, 1996, the EAB heard oral arguments. The EAB ruled and affirmed the penalty of the administrative law judge. On June 6, 1997 the Company filed a complaint in the Federal District Court for the Western District of Missouri seeking judicial review of the EAB's decision.

Based on the Company's cooperation with the Missouri Department of Natural Resources (MDNR), which had the original jurisdiction of the matters complained by the EPA, in voluntarily disclosing the alleged violations and in promptly undertaking all remedial actions specified by the MDNR, the penalties appear to the Company's legal counsel to be excessive. However, because so few cases have been disposed of by settlement, or by administrative or judicial proceedings since the new penalty guidelines were adopted, legal counsel cannot express an opinion as to the ultimate amount, if any, of the Company's liability.

The Company has recorded a total of $2,382,000 of environmental compliance expenses to date relating to this matter. The Company has recorded a liability for its best estimates of the costs to be incurred relative to the compliance actions in other accrued liabilities. Since the amount of the penalty cannot be reasonably determined at this time, no liability has been accrued in the financial statements.

Other litigation. The Company has been named as a defendant in several other lawsuits in the normal course of its business. In the opinion of management, after consulting with legal counsel, the liabilities, if any, resulting from these matters will not have a material effect on the consolidated financial statements of the Company.

HARSCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Commitments and Contingencies

In June 1994, the shareholder of the Ferrari Group, a Belgium holding company involved in steel mill services and other activities, filed a legal action in Belgium against Heckett MultiServ, S.A. and S.E.A.E., subsidiaries of MultiServ International N.V. (a subsidiary of the Company). The action alleges that these two subsidiaries breached contracts arising from letters of intent signed in 1992 and 1993 concerning the possible acquisition of the Ferrari Group, claiming that the subsidiaries were obligated to proceed with the acquisition and failed to do so. The action seeks damages of 504 million Belgian francs (approximately U.S. $13.6 million). The Company intends to vigorously defend against the action and believes that based on conditions contained in the letters of intent and other defenses it will prevail. The Company and its counsel believe that it is unlikely that these claims will have a material adverse effect on the Company's financial position or results of operations.

INTERNATIONAL PAPER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Commitments and Contingent Liabilities

A nationwide class-action lawsuit filed against the Company and Masonite Corporation, a wholly owned subsidiary, has been settled. This lawsuit alleged that hardboard siding manufactured by Masonite fails prematurely, allowing moisture intrusion that in turn causes the failure of the structure underneath the siding. The class consists of all U.S. homeowners having Masonite hardboard siding installed on and incorporated into buildings between 1980 and January 15, 1998.

Final approval of the settlement was granted by the Court on January 15, 1998. The settlement provides for monetary compensation to class members meeting the settlement requirements on a claims-made basis. It also provides for the payment of attorneys' fees equaling 15% of the settlement amounts paid to class members, with a nonrefundable advance of $47.5 million plus $2.5 million in costs. While the total cost of the settlement is not presently known with certainty, the Company believes that it will not have a material adverse effect on its consolidated financial position or results of operations. The Company and Masonite have the right to terminate this settlement after seven years from the date of final approval.

The Company is also involved in various other inquiries, administrative proceedings and litigation relating to contracts, sales of property, environmental protection, tax, antitrust and other matters, some of which allege substantial monetary damages. While any proceeding or litigation has the element of uncertainty, the Company believes that the outcome of any lawsuit or claim that is pending or threatened, or all of them combined, will not have a material adverse effect on its consolidated financial position or results of operations.

ELI LILLY AND COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14: Contingencies

The company has been named as a defendant in numerous product liability lawsuits involving primarily two products, diethylstilbestrol and Prozac. The company has accrued for its estimated exposure, including costs of litigation, with respect to all current product liability claims. In addition, the company has accrued for certain future anticipated product liability claims to the extent the company can formulate a reasonable estimate of their costs. The company's estimates of these expenses are based primarily on historical claims experience and data regarding product usage. The company expects the cash amounts related to the accruals to be paid out over the next several years. The majority of costs associated with defending and disposing of these suits are covered by insurance. The company's estimate of insurance recoverables is based on existing deductibles, coverage limits, and the existing and projected future level of insolvencies among its insurance carriers.

Under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, the company has been designated as one of several potentially responsible parties with respect to certain sites. Under Superfund, each responsible party may be jointly and severally liable for the entire amount of the cleanup. The company also continues remediation of certain of its own sites. The company has accrued for estimated Superfund cleanup costs, remediation and certain other environmental matters, taking into account, as applicable, available information regarding site conditions, potential cleanup methods, estimated costs and the extent to which other parties can be expected to contribute to payment of those costs. The company has reached a settlement with its primary liability insurance carrier providing for coverage for certain environmental liabilities and has instituted litigation seeking coverage from certain excess carriers.

The company has been named, along with numerous other U.S. prescription drug manufacturers, as a defendant in a large number of related actions brought by retail pharmacies alleging violations of federal and state antitrust and pricing laws. The federal suits include a class action on behalf of the majority of U.S. retail pharmacies. The company and several other manufacturers have settled the federal class action case and the anticipated settlement was accrued in the fourth quarter of 1995. That settlement is now final. Separately, in June 1997 the company reached a settlement with a large number of the remaining plaintiffs in the federal case. Still pending are related suits brought in federal and several state courts by a large number of retail pharmacies involving claims of price discrimination or claims under other pricing laws. Additional cases have been brought on behalf of consumers in several states.

The environmental liabilities and litigation accruals have been reflected in the company's consolidated balance sheet at the gross amount of approximately $365 million. Estimated insurance recoverables of approximately $240 million have been reflected as assets in the consolidated balance sheet.

Barr Laboratories, Inc. (Barr), and Geneva Pharmaceuticals, Inc. (Geneva), have each submitted an Abbreviated New Drug Application (ANDA) seeking FDA approval to market generic forms of Prozac before the expiration of the company's patents. The ANDAs assert that Lilly's U.S. patents covering Prozac are invalid and unenforceable. In April 1996, the company filed suit against Barr in federal court in Indianapolis seeking a ruling that Barr's challenge to Lilly's patents is without merit. In June 1997, the company filed a similar suit against Geneva in the same court. While the company believes that the claims of Barr and Geneva are without merit, there can be no assurance that the company will prevail. An unfavorable outcome of this litigation could have a material adverse effect on the company's consolidated financial position, liquidity or results of operations.

While it is not possible to predict or determine the outcome of the product liability, antitrust, patent or other legal actions brought against the company or the ultimate cost of environmental matters, the company believes that, except as noted above, the costs associated with all such matters will not have a material adverse effect on its consolidated financial position or liquidity but could possibly be material to the consolidated results of operations in any one accounting period.

HERMAN MILLER, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contingencies (In Part)

The company, for a number of years, has sold various products to the United States Government under General Services Administration (GSA) multiple award schedule contracts. The GSA is permitted to audit the company's compliance with the GSA contracts. As a result of its audits, the GSA has asserted a refund claim under the 1982 contract for approximately $2.7 million and has other contracts under audit review. Management has been notified that the GSA has referred the 1988 contract to the Justice Department for consideration of a potential civil False Claims Act case. Management disputes the audit result for the 1982 contract and does not expect resolution of the matter to have a material adverse effect on the company's consolidated financial statements. Management does not have information that would indicate a substantive basis for a civil False Claims Act under the 1988 contract.

The company is also involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation currently pending will not materially affect the company's consolidated financial statements.

RUBBERMAID INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Contingencies

In September 1997, an administrative law judge of the Federal Trade Commission ("F.T.C.") ruled that a major customer of the Company illegally pressured manufacturers not to sell toys to warehouse clubs. That decision is being appealed. Subsequent to the F.T.C. decision, numerous class action suits seeking damages on behalf of consumers have been filed against the customer and certain manufacturers, including the Company, which was not named as a defendant in the F.T.C. suit, nor were any other manufacturers. The Company is of the opinion, supported by legal counsel, that it has not violated any law and intends to contest any such class action suits.

Management believes the outcome of this matter will not have a material adverse effect on the financial position or overall trends in the results of operations of the Company.

SCHERING-PLOUGH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share figures)

Legal and Environmental Matters (In Part)

The Company is a defendant in a state court action in Texas brought by Foxmeyer Health Corporation, the parent of a pharmaceutical wholesaler that filed for bankruptcy in August 1996. The case is against another pharmaceutical wholesaler and 11 pharmaceutical companies, and alleges that the defendants conspired to drive the plaintiff's wholesaler subsidiary out of business. Plaintiff is seeking damages in the amount of $400. The Company believes that this action is without merit and is defending itself vigorously against all claims.

TOKHEIM CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
($ In Thousands Unless Otherwise Indicated)

Note 18 (In Part): Contingent Liabilities

Product Liability And Other Matters

The Company is subject to various other legal actions arising out of the conduct of its business, including actions relating to product liability, and claims for damages alleging violations of federal, state, or local statutes or ordinances dealing with civil rights, equal pay, and sex discrimination. Total amounts included in accrued expenses related to these actions were $1,330 and $382 at November 30, 1997 and 1996, respectively. The Company is also seeking to recover in excess of $1.0 million from its former outside legal firm for malpractice in handling a litigation matter for the Company. In addition the Company appealed a jury verdict of $350 with respect to an equal pay act and sexual discrimination claim to the U.S. Court of Appeals for the 7th Circuit. The Company is awaiting a decision in this matter. In addition, during 1997, the Company settled various product liabilities, patent infringement and other matters with aggregate settlement charges of approximately $150.

The Company was a defendant in litigation filed by Gilbarco, Inc. ("Gilbarco"), which alleged infringement of patents on its vapor recovery system and certain vapor recovery improvements, blender, printed receipt severing and filter housing. Gilbarco also alleged violation of the North Carolina Fair Practice Claims Act. Gilbarco sought injunctions and treble unspecified damages. The Company, in addition to asserting other defenses, counterclaimed with an antitrust claim. The lawsuit was filed on August 3, 1995 and took place in federal court in the Middle District of North Carolina. The parties have signed a settlement agreement to license the disputed technology (the "Licensing Agreement"), effective as of December 1, 1997. The Licensing Agreement settles all outstanding issues related to the litigation, and on February 13, 1998, the court entered a consent judgment regarding the settlement. Under the License Agreement, the Company will pay a $3.0 million fixed royalty fee, payable in 12 quarterly installments, plus earned royalties for the use of the licensed technology. These royalties are estimated to total approximately $1.1 million annually.

In the opinion of the Company, amounts accrued for awards or assessments in connection with these matters at this time are adequate, and the ultimate resolution of environmental, product liability, and other legal matters will not have a material effect on the Company's consolidated financial position, results of operations, or cash flows. The Company is not able to estimate accurately the additional loss or range of loss that is reasonably possible, in addition to the amounts accrued. The Company reassesses these matters as new facts and cases are brought to management's attention.

TOYS "R" US, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Matters

On May 22, 1996, the Staff of the Federal Trade Commission (the "FTC") filed an administrative complaint against the Company alleging that the Company is in violation of Section 5 of the Federal Trade Commission Act for its practices relating to warehouse clubs. The complaint alleges that the Company reached understandings with various suppliers that such suppliers not sell to the clubs the same items that they sell to the Company. The complaint also alleges that the Company "facilitated understandings" among the manufacturers that such manufacturers not sell to clubs. The complaint seeks an order that the Company cease and desist from this practice. The matter was tried before an administrative law judge in the period from March through May of 1997. On September 30, 1997, the administrative law judge filed an Initial Decision upholding the FTC's complaint against the Company.

The Company has appealed the Initial Decision to the Commissioners of the FTC. That appeal was argued on February 19, 1998. The Company will be entitled to have

the United States Court of Appeals review any adverse decision by the FTC.

After the filing of the FTC complaint, several class action suits were filed against the Company in State courts in Alabama and California, alleging that the Company has violated certain state competition laws as a consequence of the behavior alleged in the FTC complaint. After the Initial Decision was handed down, more than thirty purported class actions were filed in federal and state courts in various jurisdictions alleging that the Company has violated the federal antitrust laws as a consequence of the behavior alleged in the FTC complaint. In addition, the attorneys general of thirty-eight states, the District of Columbia and Puerto Rico have filed a suit against the Company in their capacity as representatives of the consumers of their states, alleging that the Company has violated federal and state antitrust laws as a consequence of the behavior alleged in the FTC complaint. These suits seek damages in unspecified amounts and other relief under state and/or federal law.

The Company believes that both its policy and its conduct in connection with the foregoing are within the law. The Company also believes that these actions will not have a material adverse effect on its financial condition, results of operations or cash flows.

UNITED STATES SURGICAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note O (In Part): Commitments and Contingencies

The Company is engaged in litigation as a defendant in cases primarily involving alleged patent infringement and product liability claims. Based on information currently available, it is the opinion of management, based upon the advice of counsel, that the ultimate resolution of pending legal proceeding should not have a material adverse effect on the Company's consolidated financial statements. However, based on future developments and as additional information becomes known, it is possible that the ultimate resolution of such matters could have a material adverse effect on the Company's results of operations in a particular future period.

In November, 1996 the Company entered into an agreement in settlement of the shareholder class action suits filed against the Company and certain individually named defendants. In May of 1997, an order and final judgment was signed and entered by the United States District Court for the District of Connecticut approving and directing the implementation of the settlement. The principal terms of the settlement are as follows: issuance and payment to the members of the class of 315,000 shares of the Company's common stock (fair value $12.2 million), $3.5 million in cash, and issuance of contingent stock rights (fair value $2.9 million) with respect to each of the 315,000 shares of common stock issued in the settlement. If the Company's common stock reaches a price of $70 per share for either forty five consecutive trading days or one hundred trading days in total during the two year period from the date of issuance of the 315,000 shares of common stock to the members of the class, the contingent stock rights will extinguish. The cash payment and issuance of 105,000 shares of the Company's common stock for legal fees took place on final court approval of the settlement in 1997. The Company provided for the cost of the settlement in its 1996 consolidated financial statements, the substantial portion of which has been funded by the Company's insurance carriers.

Environmental Matters

AMERICAN BILTRITE INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Commitments and Contingencies

Contingent Liabilities

Certain legal and administrative claims are pending or have been asserted against the Company, which are considered incidental to its business. Among these claims, the Company is a named party in several actions associated with waste disposal sites and asbestos-related claims. These actions include possible obligations to remove or mitigate the effects on the environment of wastes deposited at various sites, some of which are properties previously owned by the Company. The amount of such future cost is indeterminable due to such unknown factors as the magnitude of clean-up costs, the timing and extent of the remedial actions that may be required, the determination of the Company's liability in proportion to other potentially responsible parties, the effects of joint and several liability at Superfund sites, and the extent to which costs may be recoverable from insurance. The contingencies also include claims for personal injury and/or property damage.

The Company records a liability for environmental remediation and asbestos-related claim costs when a clean-up program or claim payments become probable and the costs can be reasonably estimated. As assessments and clean-up progress, these liabilities are adjusted based upon progress in determining the timing and extent of remedial actions and the related costs and damages. The extent and amounts of the liabilities can change substantially due to factors such as the nature or extent of contamination, changes in remedial requirements and technological improvements. The recorded liabilities are not reduced by the amount of estimated insurance recoveries. Such estimated insurance recoveries of $6,918,000 and $3,939,000 are reflected in other noncurrent assets at December 31, 1997 and 1996, respectively, and are considered probable of recovery.

The Company has recorded its estimate of loss associated with the foregoing claims, however, the ultimate outcome of these matters cannot presently be determined.

BAKER HUGHES INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Environmental matters: Remediation costs are accrued based on estimates of known environmental remediation exposure. Such accruals are recorded even if significant uncertainties exist over the ultimate cost of the remediation. Ongoing environmental compliance costs, including maintenance and monitoring costs, are expensed as incurred.

Note 14. (In Part): Environmental Matters

The Company's past and present operations include activities which are subject to extensive federal and state environmental regulations.

The Company has been identified as a potentially responsible party ("PRP") in remedial activities related to various "Superfund" sites. Applicable federal law imposes joint and several liability on each PRP for the cleanup of these sites leaving the Company with the uncertainty that it may be responsible for remediation cost attributable to other PRPs who are unable to pay their share of the remediation costs. Generally, the Company has determined its share of such total cost based on the ratio that the number of gallons of waste estimated to be contributed to the site by the Company bears to the total number of gallons of waste estimated to have been disposed at the site. The Company has accrued what it believes to be its share of the total cost of remediation of these Superfund sites. No accrual has been made under the joint and several liability concept since the Company believes that the probability that it will have to pay material costs above its share is remote due to the fact that the other PRPs have substantial assets available to satisfy their obligation.

At September 30, 1997 and 1996, the Company had accrued approximately $24.6 million, and $8.3 million, respectively, for remediation costs, including the Superfund sites referred to above. The measurement of the accruals for remediation costs is subject to uncertainties, including the evolving nature of environmental regulations and the difficulty in estimating the extent and remedy of agreements that may be available to the Company to mitigate the remediation costs, such amounts have not been considered in measuring the remediation accrual.

CHAMPION INTERNATIONAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Environmental Liabilities

The company has been designated as a potentially responsible party by the U.S. Environmental Protection Agency (the "EPA") under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, and by certain states under applicable state laws, with respect to the cleanup of hazardous substances at a number of sites. In the case of many of these sites, other potentially responsible parties also have been so designated. In addition, the company and, in certain instances, other responsible parties have entered into agreements with the EPA and certain states regarding the cleanup of hazardous substances at various other locations. Also, the company is involved in the remediation of certain other sites which are not the subject of investigation by federal or state agencies.

The company cannot predict with certainty the total cost of such cleanups, the company's share of the total cost of multiparty cleanups or the extent to which contribution will be available from other parties, or the amount of time necessary to accomplish such cleanups. However, based upon, among other things, its previous experience with respect to the cleanup of hazardous substances as well as the regular detailed review of known hazardous waste sites by the company, the company has accrued $73 million at December 31, 1997, which represents its current estimate of the probable cleanup liabilities, including remediation and legal costs, at all known sites. This accrual does not reflect any possible future insurance recoveries, which are not expected to be significant, but does reflect a reasonable estimate of cost-sharing at multiparty sites.

Although the company's probable liabilities have been accrued for currently, hazardous substance cleanup expenditures generally are paid over an extended period of time, in some cases possibly more than 30 years. Annual cleanup expenditures during the period from 1995 through 1997 were approximately $5 million, $4 million and $3 million, respectively.

EATON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Protection of the Environment

The Company has several policies in place to ensure that its operations are conducted in keeping with good corporate citizenship and with a positive commitment to the protection of the natural and workplace environments. For example, the Company has, at each of its facilities, a person responsible for environmental, health and safety (EHS) matters. The Company routinely reviews EHS performance at each of its facilities; and, the Company continuously strives to minimize the generation of hazardous waste at its facilities.

As a result of past operations, the Company is involved in remedial response and voluntary environmental cleanup activities at a number of sites, including certain of its currently-owned or formerly-owned plants. The Company has also been named a potentially responsible party (PRP) under the Federal Superfund Law at a number of waste disposal sites.

A number of factors affect the cost of environmental remediation, including the number of parties involved at many sites, the determination of the extent of contamination, the length of time that remediation may require, the complexity of environmental regulations, and the continuing advancement of remediation technology. Taking these factors into account, the Company has estimated (without discounting) costs of remediation, which will be incurred over a period of several years.

The Company accrues an amount equal to the best estimates of these costs when it is probable that a liability has been incurred. At December 31, 1997 and 1996, the balance sheet included an accrual for these costs (in millions) of $33 and $35, respectively. The Company has rights of recovery from non-affiliated parties as to a portion of these costs with regard to several of the sites. The accrual for 1997 was reduced due to the settlement of liability at certain sites, new cost-sharing agreements, and regulatory guidance and activity affecting estimated remediation costs.

Based upon the Company's analysis and subject to the difficulty in estimating these future costs, the Company expects that any sum it may be required to pay in connection with environmental matters is not reasonably likely to exceed the accrual by an amount that would have a material adverse effect on financial condition or results of operations or liquidity. All of these estimates are forward-looking statements and given the inherent uncertainties in evaluating environmental exposures, actual results can differ from these estimates.

EKCO GROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Commitments and Contingencies

Environmental Matters

From time to time, the Company has had claims asserted against it by regulatory agencies or private parties for environmental matters relating to the generation or handling of hazardous substances by the Company or its predecessors and has incurred obligations for investigations or remedial actions with respect to certain of such matters. While the Company does not believe that any such claims asserted or obligations incurred to date will result in a material adverse effect upon the Company's financial position, results of operations or liquidity, the Company is aware that at its facilities at Massillon and Hamilton, Ohio; Easthampton, Massachusetts; Chicago, Illinois; Lititz, Pennsylvania and at the previously owned facility in Hudson, New Hampshire hazardous substances and oil have been detected and that additional investigation will be, and remedial action will or may be, required. Operations at these and other facilities currently or previously owned or leased by the Company utilize, or in the past have utilized, hazardous substances. There can be no assurance that activities at these or any other facilities owned or operated by the Company or future facilities may not result in additional environmental claims being asserted against the Company or additional investigations or remedial actions being required.

In connection with the acquisition of Cleaning by the Company in 1993, the Company engaged environmental engineering consultants ("Consultants") to review potential environmental liabilities at all of Cleaning's properties. Such investigation and testing resulted in the identification of likely environmental remedial actions, operation, maintenance and ground water monitoring and the estimated costs thereof. Management, based upon the engineering studies, originally estimated the total remediation and ongoing ground water monitoring costs to be approximately $6.0 million, including the effects of inflation, and accordingly at that time, recorded a liability of approximately $3.8 million, representing the undiscounted costs of remediation and the net present value of future costs discounted at 6%. Based upon the most recent cost estimates provided by the Consultants, the Company believes the total remaining remediation and compliance costs will be approximately $1.1 million and the expense for the ongoing operation, maintenance and ground water monitoring will be approximately $20,500 for fiscal 1998 and for each of the thirty years thereafter. As of December 28, 1997, the liability recorded by the Company was approximately $2.8 million. Although the current estimated costs of remediation are less than the liability recorded at December 28, 1997, the Company does not consider any further adjustment to be prudent at this time given the inherent uncertainties involved in completing the remediation processes. The Company expects to pay approximately $145,000 of the remediation costs in fiscal 1998 with the balance being paid out in fiscal 1999. During Fiscal 1997, the Company paid approximately $23,000 of such costs. The estimates may subsequently change should additional sites be identified or further remediation measures be required or undertaken or interpretation of current laws or regulations be modified. The Company has not anticipated any insurance proceeds or third-party payments in arriving at the above estimates.

FINA, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): CONTINGENCIES

The Company is subject to loss contingencies pursuant to federal, state and local environmental laws and regulations. These regulations, which are currently changing, regulate the discharge of materials into the environment and may require the Company to incur future obligations to investigate the effects of the release or disposal of certain petroleum, chemical and mineral substances at various sites; to remediate or restore these sites; to compensate others for damage to property and natural resources and for remediation and restoration costs. These possible obligations relate to sites owned by the Company or others and associated with past or present operations, including sites at which the Company has been identified as a potentially responsible party ("PRP") under the federal Superfund law and comparable state laws. The Company is currently participating in environmental investigations, assessments and cleanups under these regulations at federal Superfund and state-managed sites, as well as other cleanup sites, including operating and closed refineries, chemical facilities, service stations, pipelines and terminals. The Company may in the future be involved in additional environmental investigations, assessments and cleanups. The magnitude of future costs will depend on factors such as the unknown nature and contamination at many sites, the unknown timing, extent and method of the remedial actions which may be required and the determination of the Company's liability in proportion to other responsible parties.

Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefit are expensed. Liabilities for expenditures of a noncapital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated. The Company has accrued for environmental remediation obligations of $19,336,000 and $20,339,000 at December 31, 1997 and 1996, respectively. Substantially all amounts accrued are expected to be paid out over the next five to ten years. The level of future expenditures for environmental remediation obligations is impossible to determine with any degree of reliability. The Company spent approximately $11,321,000 and $13,484,000 during 1997 and 1996, respectively, in capital expenditures for environmental protection and for compliance with federal, state and local environmental laws and regulations. In addition, the Company expensed $34,504,000 and $43,621,000 in 1997 and 1996, respectively, for ongoing environmental administration and maintenance activities at operating facilities. Total environmental cash expenditures at the Company's operating locations are expected to increase over an extended period of time as the Company complies with present and future regulatory requirements. Estimated capital expenditures for 1998 related to environmental matters are $14,570,000 (unaudited).

MONSANTO COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Commitments and Contingencies (In Part):

Costs for remediation of waste disposal sites are accrued in the accounting period in which the responsibility is established and when the cost is estimable. Postclosure and remediation costs for hazardous and other waste facilities at operating locations are accrued over the estimated life of the facility as part of its anticipated closure cost. Monsanto's Statement of Consolidated Financial Position included accrued liabilities of $19 million as of Dec. 31, 1997, and $25 million as of Dec. 31, 1996, for the remediation of identified waste disposal sites.

Monsanto's future remediation expenses for waste disposal sites are affected by a number of uncertainties. These uncertainties include, but are not limited to, the method and extent of remediation, the percentage of material attributable to Monsanto at the sites relative to that attributable to other parties, and the financial capabilities of the other potentially responsible parties (PRPs). The company does not expect the resolution of such uncertainties to have a material effect on profitability.

MORTON INTERNATIONAL, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Environmental Matters

The company, like others in similar businesses, is subject to extensive federal, state and local environmental laws and regulations. Although company environmental policies and practices are designed to ensure compliance with these laws and regulations, future developments and increasingly stringent regulation could require the company to make additional unforeseen environmental expenditures.

Environmental accruals are routinely reviewed on an interim basis as events and developments warrant and are subjected to a comprehensive review annually during the fiscal fourth quarter.

The company has been named a potentially responsible party at approximately 60 inactive waste disposal sites where cleanup costs have been or may be incurred under the Federal Comprehensive Environmental Response, Compensation and Liability Act and similar state statutes. The company's potential exposure has been evaluated on a site-by-site basis, and an accrual reflecting the company's best estimate of the liability has been established to the extent sufficient information is available to reasonably estimate costs that may be incurred. However, at certain of these sites, the company is unable, due to a variety of factors, to assess and quantify the ultimate extent of its responsibility for study and remediation costs. The most significant of these sites is located in Wood-Ridge, New Jersey, where, at present, the company and one other party have been held jointly and severally liable for the cost of Remediation necessary to correct mercury-related environmental problems associated with a former mercury processing plant. Although the company has accrued for expected site study costs and some remedial effort, no reliable estimate can presently be made of the company's range of liability due to the absence of site-specific data, the unique nature of mercury plant wastes and the complex characteristics of the plant site and adjacent areas. An estimate of the range of liability at Wood-Ridge is not reasonably possible until technical studies are sufficiently completed to permit such a determination. The Wood-Ridge plant site study commenced in early fiscal 1997, and is estimated to take approximately 42 months to complete. Study of the surrounding area is expected to begin after commencement of the plant site study on a timetable yet to be determined. The company's ultimate exposure will also depend upon the continued participation of the other party held liable and on the results of both formal and informal attempts to spread liability to others believed to share responsibility.

Where appropriate, the analysis to determine the company's liability, if any, with respect to remedial costs at the above sites reflects an assessment of the likelihood and extent of participation of other potentially responsible parties. The possibility of recoveries from insurance carriers (in addition to recoveries previously made) is factored into accrual determinations only when such additional recoveries are probable of realization.

During the second quarter of fiscal 1996, the company received approximately $24.1 million related to settlement of substantially all claims against former insurance carriers for cleanup expenses at chemical waste disposal sites located throughout the country. These settlements involved policies written by various insurance companies from the 1940s throughout the mid 1980s. Due to the age of these issues, related expenses had previously been charged to earnings either through actual expenditures for remediation or through the establishment of en-

vironmental accruals. As such, the settlement payments received were included in sundry income.

During the fourth quarter of fiscal 1996, the U.S. EPA notified the company of possible irregularities in water discharge monitoring reports filed by the Moss Point, Mississippi, plant in early 1995. The company retained an outside law firm to investigate, and it was confirmed that such reports had been falsified over a period of years. Other environmental problems at the plant were also identified, and the investigation has been expanded to address the additional issues. During the first quarter of fiscal 1997, two federal grand jury subpoenas were served on the company seeking documents related to waste water discharges at this plant. The company has furnished the requested documents. As a result of these irregularities and possible violations, the company may be exposed to fines, penalties and remedial expenses. Since the matter is still being investigated, the company is unable to determine its ultimate resolution. The company is cooperating with the environmental authorities and is keeping them informed on a continuing basis.

The company's cleanup expenditures totaled approximately $3.1 million, $6.8 million and $3.0 million for 1997, 1996 and 1995. Amounts accrued as of June 30, 1997, are generally expected to be paid out over a period of up to 15 years.

Although the level of future expenditures for environmental matters cannot be determined with any degree of certainty, based on the facts presently known to management, it does not believe that such costs will have a material effect on the company's financial position, results of operations, or liquidity.

NATIONAL PRESTO INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

K. Environmental

The Company is involved in certain environmental investigation and restoration activities with governmental agencies. The Company has entered into an agreement with the Department of Army that provides for funding costs related to environmental restoration. A total of $27,000,000 has been appropriated in connection with that agreement of which $23,563,000 has been received. The funding of these expenses by the Department of Army has not been recognized as revenues or expenses of the Company. Based on factors known as of December 31, 1997, it is believed that the funds appropriated to date will be adequate to satisfy remaining investigation and restoration activities; however, should environmental agencies require additional studies or remediation activities beyond what is now contemplated, it is possible that existing funds could be inadequate. Management believes that in the absence of any unforeseen future developments, these environmental matters will not have any material effect on the results of operations or financial condition of the Company.

NORTHWESTERN STEEL AND WIRE COMPANY (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments And Contingencies (In Part)

The Company is subject to a broad range of federal, state and local environmental requirements, including those governing discharges to the air and water, the handling and disposal of solid and/or hazardous wastes and the remediation of contamination associated with releases of hazardous substances. Primarily because the scrap melting process produces dust that contains lead and cadmium, the Company is classified, in the same manner as other similar steel mills in its industry, as a generator of hazardous waste and is therefore subject to periodic compliance reviews by the United States Environmental Protection Agency ("USEPA"). The Company currently estimates a cost of $3.7 million to close its hazardous waste disposal site in 2008, of which $1.9 million has been accrued to date.

The Company has been identified by the Illinois Environmental Protection Agency (IEPA) as one of the potentially responsible parties for costs associated with a third party owned disposal site. The IEPA is likely to seek compensation from the Company as an alleged waste generator for recovery of past costs and future remediation of the waste site. Under Illinois law, the Company's share of liability can be limited to its proportionate share based upon causation of the total cost of the site. Based on data available, the Company's share will be a smaller fraction of the total site clean up costs, however reasonable estimation of total cost for remediation cannot be made at this time.

The Company has been cited by the USEPA for alleged violations of clean air standards under the 1990 Clean Air Act ("CAA") and other requirements at its Sterling furnace operations. As part of its ongoing environmental compliance program, the Company made a capital expenditure of approximately $1.2 million in fiscal 1997 to upgrade the particulate emission collection system in the furnace area. The Company has been studying additional alternatives to improve emission control and address issues raised by the USEPA. On October 22, 1997, the Company was notified by the U.S. Department of Justice ("DOJ") that it intended to file suit against the Company for alleged violations of the CAA. The Company has been offered the opportunity to settle this claim if it agrees to a consent decree including an agreement to achieve and maintain compliance with the CAA and the imposition of a civil penalty of $2.5 million. The Company plans to pursue this settlement offer but, because the notice was received just before the filing of its Annual Report on Form 10-K with the Securities and Exchange Commission, the Company has not yet entered into settlement negotiations with the DOJ. As a result, the Company cannot reasonably estimate the cost of compliance or extent of civil penalties, but such costs could be material depending on the extent and timing of the remediation necessary to achieve and maintain compliance with the CAA.

REYNOLDS METALS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Contingent Liabilities And Commitments

Environmental

The Company is involved in various worldwide environmental improvement activities resulting from past operations, including designation as a potentially responsible party (PRP), with others, at various Environmental Protection Agency-designated Superfund sites. Amounts have been recorded (on an undiscounted basis) which, in management's best estimate, will be sufficient to satisfy anticipated costs of known remediation requirements. At December 31, 1997, the accrual for environmental remediation costs was $171 million ($197 million at December 31, 1996). This amount is expected to be spent over the next 15 to 20 years with the majority to be spent by the year 2002.

Estimated environmental remediation costs are developed after considering, among other things, the following:

- currently available technological solutions
- alternative cleanup methods
- risk-based assessments of the contamination
- estimated proportionate share of remediation costs (if applicable)

The Company may also use external consultants, and consider, when available, estimates by other PRPs and governmental agencies and information regarding the financial viability of other PRPs. Based on information currently available, the Company believes it is unlikely that it will incur substantial additional costs as a result of failure by other PRPs to satisfy their responsibilities for remediation costs.

Estimated costs for future environmental compliance and remediation are necessarily imprecise because of factors such as:

- continuing evolution of environmental laws and regulatory requirements
- availability and application of technology
- identification of presently unknown remediation requirements
- cost allocations among PRPs

Further, it is not possible to predict the amount or timing of future costs of environmental remediation that may subsequently be determined. Based on information presently available, such future costs are not expected to have a material adverse effect on the Company's competitive or financial position or its ongoing results of operations. However, such costs could be material to results of operations in a future interim or annual reporting period.

THE SHERWIN-WILLIAMS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of Dollars)

Note 1 (In Part): Significant Accounting Policies

Environmental matters. Capital expenditures for ongoing environmental compliance measures are recorded in the consolidated balance sheets and related expenses are included in the normal operating expenses of conducting business. The Company is involved with environmental compliance and remediation activities at some of its current and former sites and at a number of third-party sites. The Company accrues for certain environmental remediation-related activities for which commitments or clean-up plans have been developed or for which costs or minimum costs can be reasonably estimated.

All accrued amounts are recorded on an undiscounted basis. In 1996, the Company adopted American Institute of Certified Public Accountants Statement of Position (SOP) 96-1, "Environmental Remediation Liabilities". SOP 96-1 prescribes that accrued environmental remediation-related expenses include direct costs of remediation and indirect costs related to the remediation effort. Although the Company previously accrued for the direct costs of remediation and certain indirect costs, additional indirect costs were required to be accrued by the Company at the time of adopting SOP 96-1 such as compensation and benefits for employees directly involved in the remediation activities and fees paid to outside engineering, consulting and law firms. The effect of initially applying the provisions of SOP 96-1 was treated as a change in accounting estimate and was not material to the accompanying financial statements. See Note 4 and Note 10 for discussions of the environmental remediation-related expense and accruals included in the financial statements.

Note 4. Costs and Expenses

A summary of significant items included in Other Costs and Expenses is as follows:

	1997	1996	1995
Dividend and royalty income	$ (3,361)	$ (5,127)	$(10,433)
Net expense of financing and investing activities	16,559	11,764	9,376
Provision for environmental matters - net (see Note 10)	107	15,494	10,136
Provisions for disposition and termination of operations (see Note 5)	4,152	5,506	1,007
Miscellaneous	5,908	(2,117)	1,696
	$23,365	$25,520	$ 11,782

The net expense of financing and investing activities represents the net realized gains and losses from disposing of fixed assets, the net gain or loss associated with the investment of certain long-term asset funds, the net gains and losses relating to translation of certain foreign investments and the net pre-tax expense associated with the Company's investment in broad-based corporate owned life insurance.

The provisions for environmental matters reflect the increased estimated costs of environmental remediation at current, former and third-party sites. Beginning in 1996, such provisions include estimates of certain indirect costs related to environmental matters which are required to be accrued in accordance with SOP 96-1 (see Note 1). In 1997, the provisions for environmental matters were partially offset by a settlement of $7,500 with certain insurance carriers pertaining to environmental-related matters. In 1996, a similar settlement of $56,000 with certain other insurance carriers partially offset the provisions for environmental matters required. For the year ended December 31, 1995, the provisions for environmental remediation reflect only the increased estimated environmental remediation costs at such sites and do not include the additional estimated indirect costs required by adopting SOP 96-1.

Note 10—Other Long-Term Liabilities

Other long-term liabilities consist of the following:

	1997	1996	1995
Environmental-related	$143,276	$139,057	$ 70,310
Other	140,924	76,094	39,896
	$284,200	$215,121	$110,206

The accrual for environmental-related long-term liabilities represents the Company's provisions for estimated costs associated with extended environmental remediation-related activities at some of its current and former sites. Also, the Company, together with other parties, has been designated a potentially responsible party under federal and state environmental protection laws for the remediation of hazardous waste at a number of third-party sites, primarily Superfund sites. In general, these laws provide that potentially responsible parties may be held jointly and severally liable for investigation and remediation costs regardless of fault. The Company provides for, and includes in long-term liabilities, its estimated potential long-term liability for investigation and remediation costs with respect to such third-party sites.

The Company initially provides for the estimated cost of certain environmental-related activities relating to its current, former and third-party sites when minimum costs can be reasonably estimated. These estimates are determined based on currently-available facts regarding each site. If the best estimate of costs can only be identified within a range and no specific amount within that range can be determined more likely than any other amount within the range, the minimum of the range is accrued. Actual costs incurred may vary from these estimates due to the inherent uncertainties involved. The Company estimates the cost of similar environmental-related activities at sites obtained through acquisition on the same basis as described above. The Company believes that any additional liability in excess of amounts provided which may result from the resolution of such matters will not have a material adverse effect on the financial condition, liquidity or cash flow of the Company.

The increase in the accrual for environmental-related long-term liabilities in 1996 reflects adjustments to the previous accrual resulting from the ongoing evaluation of environmental matters at certain current, former and third-party sites, liabilities accrued relating to certain sites obtained in 1996 acquisitions, and the accrual of certain additional indirect costs relating to the adoption of SOP 96-1 (see Note 1).

In addition to the accrual for environmental-related long-term liabilities shown above, accruals for certain current environmental-related liabilities are included in other accruals in current liabilities on the consolidated balance sheets.

THIOKOL CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Environmental Matters

The Company is involved with two Environmental Protection Agency (EPA) superfund sites in Morris County, New Jersey formerly operated by the Company for government contract work. The Company has not incurred any significant costs relating to these environmental sites. The Company has signed a consent decree with the EPA on the Rockaway Borough Well Field site and on the Rockaway Township Well Field site. The Company has recorded a $11.3 million liability for response costs, site remediation, and future operation and maintenance costs on both sites. In addition to the above sites the Company is involved with other locations involving environmental issues.

The Company's estimated liability for all environmental remediation is $21 million, and is classified in "other accrued expenses and liabilities" and "accrued interest and other noncurrent liabilities." The Company believes that any liability exceeding amounts recorded will not have a material adverse effect on the Company's future results of operations or financial position. The Company has collected approximately $9.5 million in environmental related recoveries from insurance companies through fiscal year June 30, 1997. The Company expects to recover from the government additional amounts as expenses are incurred. The Company estimates it will spend approximately $2.1 and $4.2 million of the total liability, respectively, over the next two years.

Insurance Coverage/Self-Insurance

ALLEN TELECOM INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Commitments and Contingencies

The Company is self-insured for health care and workers compensation up to predetermined amounts above which third party insurance applies. For years 1996 and 1997, the Company is fully insured through third party insurance for general liability and product liability and was, in 1995, self-insured up to predetermined amounts above which third party insurance applies. The Company is contingently liable to insurance carriers under its workers compensation and liability policies and has provided

a letter of credit in favor of these carriers in the amount of $1,591,000.

BROWNING-FERRIS INDUSTRIES, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Commitments And Contingencies

Insurance matters

Under its insurance policies, the Company generally has self-insured retention limits ranging from $500,000 to $5,000,000 and has obtained fully insured layers of coverage above such self-retention limits. The Company has a wholly-owned domestic insurance subsidiary which operates as a captive insurance company. It currently writes insurance to meet financial assurance obligations related to closure and post-closure of certain landfills of the Company. At September 30, 1997, no claims had been made relative to this insurance operation, and no claim reserves had been posted.

In order to meet existing governmental requirements, the Company has been able to secure an environmental impairment liability insurance policy in amounts which the Company believes are in compliance with the amounts required by federal and state law. Under this policy, the Company must reimburse the carrier for losses incurred by the Company.

HARLEY-DAVIDSON, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Commitments And Contingencies

Since June, 1996, the Company self-insures its product liability losses in the United States up to $2.5 million ($3.0 million between June, 1995 and June, 1996). Catastrophic coverage is maintained for individual claims in excess of $2.5 million ($3.0 million between June, 1995 and June, 1996) up to $25 million. Prior to June, 1995, the Company was self-insured for all product liability losses in the United States. Outside the United States, the Company is insured for product liability up to $25 million per individual claim and in the aggregate. The Company accrues for claim exposures which are probable of occurrence and can be reasonably estimated.

SPEIZMAN INDUSTRIES, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (In Part): Commitments And Contingencies

The Company has not obtained product liability insurance to date due to the prohibitive cost of such insurance. The nature and extent of distributor liability for product defects is uncertain. The Company has not engaged in manufacturing activities since 1990, and management presently believes that there is no material risk of loss to the Company from product liability claims against the Company as a distributor.

TOSCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Summary of Significant Accounting Policies

Self-Insurance

The Company is self-insured up to certain limits for workers' compensation (in certain states), property damage, and general liability claims. Accruals for loss incidences are made based on the Company's claims experience and actuarial assumptions followed in the insurance industry. Actual losses could differ from accrued amounts.

Note 18 (In Part): Commitments and Contingencies

The Company carries insurance policies on insurable risks which it believes to be appropriate at commercially reasonable rates. While management believes the Company is adequately insured, future losses could exceed insurance policy limits or, under adverse interpretations, be excluded from coverage. Future liability or costs, if any, incurred under such circumstances would have to be paid out of general corporate funds. Cost of sales for 1997 was reduced by insurance coverage accruals for property damage and business interruption claims, net of insurance policy deductibles and asset write-offs, related to the unscheduled shutdown of the Bayway Refinery cat cracker and an accident at the Avon Refinery hydrocracker in January 1997. During 1997, the Company settled the Bayway insurance claim for approximately the accrued amount.

USA WASTE SERVICES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Commitments And Contingencies

Insurance — The Company carries a broad range of insurance coverages, which management considers prudent for the protection of the Company's assets and operations. Some of these coverages are subject to varying retentions of risk by the Company. The casualty coverages currently include $2,000,000 primary commercial general liability and $1,000,000 primary automobile liability supported by $200,000,000 in umbrella insurance protection. The property policy provides insurance coverage for all of the Company's real and personal property, including California earthquake perils. The Company, also carries $200,000,000 in aircraft liability protection.

The Company maintains workers' compensation insurance in accordance with laws of the various states and countries in which it has employees. The Company also currently has an environmental impairment liability ("EIL") insurance policy for certain of its landfills, transfer stations, and recycling facilities that provides coverage for property damages and/or bodily injuries to third parties caused by off-site pollution emanating from such landfills, transfer stations, or recycling facilities. This policy provides $5,000,000 of coverage per loss with a $10,000,000 aggregate limit.

To date, the Company has not experienced any difficulty in obtaining insurance. However, if the Company in

the future is unable to obtain adequate insurance, or decides to operate without insurance, a partially or completely uninsured claim against the Company, if successful and of sufficient magnitude, could have a material adverse effect on the Company's financial condition, results of operations or cash flows. Additionally, continued availability of casualty and EIL insurance with sufficient limits at acceptable terms is an important aspect of obtaining revenue-producing waste service contracts.

Possible Tax Assessments

AMOCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. Litigation

The Internal Revenue Service (IRS) has challenged the application of certain foreign income taxes as credits against the corporation's U.S. taxes that otherwise would have been payable for the years 1980 through 1992. On June 18, 1992, the IRS issued a statutory Notice of Deficiency for additional taxes in the amount of $466 million, plus interest, relating to 1980 through 1982. The corporation filed a petition in the U.S. Tax Court contesting the IRS statutory Notice of Deficiency. Trial on the matter was held in April 1995, and a decision was rendered by the U.S. Tax Court in March 1996, in Amoco's favor. The IRS has appealed the Tax Court's decision to the U.S. Court of Appeals for the Seventh Circuit. A comparable adjustment of foreign tax credit for each year has been proposed for the years 1983 through 1992 based upon subsequent IRS audits. The corporation believes that the foreign income taxes have been reflected properly in its U.S. federal tax returns. Consequently, this dispute is not expected to have a material adverse effect on liquidity, results of operations, or the consolidated financial position of the corporation.

DIMON INCORPORATED (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands)

Note P (In Part): Contingencies And Other Information

On August 29, 1996, the Company received notices from Brazilian tax authorities of proposed adjustments to income taxes for the calendar year 1992 based on the Company's recalculation of monetary correction as allowed under Law 8200. The approximate proposed adjustment claims additional tax, including penalties and interest, through June 30, 1997, of $24,112, before related tax benefits for all assessed interest. In 1993, the Company received notices from Brazilian tax authorities of proposed adjustments to the income tax returns of the Company's entities located in Brazil for the calendar years ending 1988 through 1992. The approximate proposed adjustments claim additional tax, including penalties and interest through June 30, 1997, of $31,835, before related tax benefits for all assessed interest. The Company believes that it has properly reported its income and paid its taxes in Brazil in accordance with applicable laws and intends to contest the proposed adjustments vigorously. The Company expects that the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated balance sheet or results of operations.

DOVER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Contingencies

With respect to federal income taxes, all years prior to 1990 have been closed. During 1994, the Internal Revenue Service (IRS) completed its examination of the Company's 1990 and 1992 Federal income tax returns and has proposed additional taxes aggregating $36.2 million plus interest, which action is being vigorously contested by the Company. If ultimately the Company must pay certain of these additional taxes, such taxes will be recovered in future years. During 1996 the IRS completed its examination of the Company's 1992 and 1993 Federal income tax returns and has proposed additional taxes and penalties aggregating $18.6 million plus interest which action is being vigorously contested by the Company. The IRS is currently examining the Company's 1994 and 1995 Federal income tax returns.

UNOCAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19 (In Part): Contingent Liabilities

The company has certain contingent liabilities with respect to material existing or potential claims, lawsuits and other proceedings, including those involving environmental, tax and other matters, certain of which are discussed more specifically below. The company accrues liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, the company's estimates of the outcomes of these matters and its experience in contesting, litigating and settling other matters. As the scope of the liabilities becomes better defined, there will be changes in the estimates of future costs, which could have a material effect on the company's future results of operations and financial condition or liquidity.

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Tax matters. In December 1994, the company received a Notice of Proposed Deficiency (Notice) from the Internal Revenue Service (IRS) related to the years 1985 through 1987. In February 1995, the company filed a protest of the proposed tax deficiency with the Appeals section of the IRS. Discussions with the Appeals Officer are nearly complete, and it now appears unlikely that any issues raised in the Notice will proceed to either litigation or me-

diation, and it is expected that all matters will be settled. The settlement will require approval by the Joint Committee on Taxation of the U.S. Congress and such approval should be granted.

The total amount of tax and interest that the company would be required to pay if the IRS were ultimately to prevail on the material issues described in the Notice, after application of foreign tax credits and overpayments related to other issues, and assuming a full disallowance of the claim for refund discussed below, is estimated at $508 million as of December 31, 1997.

During the first quarter of 1997, the IRS examination team completed its review of a claim for refund filed by the company relating to its 1985 tax liability. The IRS has not formally allowed the claim, however, as a result of the expected settlement described above, the company believes that a portion of the claim will be allowed and that such allowance should entitle it to a small refund for overpayment of tax or interest for all open taxable years preceding 1988.

The company believes it has adequately provided in its accounts for items and issues not yet resolved.

Governmental Investigations

BECKMAN INSTRUMENTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Commitments and Contingencies

Litigation. The Company is currently, and is from time to time, subject to claims and suits arising in the ordinary course of its business, including those relating to intellectual property, contractual obligations, competition and employment matters. In certain such actions, plaintiffs request punitive or other damages or nonmonetary relief, which may not be covered by insurance, and in the case of nonmonetary relief, could, if granted, materially affect the conduct of the Company's business. The Company accrues for potential liabilities involved in these matters as they become known and can be reasonably estimated. In the Company's opinion (taking third party indemnities into consideration), the various asserted claims and litigation in which the Company is currently involved are not reasonably likely to have a material adverse effect on the Company's operations or financial position. However, no assurance can be given as to the ultimate outcome with respect to such claims and litigation. The resolution of such claims and litigation could be material to the Company's operating results for any particular period, depending upon the level of income for such period.

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Local authorities in Palermo (Sicily), Italy are investigating the activities of officials at a local government hospital and laboratory as well as representatives of the principal worldwide companies marketing diagnostics equipment in Italy, including the Company's Italian subsidiary. The inquiry focuses on past leasing practices for placement of diagnostics equipment which were common industrywide practices throughout Italy, but now are alleged to be improper. The Company believes the evidence in the case is weak and insufficient to support a criminal conviction against certain identified employees (the subsidiary is not a defendant). The Court has appointed economic experts to evaluate and present a comprehensive economic report on the leasing practices of the industry. Although it is very difficult to evaluate the political climate in Italy and the activities of the Italian public prosecutors, the Company does not expect this matter to have a material adverse effect on its operations or financial position.

UNITED TECHNOLOGIES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Commitments And Contingent Liabilities

U.S. Government

The Corporation is now and believes that, in light of the current government contracting environment, it will be the subject of one or more government investigations. If the Corporation or one of its business units were charged with wrongdoing as a result of any of these investigations, the Corporation or one of its business units could be suspended from bidding on or receiving awards of new government contracts pending the completion of legal proceedings. If convicted or found liable, the Corporation could be fined and debarred from new government contracting for a period generally not to exceed three years. Any contracts found to be tainted by fraud could be voided by the Government.

The Corporation's contracts with the U.S. Government are also subject to audits. Like many defense contractors, the Corporation has received audit reports which recommend that certain contract prices should be reduced to comply with various government regulations. Some of these audit reports involve substantial amounts. The Corporation has made voluntary refunds in those cases it believes appropriate.

Year 2000 Conversion

ADOLPH COORS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (In Part): Commitments and Contingencies

Year 2000 (unaudited): As the Year 2000 approaches, ACC recognizes the need to ensure its operations will not be adversely impacted by Year 2000 software failures. The Company is addressing this issue to ensure the availability and integrity of its financial systems and the reliability of its operational systems. ACC has established processes for evaluating and managing the risks and costs associated with this problem. The Company has and will continue to make certain investments in its software systems and applications to ensure that it is

Year 2000 compliant. The financial impact to ACC of Year 2000 remediation costs is anticipated to be in the range of $10 to $15 million in each of 1998 and 1999. In addition, ACC is working with its suppliers and customers to ensure their compliance with Year 2000 issues in order to avoid any interruptions in its business. While ACC does not at this time anticipate significant problems with suppliers and customers, it is developing contingency plans with these third parties due to the possibility of compliance issues.

W.R. GRACE & CO. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Year 2000 Computer Systems Compliance

Grace has reviewed the software systems and related applications used in each of its business segments and geographic regions to assess its requirements regarding the "Year 2000 Issue" which, if unresolved, could have a significant impact on Grace's operations. Grace has made and will continue to make the expenditures necessary to ensure that its software systems and applications continue to function properly before, during and after the year 2000. These expenditures, which are expensed as incurred, have not been and are not expected to be material to Grace's financial position or results of operations. For further information, see "Management's Discussion and Analysis of Results of Operations and Financial Condition - Year 2000 Computer Systems Compliance."

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

Year 2000 Computer Systems Compliance

Grace has reviewed the software systems and related applications used in each of its operating business segments and geographic regions to assess its requirements regarding the "Year 2000 Issue," which generally refers to the inability of systems hardware and software to correctly identify two-digit references to specific calendar years, beginning with 2000. The Year 2000 Issue can affect a company directly (i.e., in its internal databased operations or processing) or indirectly (e.g., if its suppliers' and customers' systems are not "Year 2000-Compliant"). As a result of its review, Grace is (1) purchasing and implementing new software applications that a major international supplier of financial and business information software systems has certified to be Year 2000-Compliant, (2) upgrading existing systems by installing new software releases that are similarly certified and (3) using Grace personnel, or contracting with outside programming services, to modify coding and to make other changes necessary to achieve compliance.

Grace Construction Products and Darex Container Products have completed the implementation of new software in North America and expect to complete their implementation in other geographic regions, excluding Europe, by the second quarter of 1999. Grace Davison plans to implement the new software in conjunction with Grace Construction Products and Darex Container Products in Latin America and Asia Pacific. In North America, Grace Davison will install new software releases to upgrade existing systems and will contract with outside programming services to resolve its Year 2000 Issue, with completion expected by the second quarter of 1999. In Europe, Grace's operating business segments are installing new software releases to upgrade existing systems and using Grace personnel to modify coding and to make other changes to address the Year 2000 Issue; these activities are expected to be completed by December 1998. Grace's corporate financial and certain other management systems are currently Year 2000-Compliant, and the remaining management systems are expected to be compliant by the end of 1998. Grace plans to initiate discussions with major suppliers and customers during 1998 to determine the status of their year 2000-compliance efforts.

Grace's total cost for the year 2000 effort is not expected to exceed $10.0 million (excluding the purchase and implementation of the new software from the international supplier referred to above, which is expected to total $70.0 million). Grace expects to use its internal workforce to address approximately 60% of the necessary work and to retain outside contract labor for the balance. Grace has completed approximately 75% of all software system testing for year 2000 compliance and expects all year 2000 enhancements to be in place by the second quarter of 1999 without any significant business disruptions.

JOHNS MANVILLE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Commitments and Contingencies

Year 2000 Compliance

The Company is engaged in a comprehensive project to modify its computer software for year 2000 compliance. Based on current estimates, spending to upgrade or replace the Company's software or systems related to year 2000 compliance is not expected to exceed $5 million through 1999. Although it is not possible to quantify the effects year 2000 compliance issues will have on customers or suppliers, the Company does not anticipate related material adverse effects on its financial condition, liquidity or results of operations.

O'SULLIVAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Commitments and Contingencies

Year 2000 Readiness

Management has taken steps to examine the Corporation's potential exposure to business interruption due to possible Year 2000 computer software failures. Employees connected with the Management Information Services department have reviewed the software being utilized for operation of the Corporation's primary business operations system and the software used in the opera-

tion of various LANs running throughout the Corporation. They have determined that currently there are no apparent conflicts which will prevent the present software from operating properly at Year 2000. Personnel connected with the Maintenance Services area of the Corporation have made similar reviews and inquiries concerning software used in the operation of the Corporation's manufacturing equipment. At this time they are aware of no material conflicts that would jeopardize the operation of the Corporation's manufacturing operations.

Adverse Governmental Action

MURPHY OIL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note O (In Part): Contingencies

The Company's operations and earnings have been and may be affected by various forms of governmental action both in the U.S. and throughout the world. Examples of such governmental action include, but are by no means limited to: tax increases and retroactive tax claims; restrictions on production; import and export controls; price controls; currency controls; allocation of supplies of crude oil and petroleum products and other goods; expropriation of property; restrictions and preferences affecting issuance of oil and gas or mineral leases; laws and regulations intended for the protection and/or remediation of the environment; promotion of safety; governmental support for other forms of energy; and laws and regulations affecting the Company's relationships with employees, suppliers, customers, stockholders and others. Because governmental actions are often motivated by political considerations, may be taken without full consideration of their consequences, and may be taken in response to actions of other governments, it is not practical to attempt to predict the likelihood of such actions, the form the actions may take or the effect such actions may have on the Company.

Foreign Crude Oil Contracts - In August 1996, the Ecuadoran government notified the Company that its contractual arrangement for production of crude oil in Ecuador must be modified to give the government a larger share of future oil revenues. As a result, the Company's risk-service contract was replaced by a production-sharing contract effective January 1, 1997. While the state oil company, PetroEcuador, acknowledged that amounts were owed under the former contract and indicated its intention to pay, the Company considered the circumstances surrounding the contract replacement and recorded an $8,876,000 charge for doubtful accounts at December 31, 1996. Based on amounts collected in 1997, the Company determined that a portion of the allowance for doubtful accounts was no longer required and recognized income of $1,642,000 in 1997. Any collections of the remaining $7,234,000 receivable will be recognized as income as received.

UST INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contingencies (In Part)

On June 20, 1997, United States Tobacco Company, along with other manufacturers in the United States tobacco industry, executed a Memorandum of Understanding (the "Memorandum") to support the adoption of federal legislation incorporating the features described in the proposed resolution attached to the Memorandum. The proposed resolution, if enacted into law, would achieve a resolution of many of the regulatory and litigation issues affecting the United States tobacco industry and, thereby, reduce uncertainties facing the industry and increase stability in business and capital markets. However, if such legislation were enacted the financial obligations to be imposed on the Company are expected to be significant although the precise amount of such obligations cannot be determined at this time. Discussions with other tobacco manufacturers, who were participants in the negotiations which led to the Memorandum, are continuing regarding the allocation of both the initial and subsequent payments and the Company's obligations related thereto. Depending on the amounts required to be paid by the Company, as well as a number of other factors, including (i) the timing of any payments and the means used to finance such payments; (ii) the effect of the legislation on the pricing and consumption of smokeless tobacco products; and (iii) the impact of the legislation on the Company's competitive position in the smokeless tobacco industry, its financial position could be materially adversely affected in the year of implementation and the unit volume, operating revenues and operating income of the Company could be materially adversely affected in future years. There can be no assurance that legislation reflecting the proposed resolution or any legislation will be enacted.

Lease Termination Costs

BINKS SAMES CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Contingencies

In January 1998, the Company notified the developer and landlord of its planned future headquarters site in Vernon hills, Illinois that the Company wanted to terminate the project. The Company had previously entered into a 20-year lease agreement for the Vernon Hills site. While groundbreaking for the new site has not occurred, it is anticipated that the Company will incur lease termination costs. The Company is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable resolution of this matter.

Investment Grants

FRUIT OF THE LOOM, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contingent Liabilities (In Part)

The Company has negotiated grants from the governments of the Republic of Ireland, Northern Ireland and Germany. The grants are being used for employee training, the acquisition of property and equipment and other governmental business incentives such as general employment. At December 31, 1997, the Company has a contingent liability to repay, in whole or in part, grants received of approximately $64,600,000 in the event that the Company does not meet defined average employment levels or terminates operations in the Republic of Ireland, Northern Ireland or Germany.

Change Of Control

GTI CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data)

Note 7 (In Part): Commitments And Contingencies

Change of Control Contingencies: In February 1998, the Company retained investment bankers to assist the Company regarding the identification and investigation of strategic alternatives that might be available to the Company, including a possible sale of the Company. No such strategic transaction has been negotiated to date, and there can be no assurance that any such strategic transactions will be consummated. If a sale of the Company occurs, there can be no assurance regarding the price per share to be received by the Company's shareholders. Also, if a change of control of GTI occurs, the Company will owe stay-on bonuses to certain employees aggregating approximately $1,200 and a success fee to the investment bankers, depending on the price of the strategic transaction, if any.

Collection Of Taxes From Customers

GATEWAY 2000, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Contingencies

Over the past several years, state tax authorities have made inquiries as to whether or not the Company's alleged contacts with those states might require the collection of sales and use taxes from customers and/or the payment of income tax in those states. The Company evaluates such inquiries on a case-by-case basis, and will vigorously contest any such claims for payment of taxes which it believes are without merit. The Company has favorably resolved these types of tax issues in the past without any material adverse consequences. However, there can be no assurance that the amount of any sales or use taxes the Company might ultimately be required to pay for prior periods would not materially affect the Company's results of operations or cash flows in any given reporting period.

The Company currently pays state income taxes in the states where it has a physical presence. The Company has not paid income taxes in any other state, nor has it accrued for the payment of such taxes. Management believes that the amount of any income tax the Company might ultimately be required to pay for prior periods would not materially and adversely affect the Company's business, consolidated financial position, results of operations or cash flows.

Arbitration Proceedings

STEWART & STEVENSON SERVICES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (In Part): Commitments and Contingencies

The Company is a party to an arbitration proceeding before the American Arbitration Association in Houston, Texas in which Engineering Design Group, Inc. ("EDG") has asserted approximately $17 million in claims against the Company, and the Company has asserted approximately $18 million in offsets, back-charges and claims against EDG relating to a turnkey contract for the construction and installation of a turbine power plant in Argentina by EDG. The Company is not able to make a reasonable estimate of the possible outcome of this matter. It is vigorously defending the claims that have been asserted against it and is pursuing the claims it has made against EDG. If EDG is successful on its claims against the Company and the damages are not offset in whole or in part by the Company's claims against EDG, the Company's results of operations for the reporting period in which these claims are resolved, could be materially adversely affected.

The Company is also a party to an arbitration proceeding before the American Arbitration Association in San Francisco, California in which Noell, Inc. ("Noell") has asserted approximately $6 million in damages arising from the sale of turbine-driven equipment for installation in power plants located in Ceres, California and Lodi, California. The liability, if any, relating to these claims was assumed by GE as part of the Gas Turbine Operations Division.

GAIN CONTINGENCIES

Plaintiff Litigation

BMC INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Legal Matters

In January 1995, a U.S. District Court in Miami, Florida, awarded the Company a $5.1 million judgment against Barth Industries (Barth) of Cleveland, Ohio and its parent, Nesco Holdings, Inc. (Nesco). The judgment relates to an agreement under which Barth and Nesco were to help automate the plastic lens production plant in Ft. Lauderdale, Florida. The Company has not recorded any income relating to this judgment because Barth and Nesco filed an appeal. The appeal has been argued before the U.S. Court of Appeals for the Eleventh Circuit and the Company is awaiting the Court's decision.

COMMERCIAL METALS COMPANY (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Commitments And Contingencies

Under the terms of the acquisition agreement of Owen Steel Company, Inc. and affiliates (Owen), the Company presented certain claims against the portion of the purchase price remaining in escrow, approximately $5.1 million at August 31, 1997. On April 30, 1996 the Company filed suit against four representatives (one of whom is a current director of the Company) of the former Owen stockholders. The lawsuit alleges failure to release from escrow, funds for claims paid subsequent to acquisition on exposures that existed at the acquisition date, and recovery of delinquent accounts receivable. The total amount of claims by the Company approximate the escrow balance. The stockholder representatives have filed a response and counterclaims; the lawsuit is in the discovery phase.

LITTON INDUSTRIES, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I (In Part): Defense Contracts, Litigation And Contingencies

Litton is suing Honeywell, Inc. ("Honeywell") for patent infringement relating to the manufacture of ring laser gyro navigation systems which are used in commercial aircraft. After trial of that case in the U.S. District Court for the Central District of California on August 31, 1993, the jury rendered a verdict in favor of Litton in the amount of $1.2 billion. On January 9, 1995, the District court released a Memorandum of Decision finding Litton's patent invalid and rejecting the jury verdict. Litton appealed to the U.S. Court of Appeals for the Federal Circuit. On July 3, 1996, the Court of Appeals rendered a decision reversing the District Court's decision, finding the patent valid and infringed by Honeywell. The Court of Appeals reinstated the jury's verdict on liability including the findings of interference with contract and prospective business advantage and ordered a new trial on the amount of damages sustained by Litton in the District Court. On March 17, 1997, the U.S. Supreme Court vacated the Court of Appeals ruling and remanded the case to the Court of Appeals for further consideration in view of the Supreme Court's decision in Warner-Jenkins Co. v. Hilton Davis Chemical Co. On September 30, 1997, a hearing took place before the Court of Appeals. As of this date, no decision has been rendered by the Court of Appeals.

Litton is also suing Honeywell on antitrust grounds in the same U.S. District Court. On February 29, 1996, a jury rendered a verdict in favor of Litton. On July 25, 1996, the District Court upheld the jury's verdict that Honeywell attempted to illegally monopolize and did monopolize the market for inertial reference systems for large commercial air transport, commuter and business aircraft. However, the District Court declined to enter the $234 million jury verdict on the basis that Litton's damage study as presented failed to disaggregate damages between illegal and legal acts. A new trial limited to the issue of the amount of damages sustained by Litton attributable to Honeywell's unlawful conduct has been ordered by the District Court. The District Court has declined to set a trial date until after the Court of Appeals rules in the patent case.

THE LUBRIZOL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Litigation

The company has filed claims against Exxon Corporation and/or its affiliates relating to various commercial matters, including alleged infringements by Exxon of certain of the company's patents. These suits are pending in the United States (in Ohio), Canada and the United Kingdom.

The company has prevailed in a case brought in Canada against Exxon's Canadian affiliate, Imperial Oil, Ltd., for infringement of the company's patent pertaining to dispersants, the largest additive component used in motor oils. A 1990 trial court verdict in favor of the company regarding the issue of liability was upheld by the Federal Court of Appeals of Canada in December 1992, and in October 1993, the Supreme Court of Canada dismissed Imperial Oil's appeal of the Court of Appeals' decision. The case has been returned to the trial court for an assessment of compensation damages, but no date has been set for a determination of such damages. In October 1994, the trial court judge determined that Imperial Oil had violated an earlier injunction for the manufacture or sale of the dispersant which is the subject of this case. The determination of penalty damages, if any, on account of this violation will be made after the compensa-

tion damages for patent infringement have been determined by the court.

In November 1996, a patent trial court in London declared a Lubrizol United Kingdom patent invalid, which patent is the subject of litigation brought by the company against Exxon in that country. The company is appealing this decision, which appeal is expected to be heard in March 1998. Although the trial court decision does not involve any damage payments, the court awarded Exxon its recoverable legal costs in the case, as is customary under U.K. practice. Exxon has filed with the court a request for legal costs of approximately $12 million. The determination of which of those costs may be recoverable will be subject to a separate proceeding. The Company has obtained a stay of this separate proceeding pending the outcome of the appeal of the trial court decision. As a court-ordered condition to obtain the stay, the company made a $3.0 million contingent payment to Exxon in July 1997. This amount was fully expensed in 1997. Management believes that the November 1996 trial court decision will not be upheld in its present form on appeal, in which case the recoverable legal costs would be reduced or eliminated, and amounts paid contingently by the company could be refunded in whole or in part.

A reasonable estimation of the company's potential recovery relating to the Exxon litigation referenced above can not be made at this time, and no recovery amounts have been recorded in the company's financial statements.

Contingent Receivables

FIGGIE INTERNATIONAL INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

3 (In Part): Discontinued Operations

Sale of Snorkel:
On November 17, 1997, the Company sold its Snorkel aerial work platform division. The agreement, as amended, provides for $100 million paid to the Company at closing plus a contingent additional amount. The contingent amount will be the amount of sales of the Snorkel business for the twelve-month period commencing on April 1, 1998 and ending on March 31, 1999 (the "Earn-Out Period") in excess of $140 million, such additional payment not to exceed $20 million, plus 70% of the amount of sales of the Snorkel business during the Earn-Out Period in excess of $160 million, such additional amount not to exceed $30 million. The agreement further provides for the assumption by the purchaser of certain liabilities and operating lease commitments of the Snorkel business. The sale generated a $23.6 million gain, which was recognized in the Company's financial statements. The financial statements do not reflect the contingent additional amount as an asset or as income. Snorkel had revenue of $138.9 million for the period January 1, 1997 to November 17, 1997.

HECLA MINING COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 6 (In Part): Commitments and Contingencies

Insurance Coverage Litigation
In 1991, the Company initiated litigation in the Idaho State District Court in Kootenai County, Idaho, against a number of insurance companies which provided comprehensive general liability insurance coverage to the Company and its predecessors. The Company believes that the insurance companies have a duty to defend and indemnify the Company under their policies of insurance for all liabilities and claims asserted against the Company by the EPA and the Tribe under CERCLA related to the Bunker Hill Site and the Basin in northern Idaho. In 1992, the Court ruled that the primary insurance companies had a duty to defend the Company in the Tribe's lawsuit. During 1995 and 1996, the Company entered into settlement agreements with a number of the insurance carriers named in the litigation. The Company has received a total of approximately $7.2 million under the terms of the settlement agreements. Thirty percent of these settlements were paid to the EPA to reimburse the U.S. Government for past costs under the Bunker Hill Site Consent Decree. Litigation is still pending against one insurer with trial continued until the underlying environmental claims against the Company are resolved or settled. The remaining insurer is providing the Company with a partial defense in all Basin environmental litigation. As of December 31, 1997, the Company had not reduced its accrual for reclamation and closure costs to reflect the receipt of any anticipated insurance proceeds.

The Company is subject to other legal proceedings and claims which have arisen in the ordinary course of its business and have not been finally adjudicated. Although there can be no assurance as to the ultimate disposition of these matters and the proceedings disclosed above, it is the opinion of the Company's management, based upon the information available at this time, that the currently expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the results of operations, financial condition or cash flows of the Company.

TANDY CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 25 (In Part): Contingencies

Pursuant to the Company's Tax Sharing and Tax Benefit Reimbursement Agreement (the "Agreement") with O'Sullivan Industries ("O'Sullivan"), a former subsidiary of Tandy, the Company receives payments from O'Sullivan approximating the federal tax benefit that O'Sullivan realizes from the increased tax basis of its assets resulting from the initial public offering completed in February 1994. The higher tax basis increases O'Sullivan's tax deductions and, accordingly, reduces income taxes payable by O'Sullivan. For the years ended December 31, 1997, 1996 and 1995, the Company recognized income of $5.8 million, $0.2 million and $1.3 million, net of tax,

respectively, under this Agreement. These payments will continue to be made over a 15-year time period, and are contingent upon O'Sullivan's level of earnings from year to year. The income is recorded as a reduction of selling, general and administrative expenses in the accompanying Consolidated Statements of Income.

RISKS AND UNCERTAINTIES

Statement of Position 94-6, issued by the Accounting Standards Division of the American Institute of Certified Public Accountants, requires reporting entities to disclose information about the nature of their operations, the use of estimates in preparing financial statements, certain significant estimates, and vulnerabilities due to certain concentrations. 595 survey companies disclosed the use of estimates in preparing financial statements. Of these disclosures, 582 were made as part of the summary of significant accounting policies.

Examples of disclosures made by the survey companies to conform to the requirements of *SOP 94-6* follow.

Nature of Operations

AMERICAN HOME PRODUCTS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Description of Business: The Company is a U.S.-based multi-national corporation engaged in the discovery, development, manufacture, distribution and sale of a diversified line of products in two primary business segments: health care and agricultural products. Health care products include branded and generic ethical pharmaceuticals, biologicals, nutritionals, consumer health care products, medical devices, and animal biologicals and pharmaceuticals. Agricultural products include crop protection and pest control products such as herbicides, insecticides, fungicides and plant growth regulators. The Company sells its diversified line of products to wholesalers, pharmacies, hospitals, physicians, retailers and other health care institutions located in various markets in more than 150 countries throughout the world. The Company is not dependent on any single or major group of customers for its sales.

The Company is not dependent on any one patent-protected product or line of products for a substantial portion of its sales or results of operations. However, *Premarin,* the Company's conjugated estrogens product, which has not had patent protection for many years, does contribute significantly to sales and results of operations. See "Competition" in Management's Discussion and Analysis of Financial Condition and Results of Operations on page 43 for further details.

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

Competition

The Company operates in the highly competitive health care and agrochemical industries. The Company is not dependent on any one patent-protected product or line of products for a substantial portion of its sales or results of operations. However, *Premarin,* the Company's conjugated estrogens product, which has not had patent protection for many years, does contribute significantly to sales and results of operations. *Premarin* currently is not subject to generic competition in the United States, and, on May 5, 1997, the U.S. Food and Drug Administration (FDA) announced that it would not approve synthetic conjugated estrogens products at this time because these products have not been shown to contain the same active ingredient as *Premarin.* The FDA further stated that, until the full composition of *Premarin* is determined, a synthetic generic version cannot be approved although a generic product derived from the same natural source could be approved earlier under certain circumstances. Although the Company believes that, as a result of this announcement, *Premarin* is not likely to face generic competition in the near term, the Company cannot predict the timing or outcome of continued efforts to obtain approval for a generic conjugated estrogens product. While the introduction of generic competition ordinarily is expected to significantly impact the market for a brand name product, the extent of such impact on *Premarin* and related products cannot be predicted with certainty due to a number of factors, including the nature of the product and the recently introduced combination estrogen and progestin products in the *Premarin* family.

BROWN GROUP, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Organization

Brown Group, Inc., (the "Company") founded in 1878, is a footwear retailer and wholesaler. The Company provides a broad offering of branded and private label casual, athletic and dress footwear products to women, children and men. Footwear is sold at a variety of price points through multiple distribution channels both domestically and internationally. The Company currently operates 1,279 retail shoe stores in the United States and Canada under the Famous Footwear, Naturalizer® and F.X. LaSalle® names. In addition, through its Brown Branded Marketing and Pagoda divisions, the Company designs, sources and markets footwear to retail stores domestically and internationally, including department stores, mass merchandisers and specialty shoe stores. See Note 6 for additional information regarding the Company's business segment and operations by geographic area.

HURCO COMPANIES, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Business Operations

Nature of Business. The Company designs and produces computer numerical control (CNC) systems and software and CNC-operated machine tools for sale through its own distribution system to the worldwide machine tool industry. The Company's proprietary CNC systems and related software products are either integrated with machine tools marketed by the Company, sold to machine tool end users or sold to other machine tool manufacturers who integrate them with their own products.

The end market for the Company's products consists primarily of precision tool, die and mold manufacturers, independent job shops and specialized short-run production applications within large manufacturing operations. Industries served include: aerospace, defense, medical equipment, energy, transportation and computer industries. The Company's products are sold through over 250 independent agents and distributors in 46 countries throughout North America, Europe and Asia. The Company also maintains direct sales operations in the United States, England, France, Germany and Singapore.

Credit Risk. The Company sells products to customers located throughout the world. The Company performs ongoing credit evaluations of customers and generally does not require collateral. Allowances are maintained for potential credit losses, and such losses have been within management's expectations.

Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers and their dispersion across many geographic areas. Although a significant amount of trade receivables are with distributors primarily located in the United States, no single distributor or region represents a significant concentration of credit risk.

Reliance on Contract Manufacturers. The Company contracts principally with three machine tool builders located in Taiwan for the manufacture and assembly of CNC machine tool systems, based on the Company's designs and specifications, utilizing CNC systems provided by the Company. During 1997, the Company entered into a contract manufacturing agreement with a European machine tool builder to manufacture machine tools for the European subsidiaries. Any interruption from these sources would restrict the availability of the Company's machine tools, which would affect operating results adversely.

INTERNATIONAL PAPER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Nature of the Company's Business

The Company is a global forest products, paper and packaging company that is complemented by an extensive distribution system, with primary markets and manufacturing operations in the United States, Europe and the Pacific Rim. Substantially all of the Company's businesses have experienced and are likely to continue to experience cycles relating to available industry capacity and general economic conditions. For a further discussion of the Company's business, see pages 22 through 30 of management's discussion and analysis of financial condition and results of operations.

LONE STAR INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Description of Operations and Significant Accounting Policies

Description of Operations - The Company is a cement and ready-mixed concrete company with operations in the United States (principally in the Midwest and Southwest). Lone Star's cement operations consist of five portland cement plants in the midwestern and southwestern regions of the United States, a slag cement facility in Louisiana and a 25% interest in Kosmos Cement Company, a partnership which operates one portland cement plant in each of Kentucky and Pennsylvania. The five wholly-owned portland cement plants produced approximately 3.9 million tons of cement in 1997, which approximates the rated capacity of such plants. The Company's construction aggregates operations, prior to its sale in October 1997, primarily served the construction markets in the New York metropolitan area. The ready-mixed concrete business operates in the Memphis, Tennessee area and during 1996, in central Illinois (which operations were sold in March 1997). The Company had approximately $358,000,000 in net sales in 1997, with cement, construction aggregates and ready-mixed concrete and other construction products operations representing approximately 83%, 11% and 6%, respectively, of such net sales.

Demand for cement is derived primarily from residential construction, commercial and industrial construction and public (infrastructure) construction which are highly cyclical and are influenced by prevailing economic conditions including interest rates and availability of public funds. Due to cement's low value-to-weight ratio, the industry is largely regional and regional demand is tied to local economic factors that may fluctuate more widely than those of the nation as a whole.

The markets for the Company's products are highly competitive and portland cement is largely a commodity product. The Company competes with domestic and international sources largely on the basis of price. To a lesser extent, other competitive factors such as service, delivery time and proximity to customers affect the Company's performance.

THE LUBRIZOL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Nature Of Operations

The Lubrizol Corporation is a full-service supplier of performance chemicals and products to diverse markets worldwide. Principally, the company develops, produces and sells specialty additive packages used in transportation and industrial finished lubricants such as gasoline and diesel engine lubricating oils, automatic transmission fluids, gear oils, marine and tractor lubricants, fuel products and industrial fluids. The company's additive packages are generally produced in shared manufacturing facilities and sold largely to a common customer base. These specialty chemical products are created through the application of advanced chemical and mechanical technologies to enhance the performance, quality and value of the products in which they are used. The company also produces and supplies coatings additives, refinery and oil field chemicals, specialty monomers process chemicals, synthetic refrigerant compressor lubricants, fluid metering devices and particulate emission trap devices.

The company's sales and receivables are concentrated in the oil and chemical industries. The company's additive customers consist primarily of oil refiners and independent oil blenders and are located in more than 100 countries. Approximately 40% of the company's sales are made to customers in North America, 30% in Europe and 30% in Asia-Pacific, the Middle East and Latin America. The ten largest customers, most of which are international oil companies and a number of which are groups of affiliated entities, comprised approximately 44% of consolidated sales in 1997, 1996 and 1995. The largest single customer, including its affiliated entities, in each year accounted for 10% of sales in 1997, 1996 and 1995.

MEDTRONIC, INC. (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Nature of Operations
Medtronic operates in a single industry segment as the world's leading medical technology company specializing in implantable and interventional therapies. The company does business in more than 120 countries. Primary products include implantable pacemaker systems used for the treatment of bradycardia, implantable tachyarrhythmia management devices, ablation systems, mechanical and tissue heart valves, balloon and guiding catheters used in angioplasty, coronary and peripheral stents and stented grafts, interventional neuroradiology products, implantable neurostimulation and drug delivery systems, hydrocephalic shunts and other neurosurgical devices, urological and digestive diagnostic systems and perfusion systems including blood oxygenators, centrifugal blood pumps, cannulae products, and autotransfusion and blood monitoring systems and products used in minimally invasive cardiac surgery. The company generally markets its products through a direct sales force in the United States and a combination of direct sales representatives and independent distributors in international markets. The main markets for products are the United States, Western Europe and Japan.

RUBBERMAID INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Nature of Operations
Rubbermaid Incorporated and its subsidiaries manufacture, market, sell, and distribute primarily plastic products in three major categories: home products, juvenile products, and commercial products. The Company's products are distributed primarily through its own sales personnel and manufacturers' agents to a variety of retailers and wholesalers, including mass merchandisers, toy stores, home centers, hardware stores, catalog showrooms, and distributors serving institutional markets. The Company's raw materials are readily available, and the Company is not dependent on a single supplier or only a few suppliers.

UNIVERSAL CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Business Segment And Geographic Information

The company operates principally in three business segments:

Tobacco
Selecting, buying, shipping, processing, packing, storing and financing leaf tobacco in the United States and other tobacco growing countries for the account of, or for resale to, manufacturers of tobacco products throughout the world.

Lumber and Building Products
Distribution of lumber and building products to the building and construction market in Europe, primarily in Holland.

Agri-Products
Trading and processing tea and sunflower seeds and trading other products from the countries of origin to various customers throughout the world.

Generally, sales between geographic areas are priced to generate a reasonable profit margin. Sales between business segments are insignificant.

Operating profit is total revenue less operating expenses. In computing operating profit, none of the following items have been added or deducted: general corporate expenses, interest expense, income taxes and equity in net income of unconsolidated affiliates.

Identifiable assets are those of the company that are identified with the operations in each industry group. Cor-

porate assets are principally the fixed assets of the company's administrative offices.

The company's dominant business, tobacco, is generally conducted in U.S. dollars. In most countries, the company funds its major cost, the purchase of green tobacco, in U.S. dollars, thereby limiting foreign exchange risk to that which is related to production costs and overhead in the country of tobacco origin.

WILLAMETTE INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature Of Operations

Willamette Industries, Inc. is a diversified, integrated forest products company with 103 manufacturing facilities in 23 states, France, Ireland and Mexico. The Company produces kraft linerboard, corrugating medium, bag paper, fine paper, hardwood market pulp, specialty printing papers, corrugated containers, business forms, cut sheet paper, paper bags, inks, lumber, plywood, particleboard, medium density fiberboard, oriented strand board, laminated beams, laminated veneer lumber, wooden I-joists and other value-added wood products. The Company's principal lines of business are paper products and building materials. Based on sales, paper products represent approximately two-thirds of the Company's business with the balance consisting of building materials. The Company sells 90% of its products in the United States domestic market and its primary foreign markets are Asia and Europe.

Use of Estimates

CBS CORPORATION (DEC)

NOTES TO THE FINANCIAL STATEMENTS

Note 2 (In Part): Summary of Significant Accounting Policies

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, management reviews its estimates, including those related to litigation, environmental liabilities, program rights, contracts, pensions and Discontinued Operations, based on currently available information. Changes in facts and circumstances may result in revised estimates.

CHESAPEAKE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

k. Risks and Uncertainties: Chesapeake operates in three business segments—Tissue, Specialty Packaging, and Forest Products/Land Development—which offer a diversity of products over a broad geographic base. The Company is not dependent on any single customer, group of customers, market, geographic area, or supplier of materials, labor, or services. Financial statements include, where necessary, amounts based on the judgments and estimates of management. These estimates include allowances for bad debts, accruals for landfill closing costs, inventories, environmental remediation costs, loss contingencies for litigation, self-insured medical and workers compensation insurance, income taxes, and determinations of discount and other rate assumptions for pensions and post-retirement benefit expenses. Actual results could differ from these estimates.

HARCOURT GENERAL, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Significant estimates

In the process of preparing its consolidated financial statements, the Company estimates the appropriate carrying values of certain assets and liabilities which are not readily apparent from other sources. Management bases its estimates on historical experience and on various assumptions which are believed to be reasonable under the circumstances. The primary estimates underlying the Company's consolidated financial statements include allowances for returns, doubtful accounts, valuation of inventories and prepublication costs, and accruals for self-insurance, pension and postretirement benefits. Actual results could differ from these estimates.

LOUISIANA-PACIFIC CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. See discussion of specific estimates in notes entitled "Income Taxes," Retirement Plans," "Stock Options and Plans," "Charges and Other Unusual Items, Net" and "Contingencies."

OCCIDENTAL PETROLEUM CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Risks And Uncertainties - The process of preparing consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts, generally not by material amounts. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of Occidental's financial position and results of operations.

Included in the accompanying balance sheet is net property, plant and equipment at a carrying value of $8.59 billion as of December 31, 1997. These carrying values are based on Occidental's plans and intentions to continue to operate, maintain and, where it is economically desirable, to expand its businesses. If future economic conditions result in changes in management's plans or intentions, the carrying values of the affected assets will be reviewed again and any appropriate adjustments made.

Included in the accompanying consolidated balance sheet are deferred tax assets of $1.3 billion as of December 31, 1997, the noncurrent portion of which is netted against deferred income tax liabilities. Realization of these assets is dependent upon Occidental generating sufficient future taxable income. Occidental expects to realize the recorded deferred tax assets through future operating income and reversal of taxable temporary differences.

The accompanying consolidated balance sheet includes assets of approximately $2.6 billion as of December 31, 1997 relating to Occidental's operations in countries outside North America. Some of these countries may be considered politically and economically unstable. These assets and the related operations are subject to the risk of actions by governmental authorities and insurgent groups. Occidental attempts to conduct its financial affairs so as to protect against such risks and would expect to receive compensation in the event of nationalization.

Since Occidental's major products are commodities, significant changes in the prices of oil and gas and chemical products could have a significant impact on Occidental's results of operations for any particular year.

THE TIMES MIRROR COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Use of Estimates and Other Uncertainties

Financial statements prepared in accordance with generally accepted accounting principles require management to make estimates and judgments that affect amounts and disclosures reported in the financial statements. Actual results could differ from those estimates, although management does not believe that any differences would materially affect the company's financial position or reported results.

The company's future results could be adversely affected by a number of factors, including (a) an increase in paper, printing and distribution costs over the levels anticipated; (b) increased consolidation among major retailers or other events depressing the level of display advertising; (c) an economic downturn in the company's principal newspaper markets or other occurrences leading to decreased circulation and diminished revenues from both display and classified advertising; (d) an increase in expenses related to new initiatives and product improvement efforts in the flight information and health information operating units; (e) unfavorable foreign currency fluctuations; and (f) a general economic downturn resulting in decreased professional or corporate spending on discretionary items such as information or training and in decreased consumer spending on discretionary items such as magazines or newspapers.

Significant Estimates

APPLE COMPUTER, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Estimates

General

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Significant Accounting Estimates

Provisions for Inventory Write-downs and Related Accruals

The Company's provisions for inventory write-downs, as well as accruals for the cost to cancel excess component orders, are based on the Company's best estimates of product sales prices and customer demand patterns, and/or its plans to transition its products. However, the Company participates in a highly competitive industry that is characterized by aggressive pricing practices, downward pressures on gross margins, frequent introductions of new products, short product life cycles, rapid technological advances, continual improvement in product price/performance characteristics, and price sensitivity and changing demand patterns on the part of consumers. As a result of the industry's ever-changing and dynamic nature, it is at least reasonably possible that the estimates used by the Company to determine its provisions for inventory write-downs, as well as its accruals for the cost to cancel excess component orders, will be materially different from the actual amounts or results.

These differences could result in materially higher than expected inventory provisions and related costs, which could have a materially adverse effect on the Company's consolidated results of operations and financial condition in the near term.

Warranty and Related Accruals

The Company's warranty and related accruals are based on the Company's best estimates of product failure rates and unit costs to repair. However, the Company is continually releasing new and ever-more complex and technologically advanced products. As a result, it is at least reasonably possible that product could be released with certain unknown quality and/or design problems. Such an occurrence could result in materially higher than expected warranty and related costs, which could have a materially adverse effect on the Company's consolidated results of operations and financial condition in the near term.

Deferred Tax Assets

Realization of approximately $85 million of the total deferred tax assets representing tax loss and credit carryforwards is dependent on the Company's ability to generate approximately $245 million of future U.S. taxable income. Management believes that it is more likely than not that forecasted U.S. taxable income, including income that may be generated as a result of certain tax planning strategies, will be sufficient to utilize the tax carryforwards prior to their expiration in 2011 and 2012 to fully recover the asset. However, there can be no assurance that the Company will meet its expectations of future U.S. income. As a result, the amount of the deferred tax assets considered realizable could be reduced in the near and long term if estimates of future taxable U.S. income are reduced. Such an occurrence could materially adversely affect the Company's consolidated results of operations and financial condition. The Company will continue to evaluate the realizability of the deferred tax assets quarterly by assessing the need for and amount of a valuation allowance.

FEDERATED DEPARTMENT STORES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Taxes

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and tax planning strategies in making this assessment. Tax law limits the use of an acquired enterprise's net operating loss carryforwards to subsequent taxable income of the acquired enterprise in a consolidated tax return for the combined enterprise. As of January 31, 1998, the Company estimated that the Macy's net operating loss carryforwards, which are available to offset future taxable income of the acquired Macy's enterprise through 2008, were approximately $170 million and that Broadway's net operating loss carryforwards, which are available to offset future taxable income of the acquired Broadway enterprise through 2009, were approximately $303 million. The Company also had alternative minimum tax credit carryforwards of $63 million, which are available to reduce future income taxes, if any, over an indefinite period.

CROWN CORK & SEAL COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in millions)

K (In Part): Restructuring

The components of the restructuring accrual are as follows:

	Balance at December 31, 1996	Provisions for existing businesses	Provisions for CMB businesses	1997 activity	Transfer against assets	Balance at December 31, 1997
Employee costs	$222.1	$13.3	($11.9)	($104.0)		$119.5
Write-down of assets		44.3	32.0		($76.3)	
Lease termination and other exit costs	37.6	9.0	11.5	(22.3)		35.8
	$259.7	$66.6	$31.6	($126.3)	($76.3)	$155.3

The foregoing restructuring charges and related cost savings represent the Company's best estimates, but necessarily make numerous assumptions with respect to industry performance, general business and economic conditions, raw materials and product pricing levels, the timing of implementation of the restructuring and related employee reductions and facility closings and other matters, many of which are outside the Company's control. The Company's estimates of cost savings are not necessarily indicative of future performance, which may be significantly more or less favorable than as set forth above and is subject to the considerations described in Management's Discussion and Analysis under "Forward Looking Statements". Shareholders are cautioned not to place undue reliance on the estimates and the assumptions and should appreciate that such information may not necessarily be updated to reflect circumstances existing after the date hereof or to reflect the occurrence of unanticipated events.

LACLEDE STEEL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Accounting Policies

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain Significant Estimates

Amounts reported for pensions and postretirement medical benefits and their related deferred tax assets are subject to significant fluctuation due to changes in interest rates. Estimates of environmental remediation-related obligations are discussed in Note 9.

Current Vulnerability Due to Certain Concentrations

The Company manufactures steel from steel scrap generated in the course of its steel production and purchased in the open market from numerous scrap suppliers. Since it does not produce its own raw materials, the Company is subject to the fluctuation in prices and availability of scrap.

Approximately 58% of the Company's production employees are covered by a collective bargaining agreement, which expires in September 2001.

Note 9 (In Part): Commitments And Contingencies

There are various claims pending involving the Company and its subsidiaries with respect to environmental, hazardous substance and other matters arising out of the routine conduct of the business. Such claims either have not been reduced to litigation or, if suit has been filed, are in the discovery stage. Therefore the total liability on pending claims at December 31, 1997, if any, cannot be determined.

The Company believes it has meritorious defenses with respect to all claims and litigation and the ultimate disposition of such matters will not materially affect its financial position or results of operations.

In connection with its Melt Shop operations the Company generates electric furnace dust, which the Environmental Protection Agency (EPA) has designated as a hazardous waste. The Company developed a modified closure plan which was approved by the Illinois EPA. This plan provided for the closure of existing electric furnace dust piles in place, and the project was completed in 1997. Because the project was completed at less than the estimated cost previously accrued, a credit for $994,000 was recorded in the fourth quarter of 1997.

NASHUA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary Of Significant Accounting Policies (In Part)

Use of Estimates: The preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. The more significant areas requiring the use of management estimates relate to allowance for obsolete inventory and uncollectible receivables, environmental obligations, postretirement and other employee benefits, valuation allowances for deferred tax assets, future cash flows associated with assets, and useful lives for depreciation and amortization. Actual results could differ from those estimates.

Environmental Expenditures: Environmental expenditures relating to ongoing operations are expensed when incurred unless the expenditures extend the life, increase the capacity or improve the safety or efficiency of the property; mitigate or prevent environmental contamination that has yet to occur and improve the property compared with its original condition; or are incurred for property held for sale.

Expenditures relating to site assessment, remediation and monitoring are accrued and expensed when the costs are both probable and the amount can be reasonably estimated. Estimates are based on in-house or third-party studies considering current technologies, remediation alternatives and current environmental standards. In addition, if there are other participants and the liability is joint and several, the financial stability of the other participants is considered in determining the Company's accrual. Insurance and other recoveries relating to these expenditures are recorded separately once recovery is probable.

STORAGE TECHNOLOGY CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Significant Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the periods. Significant estimates have been made by management in several areas including the possible outcome of outstanding litigation (see Note 8), the realizability of the Company's deferred tax assets (see Note 6), and future obligations associated with the Company's 1995 restructuring (see Note 7). Actual results could differ materially from these estimates making it reasonably possible that a change in these estimates could occur in the near term.

Note 6 (In Part): Income Taxes

The net change in the valuation allowance for deferred income tax assets was a decrease of $78,011,000 and $88,960,000 in 1997 and 1996, respectively. The valuation allowance relates primarily to net deductible temporary differences, tax credit carryforwards and net operating loss carryforwards. The Company evaluates a variety of factors in determining the amount of the deferred income tax assets to be recognized pursuant to SFAS No. 109, "Accounting for Income Taxes," including the Company's earnings history, the number of years the Company's operating loss and tax credits can be carried forward, the existence of taxable temporary differences, near-term earnings expectations and the highly competitive nature of the high-technology market. StorageTek is also subject to alternative minimum tax and had approximately $14,700,000 of alternative minimum tax credit carryforwards available as of December 26, 1997. Although realization is not assured, management believes it is more likely than not that all of the net deferred income tax asset will be realized.

Note 7 (In Part): Restructuring And Other Charges

Restructuring

During the fourth quarter of 1995, the Company recorded a restructuring charge of $167,175,000 related to the adoption by the Company of a formal action plan for restructuring its enterprise and network businesses. The restructuring was adopted in an effort to establish a more cost-efficient business structure in response to competition. Elements of the Company's restructuring plan include focusing on core businesses and outsourcing non-strategic activities, rearchitecting its distribution processes and channels, and accelerating the integration of Network Systems Corporation.

Asset writedowns incurred in connection with the restructuring included a charge of approximately $21,310,000 associated with the planned disposal of excess spare parts in connection with the consolidation of maintenance depots; a charge of approximately $19,600,000 primarily

associated with the writedown of manufacturing equipment which will be scrapped or sold; a charge of approximately $18,484,000 associated with goodwill and other investment writedowns on business activities which are being discontinued; a charge of approximately $16,361,000 associated with the shutdown of manufacturing and research facilities; a charge of approximately $10,758,000 associated with excess and obsolete inventories resulting from the decision to discontinue various product lines; and a charge of approximately $5,096,000 associated with other asset writedowns resulting from discontinued business activities.

Charges of approximately $16,660,000 were incurred in connection with the abandonment of real estate leases. Other exit costs of approximately $9,641,000 were incurred primarily as a result of equipment lease terminations and the discontinuation of engineering support agreements.

Reclassifications were made in 1997 and 1996 to reflect revised estimates of the various components of the restructuring. These reclassifications had no effect on the Consolidated Statement of Operations.

Note 8 (In Part): Litigation

The Company believes it has adequate legal defenses with respect to each of the actions cited above and intends to vigorously defend against these actions. However, it is reasonably possible that these actions could result in outcomes unfavorable to the Company. The Company is also involved in various other less significant legal actions. While the Company currently believes that the amount of the ultimate potential loss would not be material to the Company's financial position, the outcome of these actions is inherently difficult to predict. In the event of an adverse outcome, the ultimate potential loss could have a material adverse effect on the Company's financial position or reported results of operations in a particular quarter. An unfavorable decision, particularly in patent litigation, could require material changes in production processes and products or result in the Company's inability to ship products or components found to have violated third-party patent rights.

WHITTAKER CORPORATION (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Assets Held for Sale or Development

Assets held for sale or development at October 31, 1997 and October 31, 1996, include $15.0 million and $29.1 million, respectively, of land formerly used by a discontinued technology unit. The land is located in the City of Santa Clarita, California.

During the fourth quarter of 1997, in connection with its strategy to reduce debt, the Company decided to sell this land and thus recorded a non-cash write-down of $15.7 million dollars to reflect this asset at its estimated fair value. Financial Accounting Standards Board Statement No. 121 ("FAS 121") requires that long-lived assets be reviewed for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. Under the standard, when an impairment write down is required, the related assets are adjusted to their estimated fair value. For purposes of FAS 121, fair value has been determined to be the amount a willing buyer would pay a willing seller for such assets in a current transaction that is other than a forced or liquidation sale.

The cost of environmental remediation of this property is estimated to be approximately $14.0 million and includes grading of the land, direct clean-up costs and legal costs. All of these costs have been considered in estimating the fair value of this asset at October 31, 1997. The Company, at this time, does not anticipate any significant additional costs, above those already recognized, will be incurred for the remediation efforts of this land.

The estimation process involved in determining if assets have been impaired and in the determination of fair value is inherently uncertain since it requires estimates of current market yields as well as future events and conditions. In determining fair value the Company considered, among other things, the range of preliminary purchase prices being discussed with potential buyers and developers as well as estimates of the total cost of environmental remediation.

Vulnerability Due To Certain Concentrations

CIRCUIT CITY STORES, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary Of Significant Accounting Policies

(O) Risks and Uncertainties: The Circuit City Group is the nation's largest retailer of brand-name consumer electronics and major appliances and a leading retailer of personal computers and music software. The diversity of the Circuit City Group's products, customers, suppliers and geographic operations significantly reduces the risk that a severe impact will occur in the near term as a result of changes in its customer base, competition, sources of supply or markets. It is unlikely that any one event would have a severe impact on the Company's operating results.

The CarMax Group is a used- and new-car retail business. The diversity of the CarMax Group's customers and suppliers reduces the risk that a severe impact will occur in the near term as a result of changes in its customer base, competition or sources of supply. The CarMax Group's operations currently are concentrated in the southeastern United States. A severe economic downturn in the southeastern United States could negatively impact the CarMax Group's operating results. Due to the CarMax Group's geographic concentration and limited overall size, management cannot assure that unanticipated events will not have a negative impact on the Company.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent as-

sets and liabilities. Actual results could differ from those estimates.

COMPAQ COMPUTER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Commitments, Contingencies, Financial Instruments and Factors That May Affect Future Operations

Factors that may affect future operations. Compaq participates in a highly volatile industry that is characterized by fierce industry-wide competition for market share. Industry participants confront aggressive pricing practices, continually changing customer demand patterns, growing competition from well-capitalized high technology and consumer electronics companies, and rapid technological development carried out in the midst of legal battles over intellectual property rights. Compaq's operating results could be adversely affected should Compaq be unable to successfully integrate acquired entities, anticipate customer demand accurately, maintain short design cycles while meeting evolving industry performance standards, manage its product transitions, inventory levels and manufacturing processes efficiently, distribute its products quickly in response to customer demand, differentiate its products from those of its competitors or compete successfully in the markets for its new products.

Significant numbers of components are purchased from single sources due to technology, availability, price, quality or other considerations. Key components and processes currently obtained from single sources include certain of Compaq's displays, microprocessors, application specific integrated circuits and other custom chips, and certain processes relating to construction of the plastic housing for Compaq's computers. In addition, new products introduced by Compaq often initially utilize custom components obtained from only one source until Compaq has evaluated whether there is a need for additional suppliers. In the event that a supply of a key single-sourced material process or component were delayed or curtailed, Compaq's ability to ship the related product in desired quantities and in a timely manner could be adversely affected. Compaq attempts to mitigate these risks by working closely with key suppliers on product plans, strategic inventories and coordinated product introductions.

DETROIT DIESEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Commitments, Contingencies And Concentrations

The Company believes it has adequate sources for the supply of raw materials and components for its manufacturing requirements. The Company's suppliers are located primarily in North America and Western Europe. The Company has a policy of strengthening its supplier relationships by concentrating its purchases for particular parts over a limited number of suppliers in order to maintain quality and cost control and to increase the suppliers' commitment to the Company. The Company relies upon, and expects to continue to rely upon, several single source suppliers for critical components.

The Company's primary production facility located in Michigan employs approximately 2,000 employees represented by the International Union, The United Automobile, Aerospace and Agricultural Implement Workers of America, Local 163 under a four-year collective bargaining agreement which expires on August 30, 1998.

DIGITAL EQUIPMENT CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H (In Part): Commitments, contingencies and risk factors

Risk factors - The broad diversity of the Corporation's products, service offerings, customers and geographic operations mitigate the risk that a severe impact will occur in the near term as a result of changes in its customer base, competition, or composition of its markets.

While the Corporation believes that the materials required for its manufacturing operations are presently available in quantities sufficient to meet demand, the failure of a significant supplier to deliver certain components or technical information on a timely basis or in sufficient quantities could adversely affect the Corporation's future results of operations.

EG&G, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Risks and Uncertainties

During 1997, the economic and financial crisis in portions of Asia did not have a material effect on the Company's results of operations or financial position. Sales into and exported from the region, as well as net assets in the region, are not material.

Optoelectronics' future results are dependent on management's ability to restore IC Sensors to break-even in the near term, successful introduction of new products, improvements in manufacturing yields and implementation of cost reductions.

In 1997, 37% of the Company's sales from continuing operations were to U.S. government agencies, predominantly to the Department of Defense and NASA. In accordance with government regulations, all of the Company's government contracts are subject to termination for the convenience of the government. Cost incurred under cost-reimbursable contracts are subject to audit by the government. The results of prior audits, complete through 1993, have not had a material effect on the Company.

Future performance could be impacted by the NASA and Air Force decision to consolidate and recompete the base operations contracts at the Kennedy Space Center, Cape Canaveral Air Station and certain functions at Patrick Air Force Base in an effort to eliminate duplication and reduce costs. It is anticipated that the resultant contract would be effective October 1, 1998. The Company is participating in the recompetition for the new contract

as part of a joint venture with Johnson Controls. The NASA contract at the Kennedy Space Center contributed sales of $168 million in 1997.

The Company's management and operations contracts with the DOE are presented as discontinued operations. The Company's last DOE management and operations contract expired on September 30, 1997. The Company is in the process of negotiating contract closeouts and does not anticipate incurring any material loss in excess of previously accrued amounts.

For information concerning various investigations, claims, legal proceedings, environmental investigations and remedial actions, and notices from the IRS, see Note 13.

FEDDERS CORPORATION (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Risks and uncertainties

Approximately 15% of the Company's employees were covered by a three-year collective bargaining agreement, which expired in August 1997. The Company and the union representing employees of Rotorex were unable to reach agreement prior to the expiration, and the employees covered by the collective bargaining agreement struck. Rotorex continues to operate using temporary replacement workers. The Company believes that this will not have a material adverse effect on its financial condition or results of operations.

Another 34% of the employees are covered by a separate collective bargaining agreement, which expires in October 1998.

L.B. FOSTER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Risks and Uncertainties

The Company's future operating results may be affected by a number of factors. The Company is dependent upon a number of major suppliers. If a supplier had operational problems or ceased making material available to the Company, operations could be adversely affected.

The Company has not had a domestic sheet piling supplier since March 1997. The Company, however, will become Chaparral Steel's exclusive domestic distributor of steel sheet piling when Chaparral Steel's manufacturing facility in Richmond, Virginia, begins operations. Chaparral has announced that this facility should become operational in 1999.

The rail segment of the business depends on one source for fulfilling certain trackwork contracts. The Company has provided working capital for this supplier and a revolving note receivable which total $6,400,000. If, for any reason, this supplier is unable to perform, the Company could experience a negative short-term effect on earnings and liquidity.

The Company is also dependent on the availability of rail cars and welded rail trains to ship its products. The Company has experienced delays in certain projects due to the lack of availability of rail cars. The current merger activity in the railroads has exacerbated this problem. The Company can provide no assurance that a solution to the problem will occur in the near term.

The Company's operations are, in part, dependent on governmental funding of infrastructure projects. Significant changes in the level of government funding of these projects could have a favorable or unfavorable impact on the operating results of the Company.

Additionally, governmental actions concerning taxation, tariffs, the environment or other matters could impact the operating results of the Company.

The Company's operations results may also be affected by adverse weather conditions.

NATIONAL PRESTO INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

J. Concentrations

One customer accounts for 43%, 38%, and 36% of net sales for the years ended December 31, 1997, 1996, and 1995.

Production levels at commercial plants may be affected by vendor failure to deliver tooling, material, and critical parts within commitments. While recent years have witnessed virtual elimination of these circumstances, there is no assurance against recurrence. Deliveries of new products, some of which have been sourced overseas, could be delayed by labor or supply problems at the vendors or in transportation. As a consequence, these products may not be available in sufficient quantities during the prime selling period. While there has been no major incidence of such problems and the Company has made every reasonable effort to prevent occurrence, there is no assurance that such effort will be totally effective.

QUANTUM CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Risks and Uncertainties

The Company's business entails a number of risks. As is typical in the disk drive industry, a significant portion of the Company's customer base is concentrated with a small number of OEMs, and the Company is not able to predict whether there will be any significant change in the demand for its customers' products. The loss of any one of the Company's more significant customers could have a material adverse effect on the Company's results of operations. A limited number of disk and tape drive storage products make up a significant majority of the Company's sales, and due to rapid technological change in the industry, the Company's future depends on its ability to develop and successfully introduce new products. Quantum utilizes a third party, MKE, to manufacture a substantial majority of the products it sells. The Company relies on MKE's ability to bring new products rapidly

to volume production and to meet stringent quality standards. MKE manufactures Quantum's drives in Japan, Singapore, and Ireland. If MKE were unable to satisfy Quantum's production requirements, the Company would not have an alternative source to meet the demand for its products without substantial delay and disruption to its operations. The actual results with regard to warranty expenditures could have a material unfavorable impact on the Company if the actual rate of unit failure or the cost to repair a unit is greater than what the Company has used in estimating the warranty expense accrual. In addition, the Company is also subject to legal proceedings and claims that arise in the ordinary course of its business (refer to Note 13 of the Notes to Consolidated Financial Statements).

RAYTHEON COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies

Risks and Uncertainties
Companies, such as Raytheon, which are engaged in supplying defense-related equipment to the government, are subject to certain business risks peculiar to that industry. Sales to the government may be affected by changes in procurement policies, budget considerations, changing concepts of national defense, political developments abroad, and other factors. As a result of the 1985 Balanced Budget and Emergency Deficit Reduction Control Act, the federal deficit, and changing world order conditions, Department of Defense (DoD) budgets have been subject to increasing pressure resulting in an uncertainty as to the future effects of DoD budget cuts. Raytheon has, nonetheless, maintained a solid foundation of defense systems which meet the needs of the United States and its allies, as well as serving a broad government program base and range of commercial electronics businesses. These factors lead management to believe that there is high probability of continuation of Raytheon's current major defense programs.

The company provides long-term financing principally to its aircraft customers. The company sells receivables, including appliance, general and commuter aviation eligible long-term receivables and eligible engineering and construction and appliance short-term receivables to a bank syndicate and other financial institutions. The banks have recourse against the company, at varying percentages, depending on the character of the receivables sold. The underlying aircraft serve as collateral for the aircraft receivables, and the future resale value of the aircraft is an important consideration in the transaction. Based on the company's experience to date with resale activities and pricing, management believes that any liability arising from these transactions will not have a material effect on the company's financial position, liquidity, or results of operations.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

THE J.M. SMUCKER COMPANY (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies

Risks and Uncertainties
The principal products of the Company are fruit spreads, dessert toppings, peanut butter, industrial fruit products (such as bakery and yogurt fillings) fruit and vegatable juices, juice beverages, syrups, condiments, and gift packages. Within the domestic markets, The Company's products are primarily sold through brokers to chain, wholesale, cooperative, and independent grocery accounts and other consumer markets, and to foodservice distributors and chains including hotels, restaurants, and institutions. Industrial products are typically sold directly to other food manufacturers. The Company's distribution outside the United States is principally in Canada, Australia and the Pacific Rim, and Latin America. The fruit raw materials used by the Company are generally purchased from independent growers and suppliers, although the Company grows some strawberries for its own use. Because of the seasonal nature and volatility of quantities of most of the crops on which the Company depends, it is necessary to prepare and freeze stocks of fruit and fruit juices and to maintain them in cold storage warehouses. The Company believes there is no concentration of risk with any single customers or supplier whose failure or non-performance would materially affect the Company's results. In addition, the Company insures its business and assets in each country against insurable risks in a manner that it deems appropriate. It believes that the risk of loss from non-insurable events would not have a material adverse effect on the Company's operations as a whole.

STEWART & STEVENSON SERVICES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Government Contracts

Major contracts for military systems are performed over extended periods of time and are subject to changes in scope of work and delivery schedules. Pricing negotiations on changes and settlement of claims often extend over prolonged periods of time. The Company's ultimate profitability on such contracts will depend not only upon the accuracy of the Company's cost projections, but also the eventual outcome of an equitable settlement of contractual issues with the U.S. Government.

Revenues and profits realized on the FMTV contract are based on the Company's estimates of total contract sales value and costs at completion. Stewart & Stevenson has incurred significant cost overruns and delivery schedule delays on the FMTV contract which the Company believes are primarily due to the government's decision to delay the testing of trucks and other government directed changes to the contract. The Company has and will continue to submit a series of Re-

quests for Equitable Adjustments or claims, under the FMTV contract, seeking increases in the FMTV contract price for those additional costs that relate to government caused delays and changes. Amounts in excess of agreed upon contract price for government caused delays, disruptions, unpriced change orders and government caused additional contract costs are recognized in contract value when the Company believes it is probable that the claim for such amounts will result in additional contract revenue and the amount can be reasonably estimated.

The Company's FMTV contract accounting position reflects the expected recovery of substantial amounts in excess of the contract price for government caused delays, disruptions, unpriced change orders and other government caused additional contract costs. These claims are in varying stages of negotiations. Although management believes that the FMTV contract provides a legal basis for the claims and that its estimates are based on reasonable assumptions and on a reasonable analysis of the contract costs, the ultimate profitability of the FMTV contract will depend not only on the accuracy of the Company's cost projections but also on the outcome of these claims and other contractual issues. Due to uncertainties inherent in the estimation and claim negotiation process, no assurances can be given that management's estimates will be accurate, and variances between such estimates and actual results could be material. If the Company is unable to recover a substantial portion of the additional costs, previously recognized earnings may be overstated and the Company may suffer a material adverse effect on its operations during the accounting period in which such FMTV contract issues are resolved and future earnings may be recognized at reduced rates.

The funding of the FMTV contract is subject to the inherent uncertainties of congressional appropriations. As is typical of multi-year defense contracts, the FMTV contract must be funded annually by the Department of the Army and may be terminated at any time for the convenience of the government. The Company has received full funding for the FMTV contract. If the FMTV contract is terminated other than for default, the FMTV contract provides for termination charges that will reimburse the Company for allowable costs, but not necessarily all costs.

Note 16: Vulnerability Due To Certain Concentrations

The Company's principal distribution agreements are subject to termination by the suppliers for a variety of causes. Although no assurance can be given that such distribution agreements will be renewed beyond their expiration dates, they have been renewed regularly. The Company's Tactical Vehicle Systems segment's products are generally sold to the U.S. Government. (See Note 7: Government Contracts).

UNITED FOODS, INC. (FEB)

NOTES TO FINANCIAL STATEMENTS

Note 9 (In Part): Commitments And Contingencies

A. Sales And Major Customer

A large part of the Company's sales are made in the retail market and a significant proportion of the retail grocery trade in the United States is concentrated in the hands of national grocery chains. As such, a large part of the Company's revenue is derived from sales to these chains. Sales to one of the Company's customers totaled $22,328,000, $20,977,000 and $21,370,000, representing 11.4%, 10.9% and 11.2% of total Company revenues in 1997, 1996 and 1995, respectively. Competition results in changes in the Company's customer base over time and it is, therefore, possible that the Company may lose one or more of its largest customers over time and, as a result, operations could be materially impacted.

B. Product Procurement And Availability

Crops have seasonal features and availability is subject to unpredictable changes in growing conditions that are inherent in the agriculture industry. The Company bears part of the growing risks and all of the processing and marketing risks associated with its agricultural products. Weather abnormalities and other adverse growing conditions sometimes result in substantial reductions in the annual volumes processed in the Company's plants. When this occurs, the Company may have to procure raw and processed vegetables from alternative sources at higher than expected costs and the reduced volume of vegetables processed in the Company's plants results in increased unit costs. When growing conditions result in yields that exceed expectations, the Company will generally pack only volumes required by anticipated demand through the next pack season. Additionally, selling prices are impacted by industry-wide production and inventory levels. Bumper crops and resulting increased inventory levels will tend to decrease average selling prices, while crop shortages will generally result in increased selling prices.

WOOLWORTH CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 (In Part): Financial Instruments and Risk Management

Business Risk

The retailing business is highly competitive. Price, quality and selection of merchandise, reputation, store location, advertising and customer service are important competitive factors in the Company's business. The Company purchased merchandise and supplies from thousands of vendors worldwide. The Company purchased approximately 25 percent of its 1997 merchandise from one major vendor. The Company considers vendor relations to be satisfactory.

COMMITMENTS

Paragraph 18 of *Statement of Financial Accounting Standards No. 5* requires the disclosure of commitments such as those for capital expenditures or an obligation to restrict dividends. Table 1-12 lists the various commitments disclosed in the annual reports of the survey companies.

Examples of commitment disclosures follow.

TABLE 1-12: COMMITMENTS

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Dividend restrictions	331	332	356	355
Purchase agreements	122	98	99	98
Capital expenditures	89	91	93	88
Additional payments in connection with an acquisition	36	21	33	22
Employment contracts	33	31	37	37
Licensing agreements	21	17	20	N/C
Sales agreements	18	23	13	12
Other-described	48	49	50	54

N/C-Not Compiled.

Obligations to Maintain Working Capital or Restrict Dividends

BARNES GROUP INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands)

5. (In Part): Debt and Commitments

Certain of the company's debt arrangements contain requirements as to maintenance of minimum levels of working capital and net worth, and place certain restrictions on dividend payments and acquisitions of the company's common stock. Under the most restrictive covenant in any agreement, $58,048 was available for dividends or acquisitions of common stock at December 31, 1997.

DONALDSON COMPANY, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D (In Part): Long-Term Debt

Certain note agreements contain debt covenants related to working capital levels and limitations on indebtedness. Further, the company is restricted from paying dividends or repurchasing Common Stock if its tangible net worth (as defined) does not exceed certain minimum levels. At July 31, 1997, under the most restrictive agreement, tangible net worth exceeded the minimum by $71.0 million.

JEFFERSON SMURFIT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. (In Part): Long-Term Debt

The 1994 Credit Agreement contains various business and financial covenants including, among other things, (i) limitations on dividends, redemptions and repurchases of capital stock, (ii) limitations on the incurrence of indebtedness, liens, leases and sale-leaseback transactions, (iii) limitations on capital expenditures, (iv) maintenance of minimum levels of consolidated earnings before depreciation, interest, taxes and amortization and (v) maintenance of minimum interest coverage ratios. The 1994 Credit Agreement also requires prepayments if JSC (U.S.) has excess cash flows, as defined, or receives proceeds from certain asset sales, insurance, issuance of equity securities or incurrence of certain indebtedness.

Purchase Agreements

ADVO, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 (In Part): Commitments and Contingencies

During fiscal 1996, the Company entered into a ten-year agreement with Integrated System Solutions Corporation, now known as IBM Global Services, to provide systems development and technical support to the Company. The contract allows for cancellation after the completion of the third year, subject to termination charges ranging between $3.1 million and $.5 million depending on the year in which the cancellation becomes effective. Total base charges under the term of the agreement since inception through the year 2006 would be $106.0 million. The agreement also provides for the Company to pay a cost of living adjustment due to inflation increases beginning in fiscal 1997. Cost of living adjustments for fiscal 1997 totaled approximately $.3 million. Future commitments for the noncancellable portion of the agreement, excluding termination fees and the cost of living adjustments are $14.9 million and $10.7 million for fiscal years 1998 and 1999, respectively.

BMC INDUSTRIES, INC. (DEC)

NOTED TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

6 (In Part): Commitments

The Company's Vision-Ease subsidiary has entered into a long-term Product Manufacturing and Sales Agreement (the Supply Agreement) with a plastic lens manufacturer located in Southeast Asia. The Supply Agreement provides for the Southeast Asian manufacturer to supply and Vision-Ease to purchase certain minimum levels of

plastic lenses. At December 31, 1997, the approximate future purchase commitments under the Supply Agreement are as follows:

1998	$6,000
1999	7,000
2000	8,500

CHEVRON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Millions of dollars, except per-share amounts)

Note 20 (In Part): Other Contingent Liabilities and Commitments

The company and its subsidiaries have certain contingent liabilities with respect to long-term unconditional purchase obligations and commitments, throughput agreements and take-or-pay agreements, some of which relate to suppliers' financing arrangements. The aggregate amount of required payments under these various commitments are: 1998—$313; 1999—$347; 2000—$289; 2001—$207; 2002—$176; 2003 and after—$752. Total payments under the agreements were $243 in 1997, $177 in 1996 and $173 in 1995.

CONSOLIDATED PAPERS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Other Commitments

The company has agreed to purchase paper mill process steam from the City of Duluth Steam District No. 2 Cooperative Association at a unit cost to be determined based upon operating, maintenance and capital costs of the steam plant. In addition, the company pays an amount equal to the principal and interest requirements on $9.1 million of outstanding Steam Utility Revenue Bonds as of December 31, 1997, which mature at various times through April 1, 2002, and certain other costs, principally capital expenditures. The company paid $2.8 million, $2.8 million and $1.4 million for 1997, 1996 and the six months ended December 31, 1995, to service these bonds. Annual payments for the principal and interest portion of these bonds are expected to be $2.8 million in 1998 through 2001, with a final payment of $0.7 million in 2002.

As of December 31, 1997, the company had capital expenditure commitments outstanding of approximately $131 million.

THE DOW CHEMICAL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS
(In millions, except for share amounts)

Q (In Part): Commitments and Contingent Liabilities

A Canadian subsidiary has entered into two 20-year agreements, which expire in 1998 and 2004, to purchase ethylene. The purchase price is determined on a cost-of-service basis which, in addition to covering all operating expenses and debt service costs, provides the owner of the manufacturing plants with a specified return on capital. Total purchases under the agreements were $199, $221 and $204 in 1997, 1996 and 1995, respectively.

At December 31, 1997, the Company had various outstanding commitments for take or pay and throughput agreements, including the Canadian subsidiary's ethylene contracts, for terms extending from one to 25 years. In general, such commitments were at prices not in excess of current market prices.

Fixed and Determinable Portion of Take or Pay and Throughput Obligations	
1998	$ 215
1999	179
2000	168
2001	157
2002	148
2003 through expiration of contracts	1,270
Total	$2,137

In addition to the take or pay obligations at December, 31, 1997, the Company had outstanding purchase commitments which range from one to 18 years for steam, electrical power, materials, property, and other items used in the normal course of business of approximately $178. In general, such commitments were at prices not in excess of current market prices. The Company also had outstanding direct and indirect commitments for construction performance and lease payment guarantees and other obligations of $226.

HARRAH'S ENTERTAINMENT, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Agreement to Acquire Showboat, Inc.

During December 1997, Harrah's and Showboat, Inc. ("Showboat") entered into a definitive agreement whereby Harrah's agreed to acquire Showboat for $30.75 per share in an all-cash transaction valued at $519 million (net of options proceeds), and assume $635 million in Showboat debt. The acquisition will be accounted for as a purchase. Accordingly, the purchase price will be allocated to the underlying assets and liabilities based upon their estimated fair values at the date of acquisition. The transaction is expected to be completed during second quarter 1998, subject to various conditions including regulatory approvals, Showboat stockholder approval and other third party approvals.

Showboat owns and operates casinos in Atlantic City, New Jersey, and Las Vegas, Nevada. It manages and is the largest single shareholder of the Star City casino in Sydney, New South Wales, Australia. Showboat also beneficially owns 55% of the Showboat Mardi Gras Casino in East Chicago, Illinois.

LOUISIANA-PACIFIC CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

9 (In Part): Commitments

L-P is obligated to purchase timber under certain cutting contracts which extend to 2002. L-P's best estimate of its commitment at current contract rates under these contracts is approximately $20.2 million for approximately 113 million board feet of timber.

MEDIA GENERAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Commitments and Contingencies

The Company entered into a stock redemption agreement in 1985, which was amended in 1988, and 1994, with Mr. D. Tennant Bryan, former Chairman of the Executive Committee of the Board of Directors. The amended agreement provides that upon Mr. Bryan's death, his estate has the option to sell and the Company has a separate option to buy the lesser of (a) 15% of the Company's Class A stock owned by Mr. Bryan at his death and (b) a sufficient number of shares of Class A stock to fund estate taxes and certain other expenses. The purchase price for each share redeemed under the amended agreement will equal 90% of the average daily closing price for a share of Class A stock during the 91 days preceding the date that is 30 days after the date of death. If the Company or the estate had exercised an option, respectively, to buy or sell, the maximum cost to the Company of the redemption would have approximated $12 million at December 28, 1997.

SUN COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Commitments and Contingent Liabilities

A wholly owned subsidiary of the Company is a one-third partner in Belvieu Environmental Fuels ("BEF"), a joint venture formed for the purpose of constructing, owning and operating a $225 million methyl tertiary butyl ether ("MTBE") production facility in Mont Belvieu, Texas. The facility was completed in 1995.

In order to obtain a secure supply of oxygenates for the manufacture of reformulated gasoline, Sun entered into an off-take agreement with BEF whereby Sun agreed to purchase all of the MTBE, production from the plant. For the first 14,000 barrels daily of production, Sun agreed to pay BEF prices through May 1997 based on the market value of MTBE feedstocks (methanol and butane) plus a fixed amount per gallon (the "formula price"), and thereafter through May 2000 based on the then-existing MTBE prices per gallon in the contract market (the "contract market price"). However, the price to be paid by Sun for the first 12,600 barrels daily of MTBE production through May 2000, at a minimum, will equal the sum of BEF's annual raw material and operating costs associated with the production plus BEF's debt service payments (collectively, the "minimum price") if the minimum price per gallon exceeds the applicable formula or contract market price. After May 2000, Sun and BEF will negotiate a new price for the last four years of the agreement based upon the market conditions existing at that time.

Sun's total MTBE purchases under this agreement were $235, $214 and $150 million during 1997, 1996 and 1995, respectively. Such amounts were based upon the formula price through May 1997 and the minimum price for the remainder of 1997. The formula prices paid by Sun during most of 1996 were believed to have approximated prices of other MTBE long-term sales agreements in the marketplace. However, management believes that the contract market changed in the latter part of 1996 as feedstock-plus-fixed-priced contracts expired and were replaced by spot-market-price-based contracts, which have been more favorable to the purchaser. Management also believes that the spot market for MTBE had developed by the latter part of 1996. During the fourth quarter of 1996, spot market prices for MTBE were less than the prices paid by Sun under the off-take agreement with BEF. At that time, the Company expected this adverse relationship to continue into the future. Accordingly, a $130 million accrual ($85 million after tax) was established at December 31, 1996 for the estimated losses expected to be realized with respect to this agreement. During 1997, actual MTBE purchase costs in excess of market prices totalling $65 million were charged against the accrual.

Capital Expenditures

STONE CONTAINER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 (In Part): Commitment and Contingencies

At December 31, 1997, the Company had commitments outstanding for capital expenditures under purchase orders and contracts of approximately $26 million.

MEREDITH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Commitments and Contingent Liabilities

Construction of a new Des Moines office building is underway, which will allow the consolidation of all Des Moines employees in a central location. The cost of the building and related improvements is currently estimated to be $42 million, excluding capitalized interest. At

June 30, 1997, the company had incurred capital expenditures of approximately $18 million, excluding capitalized interest. Construction is expected to be completed in fiscal 1998. The broadcasting segment expects to spend a total of $20 to $25 million over the next three fiscal years for new and remodeled facilities, the transition to digital technology at four of its television stations (by November 1999) and other costs associated with the introduction or expansion of news programming at five stations. Further expenditures for the transition to digital technology are anticipated in later fiscal years as the remaining stations convert. Meredith also has commitments to spend approximately $8 million for replacement aircraft and $7 million for computer systems over the next two years.

STANDARD COMMERCIAL CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Commitments and Contingencies

The Company has commitments for capital expenditures of approximately $17.4 million, all of which are expected to be incurred in fiscal 1998.

Additional Payments Related to Acquisitions

FIRST DATA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Other Business Combinations and Asset Acquisitions

The terms of certain of the Company's acquisition agreements provide for additional consideration to be paid if the acquired entity's results of operations exceed certain targeted levels. Targeted levels are generally set substantially above the historical experience of the acquired entity at the time of acquisition. Such additional consideration is paid in cash and with shares of the Company's common stock, and is recorded when earned as additional purchase price. Additional consideration was paid totaling $2.7 million in 1997; $26.6 million in 1996 (including 0.5 million shares of common stock valued at $21.0 million), and $10.0 million in 1995. The maximum amount of remaining contingent consideration is $105.6 million (payable through 2001).

LA-Z-BOY INCORPORATED (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Contingencies

The former England/Corsair shareholders were given the opportunity to receive additional Company common stock based on England/Corsair's actual profit performance in each of the two years following acquisition. Approximately $2 million of common stock will be issued in the first quarter of fiscal year 1998 relating to fiscal year 1997 performance. Goodwill will be increased by the value of the common stock issued.

THORN APPLE VALLEY, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Acquisition

On May 30, 1995, the Company purchased certain assets from Foodbrands America, Inc. and its subsidiaries ("Foodbrands"). The Company acquired substantially all of Foodbrands' Retail Division ("Wilson") assets used by Wilson in its business of producing and marketing retail meat products. The aggregate purchase price for the assets acquired and the assumption of certain liabilities was approximately $64.6 million. During the next five years, Foodbrands has the right to receive from the Company up to an additional $10 million in accordance with what is being referred to as an Earnout Agreement, in the event of increases in the market price of the Company's common stock. No amounts have been paid to Foodbrands under the Earnout Agreement. The acquisition has been accounted for by the purchase method. The acquired assets included three manufacturing facilities, machinery and equipment, current assets, and certain trademarks and tradenames. The tradenames and trademarks acquired will be amortized to expense over their estimated useful lives, determined to be 40 years. The results of operations of the Company for the 53-week period ending May 31, 1996 reflect a full year of operation related to the acquired Wilson assets.

Employment Contracts

B/E AEROSPACE, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

10 (In Part): Commitments and Contingencies

Employment Agreements

The Company has employment and compensation agreements with two key officers of the Company. One of the agreements provides for an officer to earn a minimum of $450 adjusted annually for changes in the consumer price index (as defined) per year through 2002, as well as a deferred compensation benefit equal to the aggregate annual compensation earned through termination and payable thereafter. Such deferred compensation will be payable in equal monthly installments over the same number of years it was earned. The other agreement provides for an officer to receive annual minimum compensation of $450, and an incentive bonus not to exceed 100% of the officer's then-current salary through 2001. In addition, if the officer terminates his employment after April 28, 1996, the Company is obligated to pay the officer annually, as deferred compensation, an amount equal to 100% of the officer's annual salary (as defined) for a period of ten years from the date of termi-

nation. Such deferred compensation has been accrued at the present value of the obligation at February 22, 1997.

The Company has other employment agreements with certain key members of management that provide for aggregate minimum annual base compensation of $1,825, expiring on various dates through 1999.

EKCO GROUP, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

13 (In Part): Commitments and Contingencies

Employment Contracts

The Company has employment agreements and arrangements with its executive officers and certain management personnel. The agreements generally continue until terminated by the executive or the Company, and provide for severance payments under certain circumstances. The majority of the agreements and arrangements provide the employees with certain additional rights after a Change of Control (as defined) of the Company occurs. A portion of the Company's obligations under certain agreements are secured by letters of credit. The agreements include a covenant against competition with the Company, which extends for a period of time after termination for any reason. As of December 28, 1997, if all of the employees under contract were to be terminated by the Company without good cause (as defined) under these contracts, the Company's liability would be approximately $4.3 million ($7.5 million following a Change of Control).

Severance Policy

The Board of Directors of the Company has adopted a severance policy for all exempt employees of the Company. In the event of a Change of Control (as defined), each exempt employee of the Company whose employment is terminated, whose duties or responsibilities are substantially diminished, or who is directed to relocate within 12 months after such Change of Control, will receive, in additional to all other severance benefits accorded to similarly situated employees, salary continuation benefits for a period of months determined by dividing his or her then yearly salary by $10,000, limited to not more than 12 months. This policy does not apply to any exempt employee of the Company who is a party to a contractual commitment with the Company which provides him or her with greater than 12 months salary, severance payment or salary continuation upon his or her termination in the event of a Change of Control. This policy may be rescinded at any time by the Company's Board of Directors prior to a Change of Control.

HON INDUSTRIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shareholders' Equity and Earnings Per Share (In Part):

The Company has entered into change in control employment agreements with corporate officers and certain other key employees. According to the agreements, a change in control occurs when a third person or entity becomes the beneficial owner of 20% or more of the Company's common stock or when more than one-third of the Company's Board of Directors is composed of persons not recommended by at least three-fourths of the incumbent Board of Directors. Upon a change in control, a key employee is deemed to have a two-year employment with the Company, and all his or her benefits are vested under Company plans. If, at any time within two years of the change in control, his or her position, salary, bonus, place of work, or Company-provided benefits are modified, or employment is terminated by the Company for any reason other than cause or by the key employee for good reason, as such terms are defined in the agreement, then the key employee is entitled to receive a severance payment equal to two times salary and the average of the prior two years' bonuses.

Licensing Agreements

HASBRO, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Thousands of Dollars, Except Share Data)

15 (In Part): Commitments and Contingencies

The Company routinely enters into license agreements with inventors, designers and others for the use of intellectual properties in its products. Certain of these agreements contain provisions for the payment of guaranteed or minimum royalty amounts. Under terms of currently existing agreements, in certain circumstances the Company may be required to pay guaranteed or minimum royalties of up to $500,000 between 1998 and 2005.

STANHOME INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Commitments and Contingencies

The Company and its subsidiaries have entered into various licensing agreements requiring royalty payments ranging from 1.5% to 16% of specified product sales. Royalty expenses which are charged to cost of sales under these licensing agreements totaled $32,600,000 in 1997, $34,000,000 in 1996 and $30,800,000 in 1995. Pursuant to the various licensing agreements, the future minimum guaranteed royalty payments are $16,100,000 in 1998, $16,500,000 in 1999 and $15,600,000 in 2000.

Sale of Assets or Products

GEORGIA GULF CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Significant Customer and Export Sales

Significant Customer
The Company has supply contracts, subject to certain limitation, for a substantial percentage of Georgia-Pacific Corporation's requirements for certain chemicals at prices approximating market. These supply contracts have various expiration dates (depending on the product) from 1998 through 2003 and may be extended year-to-year upon expiration. The sales to Georgia-Pacific Corporation under these supply contracts for the years ended December 31, 1997, 1996 and 1995 amounted to approximately 12 percent, 15 percent, and 14 percent of net sales, respectively. Receivables outstanding from these sale were $11,807,000 and $11,226,000 at December 31, 1997 and 1996, respectively.

Investments

CABOT CORPORATION (SEP)

NOTES TO FINANCIAL STATEMENTS

Note L (In Part): Commitment & Contingencies

Other Long-Term Commitments
During 1997, the Company entered into a contractual arrangement in an effort to recover valuable tantalum ore. The Company is committed to pay approximately $20 million with respect to this project, and expects to pay the majority of this in the first half of 1998.

During 1995, the Company entered into long-term supply agreements of more than six years with certain North American tire customers. The contracts are designed to provide such customers with agreed-upon amounts of carbon black at prices based on an agreed-upon formula.

Also during 1995, the Company agreed to participate as a 10% owner in a proposed liquefaction plant in Trinidad, and to purchase approximately 60 percent of the natural gas produced by the plant. Once the plant is operational, it is estimated that it will produce 3.3 trillion cubic feet of natural gas over a period of 20 years. At September 30, 1997, the Company's investments in this project was approximately $7.8 million and is included in other investments on the balance sheet. Natural gas from the project is not expected to be available until fiscal year 1999.

FINANCIAL INSTRUMENTS

The Financial Accounting Standards Board has issued 3 statements concerning financial instruments. *SFAS No. 105* requires reporting entities to disclose certain information about financial instruments with off-balance sheet risk of accounting loss. *SFAS No. 107* requires reporting entities to disclose the fair value of financial instruments. *SFAS No. 119* requires reporting entities to disclose certain information for derivative financial instruments. *SFAS No. 133*, which effective for fiscal years beginning after June 15, 1999, supersedes *SFAS No. 105* and *SFAS No. 119* and amends *SFAS No. 107* to include in *SFAS No. 107* the disclosure requirements of credit risk concentrations from *SFAS No. 105*.

Table 1-13 lists the off-balance-sheet financial instruments most frequently disclosed in the financial statements of the survey companies. Many survey companies disclosed fair value information for foreign currency contracts and interest rate contracts. Frequently the fair value information stated that the fair value of these contracts approximated the amount at which they were recorded in the financial statements or that the fair value was the amount payable or receivable upon contract termination. Other bases disclosed for determining fair value were market or broker quotes. Occasionally the survey companies disclosed fair value information for commodity contracts, loan commitments, and receivables sold with recourse.

Examples of fair value disclosures for financial instruments and of disclosures for concentration of credit risk follow.

TABLE 1-13: FINANCIAL INSTRUMENTS

	Number of Companies			
	1997	1996	1995	1994
Foreign currency contracts	289	285	294	294
Interest rate contracts	231	225	231	235
Commodity contracts	72	81	74	79
Guarantees:				
Debt	101	104	112	108
Lease payments	28	27	36	37
Contract performance	24	21	18	24
Support agreements	13	13	13	11
Other	25	34	23	21
Letters of credit	177	183	170	149
Sale of receivables with recourse	33	61	78	75

DERIVATIVE FINANCIAL INSTRUMENTS

AMERADA HESS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Hedging: The Corporation uses futures, forwards, options and swaps to hedge the effects of fluctuations in the prices of crude oil, natural gas and refined products

and changes in interest rates and foreign currency values. These transactions meet the requirements for hedge accounting, including designation and correlation. The resulting gains or losses, measured by quoted market prices, termination values or other methods, are accounted for as part of the transactions being hedged, except that losses not expected to be recovered upon the completion of hedged transactions are expensed. On the balance sheet, deferred gains and losses are included in current assets and liabilities.

Trading: The results of commodity trading activities are marked to market, with gains and losses recorded in operating revenue.

12. Financial Instruments, Hedging and Trading Activities

The Corporation uses futures, forwards, options and swaps, individually or in combination, to reduce the effects of fluctuations in crude oil, natural gas and refined product prices. In addition, the Corporation uses interest rate conversion agreements to fix the interest rates on a portion of its long-term, floating-rate debt. Foreign currency contracts are used to protect the Corporation from changes in exchange rates.

Commodity Hedging: At December 31, 1997, the Corporation's hedging activities included commodity and financial contracts maturing mainly in 1998, covering 11,800,000 barrels of crude oil and refined products (17,200,000 barrels in 1996) and 9,300,000 Mcf of natural gas (24,300,000 Mcf in 1996). Of the crude oil and refined product hedges, 7,300,000 barrels related to exploration and production activities (6,900,000 barrels in 1996), and the remainder related to refining and marketing operations.

The Corporation produced 80,000,000 barrels of crude oil and natural gas liquids and 207,000,000 Mcf of natural gas in 1997, and had approximately 41,000,000 barrels of crude oil and refined products in its refining and marketing inventories at December 31, 1997. Since the contracts described above are designated as hedges and correlate to price movements of crude oil, natural gas and refined products, any gains or losses resulting from market changes will be offset by losses or gains on the Corporation's hedged inventory or production. Net deferred gains from the corporation's hedging activities were approximately $22,000,000 at December 31, 1997, including $17,000,000 of unrealized gains.

Financial Instruments: At December 31, 1997, the Corporation has $300,000,000 in interest rate conversion agreements outstanding (none at December 31, 1996). The Corporation has $179,150,000 of notional value foreign currency forward and purchased option contracts maturing generally in 1998 ($270,300,000 at December 31, 1996) and $38,800,000 in letters of credit outstanding ($37,000,000 at December 31, 1996). Notional amounts do not quantify risk or represent assets or liabilities of the Corporation, but are used in the calculation of cash settlements under the contracts.

Fair Value Disclosure: The carrying amounts of cash and cash equivalents, short-term debt and long-term, variable-rate debt approximate fair value. The Corporation estimates the fair value of its long-term, fixed-rate debt generally using discounted cash flow analysis based on the Corporation's current borrowing rates for debt with similar maturities. Interest rate conversion agreements and foreign currency exchange contracts are valued based on current termination values or quoted market prices of comparable contracts. The Corporation's valuation of commodity contracts considers quoted market prices, time value, volatility of the underlying commodities and other factors.

The carrying amounts of the Corporation's financial instruments and commodity contracts, including those used in the Corporation's hedging activities, generally approximate their fair value at December 31, except as follows:

	1997		1996	
	Balance sheet amount	Fair value	Balance sheet amount	Fair value
Millions of dollars, asset (liability)				
Long-term, fixed-rate debt	$(1,091)	$(1,194)	$(1,279)	$(1,379)
Interest rate conversion agreements	—	(4)	—	—
Foreign currency exchange agreements and options	—	4	—	18

Market and Credit Risks: The Corporation's financial instruments expose it to market and credit risks and may at times be concentrated with certain counterparties or groups of counterparties. Counterparties to the Corporation's financial instruments are major financial institutions and their credit worthiness is subject to continuing review, however, full performance is anticipated.

Commodity Trading: The Corporation, principally through a consolidated partnership formed in 1997, trades energy commodities, including futures, forwards, options and swaps, based on expectations of future market conditions. The Corporation's 1997 net income from trading activities, including its share of the results of the trading partnership, was approximately $4,000,000.

The following table presents the year-end fair values of energy commodities and derivative instruments used in trading activities and the average aggregate fair values during the year.

	Fair Value	
Millions of dollars, asset (liability)	At December 31, 1997	Average for 1997
Commodities	$33	$21
Futures and forwards		
Assets	20	13
Liabilities	(14)	(9)
Options		
Held	(4)	(2)
Written	6	1
Swaps		
Assets	3	4
Liabilities	(1)	(1)

Notional amounts of commodities and derivatives relating to trading activities follow:

Millions of barrels of oil equivalent	At December 31, 1997
Commodities	2
Futures and forwards—Long	26
—Short	(28)
Options —Held	8
—Written	(10)
Swaps* —Long	7
—Short	(9)

*Includes 4 million barrels long and 6 million barrels short related to basis swaps.

ANHEUSER-BUSCH COMPANIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Derivative Financial Instruments

All derivative instruments held by the company are designated as hedges, have high correlation with the underlying exposure and are highly effective in offsetting underlying price movements. Accordingly, gains and losses from changes in derivative fair values are deferred. Gains or losses upon settlement of derivative positions when the underlying transaction occurs are recognized in the income statement or recorded as part of the underlying asset or liability, as appropriate depending on the circumstances. Gains and losses upon settlement of derivative positions because the underlying transaction is no longer expected to occur are recognized in earnings in the period incurred. Option premiums paid are recorded as assets and amortized over the life of the option. Excluding certain interest rate swaps, derivatives generally have initial terms of less than two years and all currently hedged transactions are expected to occur within the next two years. See Note 4 for additional information.

4 (In Part): Financial Instruments

The company currently uses the following derivative financial instruments: purchased options and forward contracts for foreign currency risk; swaps for interest rate risk; and futures, swaps and purchased options for commodity price risk. All derivatives are off-balance-sheet and therefore have no carrying value. Because the company hedges only with instruments that have high correlation with the underlying transaction pricing, changes in derivatives fair value are expected to be offset by changes in pricing.

The following table summarizes the underlying notional transaction amounts and fair values for outstanding derivatives, by risk category and instrument type, at December 31 (in millions):

	1997		1996	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Foreign Currency:				
Forwards	$ 75.7	$ (1.1)	$ 35.3	$ .2
Options	265.5	15.3	209.2	9.9
	341.2	14.2	244.5	10.1
Interest Rate:				
Swaps	425.2	(49.8)	487.4	(12.5)
Commodity Price:				
Swaps	140.5	(2.9)	105.2	5.7
Futures	22.9	(.4)	37.1	2.5
Options	5.6	—	68.3	(1.5)
	169.0	(3.3)	210.6	6.7
Total of outstanding derivatives	$935.4	$(38.9)	$942.5	$4.3

The interest rate swap and currency exchange agreements related to the dual-currency notes discussed in Note 8 are included as interest rate swaps in the preceding table. These agreements are entered into as an integral part of an overall structure with the dual-currency notes to provide the company with floating-rate financing at rates below market rates for commercial paper.

Because the company has operations in Japan and the United Kingdom, it has "long" exposure to the yen and the pound, respectively. The company's exposures to other currencies are essentially "short," primarily for the German mark. Long indicates the company has foreign currency in excess of its needs while short indicates the company requires additional foreign currency to meet its needs. For commodity derivatives, as a net user of raw materials, the company's underlying exposure is naturally short, indicating additional quantities must be obtained to meet anticipated production requirements.

ASHLAND INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Derivative Instruments

Ashland selectively uses commodity futures contracts to reduce its exposure to certain risks inherent within its refining business. Such contracts are used principally to hedge the value of intransit crude oil cargoes, hedge exposure under fixed-price sales contracts, obtain higher prices for crude oil sales, protect against margin compression caused by increasing crude oil prices, take advantage of attractive refining margins and lock in prices on a portion of the natural gas fuel needs of the refineries. Realized gains and losses on these contracts are included in cost of sales in the original contract month, with amounts paid or received on early terminations deferred

on the balance sheet in other current assets or trade and other payables, as appropriate (the deferral method). In addition, commodity futures contracts are used as an alternate method of obtaining or selling crude oil and petroleum products to balance physical barrel activity. These contracts are marked-to-market each month and included in accounts receivable, with the offsetting unrealized gain or loss included in cost of sales (the fair value method).

Ashland uses forward exchange contracts to hedge foreign currency transaction exposures of its operations. These contracts are marked-to-market each month and included in trade and other payables, with the offsetting gain or loss included in other revenues (the fair value method).

Ashland uses interest rate swap agreements to obtain greater access to the lower borrowing costs normally available on floating-rate debt, while minimizing refunding risk through the issuance of long-term, fixed-rate debt. Each interest rate swap agreement is designated with all or a portion of the principal balance and term of a specific debt obligation. These agreements involve the exchange of amounts based on a fixed interest rate for amounts based on variable interest rates over the life of the agreement, without an exchange of the notional amount upon which the payments are based. The differential to be paid or received as interest rates change is accrued and recognized as an adjustment of interest expense related to the debt (the accrual method). The related amount payable to or receivable from counterparties is included in trade and other payables. The fair values of the swap agreements are not recognized in the financial statements. Gains and losses on terminations of interest rate swap agreements are deferred on the balance sheet (in other long-term liabilities) and amortized as an adjustment to interest expense related to the debt over the remaining term of the original contract life of the terminated swap agreement.

Note G–Financial Instruments

Commodity and foreign currency hedges

Ashland uses commodity futures contracts and forward exchange contracts to reduce its exposure to certain risks inherent within its businesses as described in Note A. The fair value of open commodity and foreign exchange contracts was not significant at September 30, 1997, and 1996.

Interest rate swaps

Ashland uses interest rate swap agreements to obtain greater access to the lower borrowing costs normally available on floating-rate debt, while minimizing refunding risk through the issuance of long-term, fixed-rate debt. At September 30, 1997, Ashland had unleveraged swap agreements with a notional principal amount of $370 million. These agreements were used to convert fixed rates on certain debt, including the 8.80% debentures and various medium-term notes, to variable rates. The variable rates are generally adjusted quarterly or semiannually based on London Interbank Offered Rates (LIBOR), but may be fixed for longer terms using forward rate agreements. Notional amounts do not quantify risk or represent assets or liabilities of Ashland, but are used in the determination of cash settlements under the agreements. Ashland is exposed to credit losses from counterparty nonperformance, but does not anticipate any losses from its agreements, all of which are with major financial institutions.

At September 30, 1997, Ashland was receiving a weighted-average fixed interest rate of 6.0% and paying a weighted-average variable interest rate of 5.9%, calculated on the notional amount. Interest expense was reduced by $2 million in 1997 and 1996 and an insignificant amount in 1995 resulting from settlements under these agreements. Under its current swap agreements, Ashland's annual interest expense in 1998 will change by about $4 million for each 1% change in LIBOR. The terms remaining on Ashland's swaps range from 4 to 80 months, with a weighted-average remaining life of 27 months.

The carrying amounts and fair values of Ashland's significant financial instruments, including interest rate swaps, at September 30, 1997, and 1996, are shown below. The fair values of cash and cash equivalents and notes payable to financial institutions approximate their carrying amounts. The fair values of investments of captive insurance companies are based on quoted market prices plus accrued interest. The fair values of long-term debt are based on quoted market prices or, if market prices are not available, the present values of the underlying cash flows discounted at Ashland's incremental borrowing rates. The fair values of interest rate swaps are based on quoted market prices, which reflect the present values of the difference between estimated future variable-rate payments and future fixed-rate receipts.

	1997		1996	
(In millions)	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	$268	$268	$77	$77
Investments of captive insurance companies	189	189	178	178
Interest rate swaps	—	1		
Liabilities				
Notes payable to financial institutions	35	35	117	117
Long-term debt (including current portion)	1,697	1,864	1,870	2,024
Interest rate swaps			—	4

BROWN GROUP, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Financial Instruments

The Company's policy generally is to use financial derivatives only to manage exposure to fluctuations in interest and foreign currency exchange rates.

Gains and losses realized and premiums paid on interest rate hedges and foreign currency options, are deferred and amortized to interest expense over the life of the underlying hedged instrument, or immediately if the underlying hedged instrument is settled.

Gains and losses on contracts that hedge specific foreign currency commitments, which are primarily for inventory purchases, are deferred and included in the basis of the transaction when it is consummated. Material gains and losses on forecasted inventory purchases are recorded in income in the period the value of the contract changes. Gains and losses on contracts which hedge foreign currency assets or liabilities in highly inflationary economies, or that are designed to protect earnings, are recognized in income as incurred.

Note 11: Financial Instruments

The Company utilizes derivative financial instruments to reduce its exposure to market risks from changes in interest rates and foreign exchange rates. The instruments primarily used are foreign exchange contracts, foreign currency options, interest rate swaps, and interest rate futures. The Company is exposed to credit related losses in the event of nonperformance by counterparties to these financial instruments; however, counterparties to these agreements are major international financial institutions, and the risk of loss due to nonperformance is believed to be minimal.

The Company enters into foreign exchange contracts to hedge foreign currency transactions on a continuous basis for periods consistent with its committed exposures. The terms of these exchange contracts are generally less than a year. The primary purpose of the foreign currency hedging activities is to protect the Company from the risk that the eventual cash outflows resulting from the purchases of inventory from foreign suppliers will be adversely affected by changes in exchange rates. In addition, the Company also hedges certain foreign currency assets and liabilities through the use of non-deliverable foreign exchange contracts, and at the end of 1997 owned a $6.9 million notional foreign exchange contract which is designed to protect the realizable value of inventories at the Company's Brazilian subsidiary in the event of a major devaluation in the Brazilian economy. This forward contract does not qualify as a hedge for financial reporting purposes.

The United States dollar equivalent of contractual amounts of the Company's forward exchange contracts consists of the following (in thousands):

	January 31, 1998	February 1, 1997
Deliverable Contracts		
Italian Lira	$11,700	$21,400
French Francs	9,100	9,600
Canadian Dollars	7,000	6,300
Other Currencies	1,500	2,000
Non-Deliverable Contracts		
Brazilian Real	13,100	22,100
New Taiwanese Dollars	7,400	7,200
Other Currencies	2,700	1,900
	$52,500	$70,500

The unrealized gains related to these contracts, based on dealer-quoted prices, were $.1 million at January 31, 1998 and $.3 million at February 1, 1997.

Realized gains and losses on foreign exchange contracts used as hedges of inventory purchases are included in the basis of the inventory and are recognized in income as a component of cost of goods sold in the period in which the related inventory is sold. Material gains and losses on foreign exchange contracts hedging forecasted purchases are recorded in income in the period the value of the contracts change. Gains and losses on foreign exchange contracts which hedge foreign currency assets or liabilities in highly inflationary economies, or that are designed to protect earnings, are recognized in income as incurred.

The Company had no interest rate derivative instruments outstanding at January 31, 1998 and February 1, 1997.

THE COASTAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Hedges

The Company frequently enters into swaps, futures and other contracts to hedge the price risks associated with inventories, commitments and certain anticipated transactions. The Company defers the impact of changes in the market value of these contacts until such time as the hedged transaction is completed. At that time, the impact of the changes in the fair value of these contracts is recognized in income. The Company also enters into interest rate and foreign currency swaps to manage interest rates and foreign currency risk. Income and expense related to interest rate swaps is accrued as interest rates change and is recognized in income over the life of the agreement. Gains or losses from foreign currency swaps are deferred and are recognized as payments are made on the related foreign currency denominated debt. Such gains and losses are essentially offset by gains or losses on the related debt.

To qualify as a hedge, the item to be hedged must expose the Company to price, interest rate or foreign currency exchange rate risk and the hedging instrument must reduce that exposure. Any contracts held or issued that do not meet the requirements of a hedge are recorded at fair value in the balance sheet and any changes in that fair value recognized in income. If a contract designated as a hedge of price risk or foreign currency exchange risk is terminated, the associated gain or loss is deferred and recognized in income in the same manner as the hedged item. Also, a contract designated as a hedge of an anticipated transaction that is no longer likely to occur is recorded at fair value and the associated changes in fair value recognized in income. The gain or loss associated with a terminated interest rate swap that has been designated as a hedge of interest rate risk will continue to be recognized in interest and debt expense over the life of the agreement.

Note 7. Financial Instruments and Risk Management

The Company's operations involve managing market risks related to changes in interest rates, foreign exchange rates and commodity prices. Derivative financial

instruments, specifically swaps and other contracts, are used to reduce and manage those risks. The Company does not currently hold or issue financial instruments for trading purposes.

Interest Rate Swaps

The Company has entered into a number of interest rate swap agreements designated as a partial hedge of the Company's portfolio of variable rate debt. The purpose of these swaps is to fix interest rates on variable rate debt and reduce certain exposures to interest rate fluctuations. At December 31, 1997, the Company had interest rate swaps with a notional amount of $22.1 million, and a portfolio of variable rate debt outstanding in the amount of $1,518 million. Under these agreements, Coastal will pay the counterparties interest at a weighted average fixed rate of 6.68%, and the counterparties will pay Coastal interest at a variable rate equal to LIBOR. The weighted average LIBOR rate applicable to these agreements was 6.11% at December 31, 1997. The notional amounts do not represent amounts exchanged by the parties, and thus are not a measure of exposure of the Company. The amounts exchanged are normally based on the notional amounts and other terms of the swaps. The weighted average variable rates are subject to change over time as LIBOR fluctuates. Terms expire at various dates through the year 2000.

Neither the Company nor the counterparties, which are prominent bank institutions, are required to collateralize their respective obligations under these swaps. Coastal is exposed to loss if one or more of the counterparties default. At December 31, 1997, Coastal had no exposure to credit loss on interest rate swaps. The Company does not believe that any reasonably likely change in interest rates would have a material adverse effect on the financial position, the results of operations or cash flows of the Company. All interest rate and currency swaps are reviewed with, and, when necessary, are approved by the Company's Board of Directors.

Other Derivatives

The Company and its subsidiaries also frequently enter into swaps and other contracts to hedge the price risks associated with inventories, commitments and certain anticipated transactions. The swaps and other contracts are with established energy companies and major financial institutions. The Company believes its credit risk is minimal on these transactions, as the counterparties are required to meet stringent credit standards. There is continuous day-to-day involvement by senior management in the hedging decisions, operating under resolutions adopted by each subsidiary's board of directors.

Fair Value of Financial Instruments

The estimated fair value amounts of the Company's financial instruments have been determined by the Company, using appropriate market information and valuation methodologies. Considerable judgment is required to develop the estimates of fair value; thus, the estimates provided herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

	Dec. 31, 1997		Dec. 31, 1996	
Millions of dollars	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Nonderivaties:				
Financial assets:				
Cash and cash equivalents	$ 20.5	$ 20.5	$ 106.3	$ 106.3
Notes receivable	222.3	241.1	206.5	219.7
Investments	56.8	56.8	—	—
Financial liabilities:				
Short-term debt	114.0	114.0	105.0	105.0
Long-term debt	3,705.2	4,024.0	3,534.1	3,879.8
Preferred stock - issued by subsidiaries	100.0	100.0	100.0	101.3
Derivatives relating to:				
Commodity swaps loss	—	—	—	(44.3)
Debt:				
Interest rate swaps loss	—	0.2	—	0.4

The estimated value of the Company's notes receivable, long-term debt and preferred stock—issued by subsidiaries is based on interest rates at December 31, 1997 and 1996, respectively, for new issues with similar remaining maturities. The fair value of investments are based on market prices at December 31, 1997. The fair value of the derivatives relating to commodity swaps reflects the estimated amount to terminate the contracts at December 31, 1996, taking into account unrealized gains or losses. Dealer quotes are available for these derivatives. The fair market value of the Company's interest rate swaps is based on the estimated termination values at December 31, 1997 and 1996, respectively.

DIGITAL EQUIPMENT CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I (In Part): Financial Instruments

Foreign exchange options—In the ordinary course of business, the Corporation purchases foreign exchange option contracts to limit potential losses from adverse exchange rate movements on certain anticipated local currency transactions. The contracts are primarily in weighted aggregates of European currencies, Japanese yen and Australian dollars and generally have maturities which do not exceed three months. Premiums to purchase foreign exchange option contracts are amortized over the life of the contract and are included in selling, general and administrative expenses. Unamortized premiums are included in prepaid assets. Gains on option contracts, if any, are included in product and service revenues in the period in which the related local currency revenues are reported.

Foreign exchange forwards—In the ordinary course of business, the Corporation enters into foreign exchange forward contracts to mitigate the effect of foreign currency movements on the U.S. dollar value of monetary asset and liability positions of non-U.S. subsidiaries. The contracts are primarily in European currencies, Japanese yen and Australian dollars and generally have maturities which do not exceed three months. Gains and losses on contracts are included in selling, general and administrative expenses in the period in which the exchange rates change.

With respect to foreign exchange option and forward contracts, there were no deferred gains or losses at June 28, 1997. The Corporation does not hold or issue foreign exchange option or forward contracts for trading purposes.

Interest rate swaps—During the first quarter of fiscal 1994, the Corporation entered into interest rate swap agreements, with maturities of up to 10 years, to manage its exposure to interest rate movements by effectively converting a portion of its long-term debt from fixed to variable rates. The net face amount of interest rate swaps subject to variable rates as of June 28, 1997 and June 29, 1996 was $250.0 million. These agreements involve the exchange of fixed rate payments for variable rate payments without the effect of leverage and without the exchange of the underlying face amount. Fixed interest rate payments are at a weighted average rate of 5.75%. Variable rate payments are based on six month U.S. dollar LIBOR. Interest rate differentials paid or received under these agreements are recognized over the six months period as adjustments to interest expense. Gains and losses on terminated swap agreements are amortized over the original life of the agreements as adjustments to interest expense. Unamortized deferred losses are included in prepaid assets and totaled $12.9 million as of June 28, 1997. The Corporation does not hold or issue interest rate swap agreements for trading purposes.

Fair value—The carrying amounts reflected in the consolidated balance sheets for cash, cash equivalents, short-term investments, accounts receivable, bank loans, current portion of long-term debt and accounts payable approximate fair value due to the short maturities of these instruments. The fair values for long-term debt and hedging instruments are based on dealer quotes for those instruments. The fair values represent estimates of possible value which may not be realized in the future.

The face amount of hedging instruments does not necessarily represent amounts exchanged by the parties and thus is not a direct measure of the exposure of the Corporation through its use of hedging instruments. The amounts exchanged are calculated on the basis of face amounts and other terms of the hedging instruments, which relate to interest rates, foreign exchange rates or other financial indexes.

The fair value of the Corporation's long-term debt and hedging instruments are subject to change as a result of potential changes in market rates and prices. The potential change in fair value for interest rate sensitive instruments is based on a hypothetical immediate 1% point increase in interest rates across all maturities; the potential loss in fair value for foreign exchange rate sensitive instruments are based on a hypothetical immediate 10% increase in U.S. dollar per local currency exchange rate across all maturities. The Corporation's use of this methodology to quantify the market risk of such instruments should not be construed as an endorsement of its accuracy or the accuracy of the related assumptions. The quantitative information about market risk is necessarily limited because it does not take into account operating transactions, anticipated hedging instruments, pensions and other postretirement benefits. The potential loss for purchased foreign exchange option contracts is limited to the premium paid.

Financial Instruments (In thousands)	Face amount[1]	Carrying amount[1]	Fair value[1]	Hypothetical loss in fair value[1] (Unaudited)
June 28, 1997				
Long-term debt	$ (755,490)	$(745,440)	$(717,580)	$ 54,298
Hedging instruments:				
Option contracts	727,645	4,399	425	(297)
Forward contracts	1,522,256	(17,881)	(10,732)	(126,309)
Interest rate swaps	250,000	12,940	(12,285)	(11,313)
June 29, 1996				
Long-term debt	$(1,012,269)	$(999,131)	$(979,892)	$ 60,518
Hedging instruments:				
Option contracts	691,151	884	494	(385)
Forward contracts	886,015	(267)	(1,952)	(70,638)
Interest rate swaps	250,000	15,404	(16,540)	(12,509)

[1] Asset/(liability)

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Derivative Financial Instruments

Derivative financial instrument contracts are utilized by the Company to manage interest rate and foreign exchange risks. The Company has established a control environment which includes policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. Company policy prohibits holding or issuing derivative financial instruments for trading purposes.

To qualify for hedge accounting, the contracts must meet defined correlation and effectiveness criteria, be designated as hedges and result in cash flows and financial statement effects which substantially offset those of the position being hedged. Amounts receivable or payable under derivative financial instrument contracts, when recognized, are reported on the Consolidated Balance Sheet as both current and long term receivables or liabilities.

Interest Rate Contracts—The differentials to be received or paid are recognized in income over the life of the contract as adjustments to Interest Expense.

Foreign Exchange Contracts—As exchange rates change, gains and losses on contracts designated as hedges of existing assets and liabilities are recognized in income as Foreign Currency Exchange, while gains and losses on contracts designated as hedges of net investments in foreign subsidiaries are recognized in Shareholders' Equity as Foreign Currency Translation Adjustment. Gains and losses on contracts designated as hedges of identifiable foreign currency firm commitments are not recognized until included in the measurement of the related foreign currency transaction.

Gains and losses on terminations of hedge contracts are recognized as Other (Income) and Expense when terminated in conjunction with the termination of the hedged position, or to the extent that such position remains outstanding, deferred as Prepaid Expenses or Deferred Charges and amortized to Interest Expense or Foreign Currency Exchange over the remaining life of that position. Derivative financial instruments that the Company temporarily continues to hold after the early termination of a hedged position, or that otherwise no longer qualify for hedge accounting, are marked-to-market, with gains and losses recognized in income as Other (Income) and Expense. Refer to Note 7.

Note 7 (In Part): Financing Arrangements and Financial Instruments

Long Term Debt and Financing Arrangements

The Company actively manages its fixed and floating rate debt mix, within defined limitations, using refinancings and unleveraged interest rate swaps. The company will enter into fixed and floating interest rate swaps to alter its exposure to the impact of changing interest rates on consolidated results of operations and future cash outflows for interest. Fixed rate swaps are used to reduce the Company's risk of increased interest costs during periods of rising interest rates. Floating rate swaps are used to convert the fixed rates of long term borrowings into short term variable rates. Interest rate swaps contracts are thus used by the Company to separate interest rate risk management from the debt funding decision. At December 31, 1997 and 1996, the interest rate on 62% of the Company's debt was fixed by either the nature of the obligation or through the interest rate contracts. Floating rate contracts with notional principal amounts of $110 million were sold to retain the above mentioned 62% fixed/floating ratio.

Contract information and weighted average interest rates follow:

(Dollars in millions)	Dec. 31, 1996	Matured	Sold	Dec. 31, 1997
Fixed rate swap contracts:				
Notional principal amount	$275.0	$125.0	—	$150.0
Pay fixed rate	8.00%	9.00%	—	7.16%
Receive variable LIBOR	5.63	5.65	—	5.80
Average years to maturity	1.87			2.15
Fair value: (unfavorable)	$ (3.0)			$ (.8)
Carrying amount: (liability)	(1.2)			(.5)
Floating rate swap contracts:				
Notional principal amount	$110.0	—	$110.0	—
Pay variable LIBOR	5.57%	—	5.75%	—
Receive fixed rate	6.24	—	6.24	—
Average years to maturity	6.67			—
Fair value: (unfavorable)	$ (.9)			—
Carrying amount: asset	1.0			—

Current market pricing models were used to estimate the fair values of interest rate swap contracts.

Weighted average information during the years 1997, 1996 and 1995 follows:

(Dollars in millions)	1997	1996	1995
Fixed rate contracts:			
Pay fixed rate	7.46%	8.85%	8.95%
Receive variable LIBOR	5.74	5.66	6.23
Notional principal	$ 191	$ 244	$ 416
Floating rate contracts:			
Pay variable LIBOR	5.63%	5.52%	6.06%
Receive fixed rate	6.24	6.41	6.69
Notional principal	$ 66	$ 144	$ 50

Foreign Currency Forward Exchange Contracts

In order to reduce the impact of changes in foreign exchange rates on consolidated results of operations and future foreign currency denominated cash flows, the Company was a party to various forward exchange contracts at December 31, 1997 and 1996. These contracts reduce exposure to currency movements affecting existing foreign currency denominated assets, liabilities and firm commitments resulting primarily from trade receivables and payables, equipment acquisitions, intercompany loans and the Company's Swiss franc debt, including the annual coupon payments. The carrying amounts of these contracts (excluding the Swiss franc contracts) totaled $2.5 million and $14.7 million at December 31, 1997 and 1996, respectively, and were recorded in Accounts and Notes Receivable. The carrying amounts of the Swiss franc contracts totaled $76.0 million and $93.0 million at December 31, 1997 and 1996, respectively, and were recorded in Long Term Accounts and Notes Receivable.

A summary of forward exchange contracts in place at December 31 follows:

	1997		1996	
(In millions)	Fair Value	Contract Amount	Fair Value	Contract Amount
Buy currency:				
Swiss franc	$218.2	$151.0	$238.9	$151.0
U.S. dollar	61.4	60.7	44.4	44.5
German mark	96.4	96.4	—	—
British pound	16.6	16.6	—	—
All other	27.7	28.5	35.9	36.5
	$420.3	$353.2	$319.2	$232.0
Contract maturity:				
Swiss franc	10/00 - 3/06		10/00 - 3/06	
All other	1/98 - 12/98		1/97 - 7/97	
Sell currency:				
Belgian franc	$212.4	$215.3	$231.5	$243.4
German mark	121.6	121.6	136.5	140.4
British pound	30.9	30.8	—	—
U.S. dollar	—	—	33.4	33.4
All other	82.9	84.0	92.8	92.4
	$447.8	$451.7	$494.2	$509.6
Contract maturity	1/98 - 12/98		1/97 - 7/97	

Current market pricing models were used to estimate the fair values of foreign currency forward contracts. The contract maturities match the maturities of the currency positions. The fair value of these contracts and the related currency positions are subject to offsetting market risk, resulting from foreign currency exchange rate volatility.

The counterparties to the Company's interest rate swap, currency exchange and forward exchange contracts are substantial and creditworthy multinational commercial banks or other financial institutions which are recognized market makers. Neither the risks of counterparty nonperformance nor the economic consequences of counterparty nonperformance associated with these contracts are considered by the Company to be material.

HARRIS CORPORATION (JUN)

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (In Part):

Futures and Forward Contracts—Gains and losses on foreign currency exchange and option contracts that qualify as hedges are deferred and recognized as an adjustment of the carrying amount of the hedged asset, or liability, or identifiable foreign currency firm commitment. Gains and losses on foreign currency exchange and option contracts that do not qualify as hedges are recognized in income based on the fair market value of the contracts.

Financial Instruments

The carrying values of cash equivalents, marketable securities, accounts receivable, notes receivable, accounts payable and short-term debt approximate fair value. The fair value of long-term debt was $701.0 million at June 27, 1997 and $618.6 million at June 30, 1996.

The Corporation uses foreign exchange contracts and options to hedge intercompany accounts and off-balance-sheet foreign currency commitments. Specifically, these foreign exchange contracts offset foreign currency denominated inventory and purchase commitments from suppliers, accounts receivable from—and future committed sales to—customers, and firm committed operating expenses. Management believes the use of foreign currency financial instruments should reduce the risks which arise from doing business in international markets. Contracts are for periods consistent with the terms of the underlying transaction, generally one year or less. At June 27, 1997, open foreign exchange contracts were $259.3 million (as described below), of which $166.1 million were to hedge off-balance-sheet commitments. Additionally, for the year ended June 27, 1997, the Corporation purchased and sold $1,069.2 million of foreign exchange forward and option contracts.

Deferred gains and losses are included on a net basis in the Consolidated Balance Sheet as other assets and are recorded in income as part of the underlying transaction when it is recognized.

At June 27, 1997, the Corporation had $7.8 million in open option contracts. Total open foreign exchange contracts at June 27, 1997, are described in the table below.

Commitments to Buy Foreign Currencies

	Contract Amount			
(In millions)	Foreign Currency	U.S.	Deferred Gains and (Losses)	Maturities (in months)
Malaysian Ringgit	267.2	$106.0	—	1-16
Irish Punt	24.2	37.3	$(.7)	1-9
Japanese Yen	1,600.0	13.6	.3	1-5
German Mark	17.7	10.5	(.2)	1-3
Swiss Franc	8.3	6.0	(.2)	2
British Pound	1.9	3.1	.1	1-5
Norwegian Krone	13.5	1.9	(.1)	1
Dutch Guilder	3.5	1.9	(.1)	1-12
French Franc	11.0	1.9	—	12
Belgian Franc	50.0	1.7	(.3)	2
Italian Lira	2,000.0	1.3	(.1)	2-12
Spanish Peseta	50.0	.3	—	3

Commitments to Sell Foreign Currencies

	Contract Amount			
(In millions)	Foreign Currency	U.S.	Deferred Gains and (Losses)	Maturities (in months)
British Pound	15.9	$25.8	$(.8)	1-11
German Mark	37.6	23.4	1.6	1-13
Canadian Dollar	20.6	15.0	.2	1-2
French Franc	24.1	4.2	.1	1-6
Japanese Yen	320.0	2.8	—	1.6
Belgian Franc	60.7	1.8	.1	1-3
Italian Lira	500.0	.3	—	2
Dutch Guilder	.6	.3	—	3
Norwegian Krone	1.5	.2	—	1

IKON OFFICE SOLUTIONS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Interest Rate and Currency Swap Agreements
The Company uses interest rate and currency swap agreements for purposes other than trading and they are treated as off-balance sheet items. Interest rate swap agreements are used by the Company to modify variable rate obligations to fixed rate obligations, thereby reducing the exposure to market rate fluctuations. The interest rate swap agreements are designated as hedges, and effectiveness is determined by matching the principal balance and terms with that specific obligation. Such an agreement involves the exchange of amounts based on fixed interest rates for amounts based on variable interest rates over the life of the agreement without an exchange of the notional amount upon which payments are based. The differential to be paid or received as interest rates change is accounted for on the accrual method of accounting. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest in other accrued expenses. Currency swap agreements are used to manage exposure relating to certain intercompany debt denominated in one foreign currency that will be repaid in another foreign currency. Currency swap agreements are designated as hedges of firm commitments to pay interest and principal on debt, which would otherwise expose the Company to foreign currency risk. Current translation gains and losses on the principal swapped are offset by corresponding translation gains and losses on the related foreign denominated assets. Gains and losses on terminations of interest rate and currency swap agreements are deferred as an adjustment to the carrying amount of the outstanding obligation and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement. In the event of early extinguishment of the obligation, any realized or unrealized gain or loss from the swap would be recognized in income at the time of extinguishment.

15. Financial Instruments

The Company uses financial instruments in the normal course of its business, including derivative financial instruments, for purposes other than trading. These financial instruments include debt, commitments to extend credit and interest rate and currency swap agreements. The notional or contractual amounts of these commitments and other financial instruments are discussed below.

Concentration of Credit Risk
The Company is subject to credit risk through trade receivables, lease receivables and short-term cash investments. Credit risk with respect to trade receivables is minimized because of a large customer base and its geographic dispersion. Short-term cash investments are placed with high-credit quality financial institutions and in short duration corporate and government debt securities funds. By policy, the Company limits the amount of credit exposure in any one type of investment instrument.

Interest Rate and Currency Swap Agreements
The Company has interest rate swap agreements relating to finance subsidiaries' financial instruments having a total principal/notional amount of $105,000,000 with fixed rates from 5.77% to 7.08%. The Company also has Canadian dollar denominated interest rate swap agreements having a total principal/notional amount of $71,092,000 (CN$98,248,000) with fixed rates from 7.43% to 7.74%. The Company is required to make payments to the counterparties at the fixed rate stated in the agreements and in return the Company receives payments at variable rates.

The Company has also entered into cross-currency swap agreements to exchange Canadian dollars (CN$98,248,000) for pounds sterling (£46,500,000). The Company is required to make pounds sterling payments at fixed rates from 9.53% to 9.90% in exchange for Canadian dollar payments at fixed rates from 9.02% to 9.38%.

The Company is exposed to credit loss in the event of nonperformance by the counterparties to the swap agreements. However, the Company does not anticipate nonperformance by the counterparties.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments.

Cash, Notes Payable and Long-Term Receivables
The carrying amounts reported in the consolidated balance sheets approximate fair value.

Long-Term Debt
The fair value of long-term debt instruments is estimated using a discounted cash flow analysis. For more information on these instruments, refer to note 8.

Off-Balance-Sheet Instruments
Fair values for the Company's off-balance-sheet instruments (interest rate and currency swaps) are based on the termination of the agreements.

The carrying amounts and fair values of the Company's financial instruments were as follows:

September 30 (In thousands)	1997 Carrying Amount	Fair Value	1996 Carrying Amount	Fair Value
Long-term debt:				
Bond issues	$ 339,352	$ 327,869	$ 445,481	$ 423,667
Private placement debt	55,000	55,791	105,000	103,538
Bank debt	71,641	74,269	72,721	73,406
Notes payable to insurance company			60,000	61,813
Sundry notes, bonds and mortgages	52,876	54,581	74,929	75,900
Finance subsidiaries' debt	1,745,754	1,750,298	1,127,026	1,124,395
Interest rate and currency swaps		(7,183)		(5,074)

THE MEAD CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Interest Rate and Foreign Exchange Financial Instruments

Amounts currently due to or from interest rate swap counterparties are recorded in interest expense in the period in which they accrue. The premiums paid to purchase interest rate caps, as well as gains or losses on terminated interest rate swap and cap agreements, are included in long-term liabilities or assets and amortized to interest expense over the shorter of the original term of the agreements or the life of the financial instruments to which they are matched. Gains or losses on foreign currency forward contracts are recognized currently through income and generally offset the transaction losses or gains on the foreign currency cash flows which they are intended to hedge.

G Financial Instruments

The company uses various derivative financial instruments as part of an overall strategy to manage the company's exposure to market risks associated with interest rate and foreign currency exchange rate fluctuations. The company uses foreign currency forward contracts to manage the foreign currency exchange rate risks associated with its international operations. The company utilizes interest rate swap and cap agreements to manage its interest rate risks on its debt instruments, including the reset of interest rates on variable rate debt. The company does not hold or issue derivative financial instruments for trading purposes.

The risk of loss to the company in the event of nonperformance by any counterparty under derivative financial instrument agreements is not significant. All counterparties are rated A or higher by Moody's and Standard and Poor's. Although the derivative financial instruments expose the company to market risk, fluctuations in the value of the derivatives are mitigated by expected offsetting fluctuations in the matched instruments.

As part of an overall strategy to maintain an acceptable level of exposure to the risk of interest rate fluctuation, the company has developed a targeted mix of fixed-rate and cap-protected debt versus variable-rate debt. To efficiently manage this mix, the company may utilize interest rate swap, cap and option agreements to effectively convert the debt portfolio into an acceptable fixed-rate, capped rate and variable-rate mix.

Under interest rate swap agreements, the company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and variable-rate interest amounts calculated by reference to an agreed upon notional principal amount. The company utilizes interest rate cap agreements to limit the impact of increases in interest rates on its floating rate debt. The interest rate cap agreements require premium payments to counterparties based upon a notional principal amount. Interest rate cap agreements entitle the company to receive from the counterparties the amounts, if any, by which the selected market interest rates exceed the strike rates stated in the agreements.

At December 31, 1996, the company was a party to forward-starting interest rate swaps utilized in order to fix the interest rate on a portion of the long-term debt issued in early 1997. The swaps had a total notional amount of $374 million and maturities from 10 years to 30 years and effectively fixed the interest rate on $384 million of long-term debt with maturities from 10 years to 50 years. Upon the issuance of the debt, the swaps were terminated and the resulting loss realized on the swaps was recorded as an adjustment to the carrying amount of the related debt and will be amortized to interest expense over the term of the related debt. As of December 31, 1996, the fair value of these swaps was $(2.6) million with a carrying amount of $1.8 million.

The company utilizes foreign currency forward contracts to reduce exposure to exchange rate risks primarily associated with transactions in the regular course of the company's international operations. The forward contracts establish the exchange rates at which the company will purchase or sell the contracted amount of local currencies for specified foreign currencies at a future date. The company utilizes forward contracts which are short-term in duration (generally one month) and receives or pays the difference between the contracted forward rate and the exchange rate at the settlement date. The major currency exposures hedged by the company are the Dutch guilder, British pound, Japanese yen and German mark. The contract amount of foreign currency forwards at December 31, 1997 and 1996, is $129.0 million and $119.9 million, respectively. The carrying amount and fair value of these contracts are not significant.

The fair value of the company's long-term debt is estimated based on quoted market prices for the same or similar issues or on current rates offered to the company

for debt of the same remaining maturities. The fair value of long-term debt, excluding capital leases, was $1,310.1 million and $1,087.8 million at December 31, 1997 and 1996, respectively, and the related carrying amounts were $1,240.8 million and $1,077.0 million, respectively.

The fair values of the interest rate swap and cap agreements are estimated using quotes from brokers and represent the cash requirement if the existing agreements had been settled at year end. Selected information related to the company's interest rate swap and cap agreements is as follows:

(All dollar amounts in millions)

	Swap Agreements		Cap Agreements	
December 31	1997	1996	1997	1996
Notional amount	$180.0	$180.0	$150.0	$ 150.0
Fair value	$ (5.6)	$ (5.4)	$	$ .1
Carrying amount	(4.9)	(5.7)	.3	.6
Net unrecognized gain (loss)	$ (.7)	$ .3	$ (.3)	$ (.5)

SARA LEE CORPORATION (JUN)

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions, except per share data)

Summary of Significant Accounting Policies (In Part):

Financial Instruments. The corporation uses financial instruments to manage its exposure to movements in interest rates, foreign exchange rates and commodity prices. The use of these financial instruments modifies the exposure of these risks with the intent to reduce the risk to the corporation. The corporation does not use financial instruments for trading purposes, nor is the corporation a party to leveraged derivatives.

Financing transactions. Non-U.S. dollar financing transactions are generally effective as hedges of long-term investments in the corresponding currency. Foreign currency gains or losses on the hedges of long-term investments are recorded in the translation adjustments component of common stockholders' equity with the offset recorded as an adjustment to the non-U.S. dollar financing liability.

Interest rate agreements. Interest rate exchange agreements, defined as swaps and caps and floors, are effective at creating synthetic instruments and thereby modifying the corporation's interest rate exposures. The corporation enters into interest rate exchange agreements to create synthetic instruments. Net interest is accrued as either interest receivable or payable with the offset recorded in interest expense. Any premium paid is amortized over the life of the agreement.

Forward exchange contracts. The corporation uses primarily short-term forward exchange contracts for hedging purposes to reduce the effects of adverse foreign exchange rate movements. The contracts that effectively meet the risk reduction and correlation criteria, as measured on a currency-by-currency basis, are accounted for using hedge accounting. Under this method, the change in fair value of forward contracts that hedge firm commitments is deferred and recognized as part of the related foreign currency transactions as they occur. Firm commitments include the purchase of inventory, capitalized assets or expenses of the corporation. The change in fair value of any forward contract that is not effective as a hedge of the firm commitments is included in selling, general and administrative expenses and other accrued liabilities.

Forward contracts that hedge the currency exposure on nonpermanent intercompany loans are also accounted for using hedge accounting if the contract meets the risk reduction and correlation criteria, as measured on a currency-by-currency basis. Under hedge accounting, these contracts are valued at current spot rates on a monthly basis, and the change in value is recognized currently and included, along with any amortization of forward points over the life of the contract, in selling, general and administrative expenses. Any foreign exchange gain or loss on the underlying intercompany loans is also included in selling, general and administrative expenses. Changes in the value of forward contracts related to anticipated purchases and sales are marked to market through selling, general and administrative expenses on a monthly basis.

If, subsequent to entering into a hedge transaction with forward contracts, the underlying transaction is no longer likely to occur, the hedge position is removed and any gain or loss is included in selling, general and administrative expenses.

Commodities. The corporation uses commodity futures and purchased options for hedging purposes to reduce the effect of changing commodity prices. The contracts that effectively meet the risk reduction and correlation criteria, as measured on a commodity-by-commodity basis, are recorded using hedge accounting. Effectiveness is measured based upon high correlation between commodity gains and losses on the futures contract and those on the firm commitment. Under hedge accounting, the gain or loss on the hedge is deferred and recorded as a component of the underlying inventory purchase. Gains and losses on hedges that are terminated prior to the execution of the inventory purchase are recorded in inventory until the inventory is sold.

Financial Instruments and Risk Management

Interest Rate and Currency Swaps. To manage interest rate and foreign exchange risk and to lower its cost of borrowing, the corporation has entered into interest rate and currency swaps. The currency swaps effectively hedge long-term Dutch guilder-, French franc- and Swiss franc-denominated investments and French franc-denominated intercompany loans. The weighted average maturities of interest rate and currency swaps as of June 28, 1997 were 2.8 years and 2.0 years, respectively.

	Notional Principal[1]	Weighted Average Interest Rates[2] Receive	Pay
Interest Rate Swaps			
1997 Receive variable-pay fixed	$ 98	4.1%	4.4%
Receive fixed-pay variable	25	7.1	5.4
1996 Receive fixed-pay variable	25	7.1	5.3
1995 Receive variable-pay fixed	200	6.1	5.7
Receive fixed-pay variable	45	7.6	5.9
Currency Swaps			
1997 Receive fixed-pay fixed	$ 259	6.4%	4.1%
1996 Receive fixed-pay fixed	85	8.0	5.8
1995 Receive variable-pay fixed	175	6.4	7.3
Receive fixed-pay fixed	194	6.4	6.6
Receive variable-pay variable	320	7.9	6.9

[1] *The notional principal is the amount used for the calculation of interest payments that are exchanged over the life of the swap transaction and is equal to the amount of foreign currency or dollar principal exchanged at maturity.*

[2] *The weighted average interest rates are as of the respective balance sheet dates.*

The corporation has entered into an interest rate collar to hedge fluctuations in Dutch interest rates. The Dutch guilder-denominated collar has a notional principal of $103, a cap of 7.0% and a floor of 3.5%.

Forward Exchange Contracts. The corporation uses forward exchange contracts to reduce the effect of fluctuating foreign currencies on short-term foreign currency-denominated intercompany transactions, firm third-party product sourcing commitments and other known foreign currency exposures.

The table below summarizes by major currency the contractual amounts of the corporation's forward exchange contracts in U.S. dollars. The bought amounts represent the net U.S. dollar equivalent of commitments to purchase foreign currencies, and the sold amounts represent the net U.S. dollar equivalent of commitments to sell foreign currencies. The foreign currency amounts have been translated into a U.S. dollar equivalent value using the exchange rate at the reporting date. Forward exchange contracts mature at the anticipated cash requirement date of the hedged transaction, generally within one year.

	Bought (Sold)		
Foreign Currency	1997	1996	1995
French franc	$(44)	$125	$(352)
Italian lira	(402)	(287)	(254)
Spanish peseta	(69)	(40)	(55)
Dutch guilder	(191)	(194)	(236)
German mark	(65)	50	36
Other	(183)	(263)	(314)

At June 28, 1997, the deferred unrealized gains and losses on forward exchange contracts were not material to the financial position of the corporation.

Fair Value
The fair value of the corporation's interest rate swaps, currency swaps, forward exchange contracts and interest rate collar approximate their carrying value in the financial statements as of June 28, 1997, June 29, 1996 and July 1, 1995. The fair value of these instruments was not material to the financial position of the corporation.

OTHER OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

Financial Guarantees

FURNITURE BRANDS INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

12 (In Part): Commitments and Contingent Liabilities

Prior to the distribution of the common stock of The Florsheim Shoe Company (a former subsidiary) to its shareholders on November 17, 1994, the Company had guaranteed certain of Florsheim's retail store operating leases. At December 31, 1997, the Company had guarantees outstanding on 71 retail store leases with a contingent liability totaling approximately $24,132. The Florsheim Shoe Company has agreed to indemnify the Company against any losses incurred as a result of the lease guarantees.

W. R. GRACE & CO. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share amounts)

11 (In Part): Commitments and Contingent Liabilities

Contingent Rentals
Grace is the named tenant or guarantor with respect to leases entered into by previously divested businesses. These leases, some of which extend through the year 2017, have future minimum lease payments aggregating $181.1, offset by $180.7 of anticipated future minimum rental income from existing tenants and subtenants. In addition, Grace is liable for other expenses (primarily property taxes) relating to the above leases; these expenses are paid by tenants and subtenants. Grace believes that the risk of significant loss from these lease obligations is remote. However, a significant portion of the rental income and other expenses is payable by tenants and subtenants that have filed for bankruptcy protection or are otherwise experiencing financial difficulties. Further, as a result of unforeseen developments, Grace may incur losses that cannot be reasonably estimated.

HARTMARX CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sale of Subsidiary

On July 27, 1995, the Company sold the capital stock of Kuppenheimer, a vertically integrated factory direct-to-consumer business. Kuppenheimer's operating results for 1995, net of tax benefit, have been reflected as a discontinued operation in the accompanying Consolidated Statement of Earnings. Discontinued operation also reflects a loss on disposition of $18.1 million, net of tax benefit, representing the loss on the sale of stock, expenses directly related to the disposition and operating losses from the measurement date to the disposition date. The Company received $12 million cash at closing and under the terms of the Agreement, an additional $2 million plus interest was payable in specified amounts through May 1, 1999. In connection with the Company's ongoing guaranty of a $2.5 million industrial development bond retained by Kuppenheimer, the purchaser has issued a separate $2.5 million note for the purchase of associated real estate secured by a first mortgage on that property. In August 1996, Kuppenheimer filed for protection under Chapter 11 of the United States Bankruptcy Code. As a result, the Company's ongoing guarantee of the $2.5 million IDB is included in long-term debt and other amounts pertaining to the transaction have been reflected at estimated realizable value at November 30, 1997 and 1996.

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Financial Instruments
In the normal course of business, the company uses a variety of derivative financial instruments for the purpose of currency exchange rate and interest rate risk management. Refer to note J, "Financial Instruments," on pages 59 through 61 for descriptions of these financial instruments, including the methods used to account for them.

In assessing the fair value of its financial instruments, both derivative and non-derivative, the company uses a variety of methods and assumptions that are based on market conditions and risk existing at each balance sheet date. Quoted market prices or dealer quotes for the same or similar instruments are used for the majority of marketable securities, long-term investments and long-term debt. Other techniques, such as option pricing models, estimated discounted value of future cash flows, replacement cost and termination cost, are used to determine fair value for the remaining financial instruments. These values represent a general approximation of possible value and may never actually be realized.

J (In Part): Financial Instruments

The following presents information on certain significant on- and off-balance sheet financial instruments, including derivatives.

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Financial Instruments Off-Balance Sheet (excluding derivatives)
IBM has guaranteed certain loans and financial commitments of affiliates. The fair market values of these financial guarantees were $861 million and $787 million at December 31, 1997 and 1996, respectively. Additionally, the company is contingently liable for commitments of various ventures to which it is party and certain other contracts. These commitments, which in the aggregate were approximately $600 million and $400 million at December 31, 1997 and 1996, respectively, are not expected to have a material adverse effect on the company's financial position or results of operations.

The company's dealers had unused lines of credit available from IBM for working capital financing of approximately $2.1 billion at December 31, 1997 and 1996.

LA-Z-BOY INCORPORATED (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Financial Guarantees

La-Z-Boy has provided financial guarantees, relating to loans and leases in connection with some proprietary stores. The amounts of the unsecured guarantees are shown in the following table. Because almost all guarantees are expected to retire without being funded in whole, the contract amounts are not estimates of future cash flows.

	4/26/97	4/27/96
(Amounts in thousands)	Contract Amount	Contract Amount
Lease guarantees	$4,458	$4,403
Loan guarantees	$20,049	$16,713

Most guarantees require periodic payments to La-Z-Boy in exchange for the guarantee. Terms of current guarantees generally range from one to five years.

The guarantees have off-balance sheet credit risk because only the periodic payments and accruals for possible losses are recognized in the Consolidated Balance Sheet until the guarantee expires. Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform completely as contracted. The credit risk amounts are equal to the contractual amounts, assuming that the amounts are fully advanced and that no amounts could be recovered from other parties.

OGDEN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25 (In Part): Commitments and Contingent Liabilities

Ogden and certain of its subsidiaries have issued or are party to performance bonds and guarantees and related contractual obligations undertaken mainly pursuant to agreements to construct and operate certain waste-to-energy, entertainment, and other facilities. In the normal course of business, they are involved in legal proceedings in which damages and other remedies are sought. In connection with certain contractual arrangements, Ogden has agreed to provide two vendors with specified amounts of business over a three-and-a-half-year period. If these amounts are not provided, the Corporation may be liable for prorated damages of approximately $5,700,000. Management does not expect that these contractual obligations, legal proceedings, or any other contingent obligations incurred in the normal course of business will have a material adverse effect on Ogden's Consolidated Financial Statements.

During 1994, a subsidiary of Ogden entered into a 30-year facility management contract, pursuant to which it agreed to advance funds to a customer, and if necessary, to assist the customer's refinancing of senior secured debt incurred in connection with the construction of the facility. During 1997, Ogden purchased the customer's senior secured debt in the amount of $95,000,000 using borrowed funds, which senior secured debt was subsequently sold and the borrowed funds repaid. Ogden is obligated to repurchase such senior secured debt in the amount of $97,679,000 on December 30, 2002, if such debt is not refinanced prior to that time. Ogden's repurchase obligation is collateralized by bank letters of credit. Ogden is also required to repurchase the outstanding amount of certain subordinated secured debt issued by such customer on December 30, 2002. The amount outstanding at December 31, 1997, was $46,562,000. In February 1998, this amount was increased to $51,624,000. During 1997, this customer purchased certain subordinated secured debt and repaid other amounts owed to Ogden in an aggregate amount of $38,900,000. In February 1998, this customer repaid an additional $7,343,000 owed to Ogden. In addition, at December 31, 1997, the Corporation had guaranteed indebtedness of $20,683,000 of an affiliate and principal tenant of this customer, which indebtedness is due in September 1998. Ogden has also guaranteed borrowings of another customer amounting to approximately $14,400,000 as well as $15,500,000 of borrowings of joint ventures in which Ogden has an equity interest. Management does not expect that these arrangements will have a material adverse effect on Ogden's Consolidated Financial Statements.

28. (In Part): Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, "Disclosures About Fair Value of Financial Instruments." The estimated fair-value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that Ogden would realize in a current market exchange.

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Fair values for short-term debt and long-term debt were determined based on interest rates that are currently available to the Corporation for issuance of debt with similar terms and remaining maturities for debt issues that are not traded on quoted market prices. With respect to convertible subordinated debentures, fair values are based on quoted market prices. The fair value of project debt is estimated based on quoted market prices for the same or similar issues. Other liabilities are valued by discounting the future stream of payments using the incremental borrowing rate of the Corporation. The fair value of the Corporation's interest rate swap agreements is the estimated amount that the Corporation would receive or pay to terminate the swap agreements at the reporting date based on third-party quotations. The fair value of Ogden financial guarantees provided on behalf of customers (see Note 25) would be zero because Ogden receives no fees associated with such commitments.

TENNECO INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

5 (In Part): Financial Instruments

The carrying and estimated fair values of Tenneco's financial instruments by class at December 31, 1997 and 1996, were as follows:

	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Millions) Assets (Liabilities)			
Long-term debt (including current maturities)	$(2,639)	$(2,606)	$(2,075)	$(2,069)
Instruments with Off-Balance-Shet Risk				
Foreign currency contracts	2	2	1	1
Financial guarantees	—	(15)	—	(15)

Instruments with Off-Balance-Sheet Risk

Guarantees—Tenneco had guaranteed payment and performance of approximately $15 million at December 31, 1997 and 1996, primarily with respect to letters of credit and other guarantees supporting various financing and operating activities.

Letters of Credit

ALLEN TELECOM INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Fair Values of Financial Instruments

Financial Accounting Standards Board ("FASB") Statements No. 107, "Disclosures about Fair Value of Financial Instruments," and No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments," are part of a continuing process by the FASB to improve information regarding financial instruments. The following methods and assumptions were used by the Company in estimating its fair value disclosures for such financial instruments as defined by the Statements.

Cash and Short-Term Investments: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Long-Term Investments: One of the Company's investments in telecommunications companies is carried at fair market value, based on its quoted stock price at December 31, 1997. It is not practicable to estimate the fair value of the Company's 8% investment in the common stock of its former specialty rubber products business or its other investments in telecommunications companies because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs. However, management believes that the carrying amounts recorded at December 31, 1997 were not impaired and reflect the corresponding fair values.

Long-Term Debt: The fair values of the Company's long-term debt either approximate fair value or are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Off-balance-sheet instruments: The Company utilizes letters of credit to back certain financing instruments and insurance policies. The letters of credit reflect fair value as a condition of their underlying purpose and are subject to fees competitively determined in the market place. The Company enters into foreign currency contracts to offset the impact of currency rate changes against certain assets related to accounts receivable. The fair value of such contracts are based on quoted market prices of comparable contracts. The carrying amounts and fair values of the Company's financial instruments at December 31, 1997 and 1996 are as follows (amounts in thousands):

	Carrying Amount	Fair Value
1997		
Cash and cash equivalents	$30,775	$30,775
Non-current investments	34,700	34,700
Long-term debt	105,171	106,732
Off balance sheet financial instruments:		
Letters of credit	1,591	1,591
Foreign currency net sales contracts	6,889	6,909
1996		
Cash and cash equivalents	$23,879	$23,879
Non-current investments	12,171	14,054
Long-term debt	53,345	54,294
Off balance sheet financial instruments:		
Letters of credit	1,881	1,881
Foreign currency net sales contracts	15,682	15,798

ARMSTRONG WORLD INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Financial Instruments

The company does not hold or issue financial instruments for trading purposes. The estimated fair value of the company's financial instruments are as follows:

(In millions at December 31)	1997 Carrying amount	Fair value	1996 Carrying amount	Fair value
Assets:				
Cash and cash equivalents	$ 57.9	$ 57.9	$ 65.4	$ 65.4
Receivables	252.6	252.6	216.7	216.7
Liabilities:				
Short-term and long-term debt	$321.7	$356.6	$247.6	$281.4
Other noncurrent financial liabilities	172.1	160.1	151.9	141.4
Off-balance sheet financial instruments:				
Foreign currency contract obligations	$ —	$ 0.3	$ —	$ 1.2
Letters of credit/financial guarantees	—	186.1	—	178.1
Line of credit	—	409.6	—	441.3

Fair values were determined as follows:

The carrying amounts of cash and cash equivalents, receivables, accounts payable and accrued expenses, short-term debt and current installments of long-term debt approximate fair value because of the short-term maturity of these instruments.

The fair value estimates of long-term debt were based upon quotes from major financial institutions taking into consideration current rates offered to the company for debt of the same remaining maturities.

Other noncurrent financial liabilities consist primarily of deferred payments, for which cost approximates fair value.

Foreign currency contract obligations are estimated by obtaining quotes from brokers.

Letters of credit, financial guarantees and line of credit amounts are based on the estimated cost to settle the obligations.

LIZ CLAIBORNE INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Lines of Credit

As of January 3, 1998, the Company had bank lines of credit aggregating $470,000,000 which were available to cover letters of credit issued by the banks. The lines of credit expire at various dates in 1998.

At January 3, 1998 and December 28, 1996, the Company had outstanding letters of credit of $243,200,000 and $195,567,000, respectively. These letters of credit, which have terms ranging from one to ten months, collateralize the Company's obligations to third parties for the purchase of inventory. The fair value of these letters of credit approximates contract values.

JOHNS MANVILLE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Financial Instruments

The Company had outstanding letters of credit totaling $15.4 million and $15.1 million as of December 31, 1997 and 1996, respectively. Letters of credit are primarily collateralized by cash.

SPX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

15 (In Part): Financial Instruments

Off-Balance Sheet Risk

As collateral for performance on contracts and as credit guarantees to banks and insurers, the Company is contingently liable under standby letters of credit in the amount of $17,100 and $15,960 at December 31, 1997 and 1996, respectively. These standby letters of credit are generally in force for one year, for which the Company pays fees to various banks that generally range from .625 to 1.25 percent per annum of their face value. If the Company was required to obtain replacement standby letters of credit as of December 31, 1997 for those currently outstanding, it is the Company's opinion that the replacement costs would not significantly vary from the present fee structure.

Fair Value of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments at December 31 are as follows:

	1997	
	Carrying Amount	Fair Value
Cash and temporary investments	$ 12,113	$ 12,113
Receivables	172,783	$ 172,783
Investment in Echlin Inc.	14,868	14,868
Other assets (derivative)	24	—
Notes payable and current maturities of long-term debt and long-term debt	(205,264)	(205,369)
Off-balance sheet financial instruments:		
Letters of credit	—	(17,100)

	1996	
	Carrying Amount	Fair Value
Cash and temporary investments	$ 12,312	$ 12,312
Receivables	96,495	96,495
Investment in Echlin Inc.	—	—
Other assets (derivative)	40	—
Notes payable and current maturities of long-term debt and long-term debt	(227,859)	(244,057)
Off-balance sheet financial instruments		
Letters of credit	—	(15,960)

The following methods and assumptions were used by the Company in estimating its fair value disclosures:

Cash and Temporary Investments, and Receivables—The carrying amount reported on the consolidated balance sheets approximates its fair value because of the short maturity of those instruments.

Investment in Echlin Inc.—The carrying amount represents the fair value based upon Echlin's quoted market share price at December 31, 1997.

Other Assets (Derivatives)—The amount reported relates to the interest rate cap agreements. The carrying amount comprises the unamortized premiums paid for the contracts. The fair value is estimated using option pricing models and essentially values the potential for the cap to become in-the-money through changes in interest rates during the remaining term.

Notes Payable and Current Maturities of Long-Term Debt and Long-Term Debt—The fair value of the Company's debt either approximates its carrying value or is estimated based on quoted market prices.

Letters of Credit—The Company utilizes letters of credit to back certain financing instruments and insurance policies. The letters of credit reflect fair value as a condition of their underlying purpose and are subject to fees competitively determined in the marketplace.

Commitments to Extend Credit

PENNZOIL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Financial Instruments With Off-Balance-Sheet Risk and Concentrations of Credit Risk

Financial Instruments With Off-Balance-Sheet Risk
Pennzoil is a party to various financial instruments with off-balance-sheet risk as part of its normal course of business, including financial guarantees and contractual commitments to extend financial guarantees, credit and other assistance to customers, franchisees and other third parties. These financial instruments involve, to varying degrees, elements of credit risk which are not recognized in Pennzoil's consolidated balance sheet.

Other financial guarantees include debt and lease obligation guarantees with expiration dates of up to twenty years issued to third parties to guarantee the performance of customers and franchisees in the fast-lube industry. Commitments to extend credit are also provided to fast lube industry participants to finance equipment purchases, working capital needs and, in some cases, the acquisition of land and construction of improvements. Contractual commitments to extend credit and other assistance are in effect as long as certain conditions established in the respective contracts are met. Contractual commitments to extend financial guarantees are conditioned on the occurrence of specified events. The largest of these commitments is to provide a guarantee for letters of credit issued by third parties to meet the reinsurance requirements of Pennzoil's captive insurance subsidiary. This commitment has no stated maturity and is expected to vary in amount from year to year to meet the reinsurance requirements. Accruals for reported and incurred but not reported insurance losses in the amount of $39.5 million and $39.7 million have been recognized in Pennzoil's consolidated balance sheet as of December 31, 1997 and 1996, respectively. The credit risk to Pennzoil is mitigated by the insurance subsidiary's portfolio of high-quality, short-term investments used to collateralize the letters of credit. At December 31, 1997, the market value of the collateral represented approximately 122% of the estimated credit risk.

Following are the amounts related to Pennzoil's financial guarantees and contractual commitments to extend financial guarantees, credit and other assistance and forward foreign currency exchange contracts as of December 31, 1997 and 1996.

	Contract or Notional Amounts	
	1997	1996
	(Expressed in thousands)	
Financial guarantees relating to Excel Paralubes	$ 16,790	$255,900
Natural gas volume delivery guarantees	9,102	22,838
Other financial guarantees	5,159	8,305
Commitments to extend financial guarantees		
Guarantees of letters of credit	32,525	24,388
Other guarantees	9,557	14,383
Forward foreign currency exchange contracts	40,576	—
Total	$113,709	$325,814

5 (In Part): Fair Value of Financial Instruments

Off-Balance-Sheet Financial Instruments
The estimated fair value of certain financial guarantees written and commitments to extend financial guarantees was $3.4 million and $6.1 million as of December 31, 1997 and December 31, 1996, respectively. The estimated fair value of certain financial guarantees written and commitments to extend financial guarantees is based on the estimated cost to Pennzoil to obtain third party letters of credit to relieve Pennzoil of its obligations under such guarantees or, in the case of certain lease guarantees related to Jiffy Lube International, Inc. ("Jiffy Lube") franchises, the present value of expected future cash flows using a discount rate commensurate with the risks involved.

The estimated value of amounts owed to Pennzoil under its open commodity price hedges was $0.7 million as of December 31, 1997 and $1.2 million as of December 31, 1996. The estimated value of Pennzoil's open commodity price hedges is the amount that Pennzoil would receive or pay to terminate its hedge agreements, taking into account the creditworthiness of the hedge counterparties.

The estimated value of amounts owed by Pennzoil under its foreign currency exchange contracts was $40.6 million as of December 31, 1997. Pennzoil did not have any open foreign currency exchange contracts as of December 31, 1996. The estimated value of Pennzoil's foreign currency exchange contracts represents the original contract amount adjusted using the year-end closing spot exchange rate. Reference is made to Note 4 for further information regarding off-balance sheet financial instruments.

UNITED TECHNOLOGIES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Airline Industry and Customer Financing Assets

The Corporation has receivables and other financing assets with commercial airline industry customers, totaling $1,235 million and $1,415 million at December 31, 1997 and 1996, net of allowances of $257 million and $254 million, respectively.

Customer financing assets consist of the following:

(In millions of dollars)	1997	1996
Notes and leases receivable	$139	$152
Products under lease	129	214
	268	366
Less: receivables due within one year	52	70
	$216	$296

Scheduled maturities of notes and leases receivable due after one year are as follows: $19 million in 1999, $22 million in 2000, $10 million in 2001, $2 million in 2002 and $34 million in 2003 and thereafter.

Financing commitments, in the form of secured debt, guarantees or lease financing, may be required by commercial aircraft engine customers. The extent to which the financing commitments will be utilized cannot currently be predicted, since customers may be able to obtain more favorable terms from other financing sources. The Corporation may also arrange for third-party investors to assume a portion of its commitments. If financing commitments are exercised, debt financing is generally secured by assets with fair market values equal to or exceeding the financed amounts with interest rates established at the time of funding. The Corporation also may lease aircraft and sublease the aircraft to customers under long-term noncancelable operating leases. In some instances, customers may have minimum lease terms which result in sublease periods shorter than the Corporation's lease obligation. Lastly, the Corporation has residual value and other guarantees related to various commercial aircraft engine customer financing arrangements. The estimated fair market values of the guaranteed assets equal or exceed the value of the related guarantees, net of existing allowances.

The following tables summarize the airline industry commitments and related maturities of the Corporation's financing and rental commitments as of December 31, 1997 should all commitments be exercised as scheduled:

(In millions of dollars)	Commitments
Financing	$934
Rental	112
Residual value and other	117

		Maturities
(In millions of dollars)	Financing	Rental
1998	$220	$10
1999	233	10
2000	82	10
2001	50	10
2002	51	10
Thereafter	298	62

The Corporation has a 33% interest in International Aero Engines (IAE), an international consortium of four shareholders organized to support the V2500 commercial aircraft engine program, IAE may offer customer financing in the form of guarantees, secured debt or lease financing in connection with V2500 engine sales. At December 31, 1997, IAE has financing commitments of $360 million. In addition, IAE has lease obligations under long-term noncancelable leases of approximately $370 million through 2021 related to aircraft which are subleased to customers under long-term leases. These aircraft have fair market values which exceed the financed amounts. The shareholders of IAE have guaranteed IAE's financing arrangements to the extent of their respective ownership interests. In the event any shareholder were to default on certain of these financing arrangements, the other shareholders would be proportionately responsible. The Corporation's share of IAE's financing arrangements was approximately $240 million and $350 million at December 31, 1997 and 1996.

13 (In Part): Financial Instruments

Financing Commitments

The Corporation had outstanding financing commitments totaling approximately $934 million and $1,553 million at December 31, 1997 and 1996. Risks associated with changes in interest rates are negated by the fact that interest rates are variable during the commitment term and are set at the date of funding based on current market conditions, the fair value of the underlying collateral and the credit worthiness of the customers. As a result, the fair value of these financings is expected to equal the amounts funded. The fair value of the commitment itself is not readily determinable and is not considered significant. Additional information pertaining to these commitments is included in Note 4.

Sale Of Receivables With Recourse

DATA GENERAL CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Financial Instruments, Commitments, and Contingencies

Financial Instruments. The Company enters into various types of financial instruments in the normal course of business. Fair values for certain financial instruments are based on quoted market prices. For other financial instruments, fair values are estimated based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of perceived risk. Accordingly, the fair values may not represent actual values of the financial instruments that could have been realized as of year end or that will be realized in the future.

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In the normal course of business, the Company enters into certain sales-type lease arrangements with customers. These leases are generally sold to third-party financing institutions. A portion of these arrangements contains certain recourse provisions under which the Company remains liable. The Company's maximum exposure under the recourse provisions was approximately $13.6 million, net of related allowances. A portion of this contingent obligation is collateralized by security interests in the related equipment. The fair value of the recourse obligation at September 27, 1997 was not determinable as no market exists for these obligations.

MCKESSON CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Off-Balance Sheet Risk and Concentrations of Credit Risk

Trade receivables subject the Company to a concentration of credit risk with customers in the retail sector. This risk is spread over a large number of geographically dispersed customers.

At March 31, 1997, the Company sold $154.6 million of trade receivables at amounts approximating their fair value to a bank in accordance with SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

Proceeds received by the Company on sales of accounts receivable with recourse to the Company for certain uncollectible amounts totaled $105 million and $47 million in 1996 and 1995, respectively.

WEYERHAEUSER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 (In Part): Legal Proceedings, Commitments and Contingencies

Other Items

The company's 1997 capital expenditures, excluding acquisitions, were $656 million and are expected to approximate $750 million in 1998; however, the 1998 expenditure level could be increased or decreased as a consequence of future economic conditions.

During the normal course of business, the company's subsidiaries included in its real estate and related assets segment have entered into certain financial commitments comprised primarily of guarantees made on $42 million of partnership borrowings and limited recourse obligations associated with $162 million of sold mortgage loans. The fair value of the recourse on these loans is estimated to be $3 million, which is based upon market spreads for sales of similar loans without recourse or estimates of the credit risk of the associated recourse obligation.

DISCLOSURES OF FAIR VALUE

AVON PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share amounts)

7 (In Part): Financial Instruments and Risk Management

Fair Value of Financial Instruments—For purposes of the following disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The aggregate fair value amounts presented are not intended to, and do not, represent the underlying fair value of Avon.

The methods and assumptions used to estimate fair value are as follows:

Grantor trust—The fair value of these investments, principally money market funds and equity securities, is based on the quoted market prices for issues listed on exchanges.

Debt maturing within one year and long-term debt and other financing—The fair value of all debt and other financing is estimated based on the quoted market prices for issues listed on exchanges.

Forward exchange and currency option contracts— The fair value of forward exchange and currency option contracts is estimated based on quoted market prices from banks.

Interest rate swap, currency swap and interest rate cap agreements—The fair value of interest rate swap, currency swap and interest rate cap agreements is estimated based on quotes from the market makers of these instruments and represents the estimated amounts that Avon would expect to receive or pay to terminate the agreements.

The asset and (liability) amounts recorded in the balance sheet (carrying amount) and the estimated fair values of financial instruments at December 31 consisted of the following:

	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and equivalents	$141.9	$141.9	$184.5	$184.5
Grantor trust	61.1	62.7	49.4	57.2
Debt maturing within one year	(127.0)	(127.6)	(97.1)	(97.1)
Long-term debt and other financing	(160.3)	(162.7)	(114.2)	(117.2)
Currency swap contract on long-term debt	(5.1)	(1.7)	9.7	16.2
Other forward exchange and option contracts	5.0	10.3	.3	1.0
Interest rate swap receivable	—	.1	—	.1
Interest rate swaps payable	(.7)	(2.2)	(.7)	(6.4)

BAXTER INTERNATIONAL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Financial Instruments and Risk Management

Fair Values of Financial Instruments

as of December 31, (in millions)	Carrying amounts 1997	1996	Approximate fair values 1997	1996
Assets				
Long-term insurance receivables	$409	$641	$339	$548
Investment in affiliates	180	64	192	74
Liabilities				
Notes payable to banks	102	121	102	121
Short-term borrowings classified as long-term[2]	1,172	743	1,173	741
Other long-term debt and lease obligations[1, 2]	1,505	1,177	1,625	1,224
Foreign exchange hedges	26	(18)	13	(5)
Long-term litigation liabilities	210	365	191	290

[1] *Based on quoted market prices*

[2] *Interest rate hedge carrying amounts are included in corresponding debt balances*

Although the company's litigation remains unresolved by final orders or settlement agreements in some cases, the estimated fair values of insurance receivables and long-term litigation liabilities were computed by discounting the expected cash flows based on currently available information.

The carrying values of the other financial instruments approximate their fair values due to the short-term maturities of these assets and liabilities.

THE BLACK & DECKER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Fair Value of Financial Instruments

The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Significant differences can arise between the fair value and carrying amount of financial instruments that are recognized at historical cost amounts.

The following methods and assumptions were used by the Corporation in estimating fair value disclosures for financial instruments:

- Cash and cash equivalents, trade receivables, certain other current assets, short-term borrowings, and current maturities of long-term debt. The amounts reported in the Consolidated Balance sheet approximate fair value.
- Long-term debt: Publicly traded debt is valued based on quoted market values. The amount reported in the Consolidated Balance Sheet for other long-term debt approximates fair value, since such debt was primarily variable rate debt.
- Interest rate hedges: The fair value of interest rate hedges reflects the estimated amounts that the Corporation would receive or pay to terminate the contracts at the reporting date.
- Foreign currency contracts: The fair value of forward exchange contracts and options is estimated using prices established by financial institutions for comparable instruments.

The following table sets forth the carrying amounts and fair values of the Corporation's financial instruments, except for those noted above for which carrying amounts approximate fair values, in millions of dollars:

Assets (Liabilities) As of December 31, 1997	Carrying Amount	Fair Value
Non-derivatives:		
Long-term debt	$(1,623.7)	$(1,660.4)
Derivatives relating to:		
Debt		
Liabilities	—	(5.6)
Foreign currency		
Assets	68.4	82.6
Liabilities	(13.2)	(17.5)

Assets (Liabilities) As of December 31, 1996	Carrying Amount	Fair Value
Non-derivatives:		
Long-term debt	$(1,415.8)	$(1,437.5)
Derivatives relating to:		
Debt		
Assets	—	.1
Liabilities	—	(21.8)
Foreign currency		
Assets	39.7	62.4
Liabilities	(21.1)	(19.6)

BORG-WARNER SECURITY CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Fair Value of Financial Instruments

The methods and assumptions used to estimate the fair value of each class of financial instrument are as follows:

Cash and cash equivalents, receivables, notes payable and accounts payable
The carrying amounts approximate fair value because of the short maturity of these instruments.

Long-term debt
The carrying amounts of the Company's bank borrowings under its short-term bank lines and revolving credit agreement approximate fair value because the interest rates are based on floating rates identified by reference to market rates. The fair values of the Company's other long-term debt either approximate carrying value or are estimated based on quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

The carrying amounts and fair values of long-term debt at December 31, 1997 and 1996 were as follows:

(Millions of dollars)	December 31, 1997	1996
Carrying amount	$342.5	$438.2
Fair value	$347.1	437.7

Interest rate swaps
The Company uses interest rate swap agreements to manage exposure to interest rate fluctuations. The Company does not use derivative instruments for speculative purposes. The differential paid or received on interest rate swap agreements is recognized as an adjustment to interest expense in the period incurred or earned. The Company has no interest rate swap agreements outstanding.

Letters of credit
The Company utilizes third-party letters of credit to guarantee certain casualty insurance activities. The letters of credit reflect fair value as a condition of their underlying purpose and are subject to fees competitively determined in the marketplace. The contract value/fair value of the letters of credit at December 31, 1997 and 1996 were $110.8 million and $136.3 million, respectively. To monitor the counter parties' ability to perform, these letters of credit are only executed with major financial institutions.

EATON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Debt and Other Financial Instruments (In Part):

Financial instruments outstanding at December 31 are as follows (in millions):

	1997			1996		
	Notional amount	Carrying amount	Fair value	Notional amount	Carrying amount	Fair value
Cash and short-term investments		$ 90	$ 90		$ 60	$ 60
Marketable equity investments		5	5		22	22
Marketable debt securities		62	62		44	44
Short-term debt		(81)	(81)		(10)	(10)
Long-term debt, current portion of long-term debt and foreign currency principal swaps		(1,295)	(1,373)		(1,082)	(1,206)
Put options			(1)			
Foreign currency forward exchange contracts and options	$112	(27)	(27)	$23	(10)	(8)
Interest rate swaps						
Fixed to floating	66		1	127		1
Floating to fixed	9			64		(5)
Fixed to fixed	90	1		90	2	(2)
Interest rate caps sold				(50)	(1)	(1)

The fair values of short-term investments, marketable equity investments and debt securities, short-term and long-term debt, put options and interest rate swaps and caps are principally based on quoted market prices. The fair value of foreign currency forward exchange contracts and options, which primarily mature in 1998, and foreign currency principal and interest rate swaps are estimated based on quoted market prices of comparable contracts, adjusted through interpolation where necessary for maturity differences.

FLUOR CORPORATION (OCT)

NOTES TO FINANCIAL STATEMENTS

Fair Value of Financial Instruments

The estimated fair value of the company's financial instruments are as follows:

(In thousands, at October 31,)	1997 Carrying Amount	1997 Fair Value	1996 Carrying Amount	1996 Fair Value
Assets:				
Cash and cash equivalents	$299,324	$299,324	$246,964	$246,964
Marketable securities	10,089	10,089	69,378	69,378
Notes receivable including noncurrent portion	39,570	45,207	116,809	120,463
Long-term investments	52,115	53,619	48,920	47,948
Liabilities:				
Commercial paper and notes payable	88,699	88,699	67,007	67,007
Long-term debt including current portion	300,624	316,024	3,174	3,174
Other noncurrent financial liabilities	5,240	5,240	2,556	2,556
Off-balance sheet financial instruments:				
Foreign currency contract obligations	—	(1,225)	—	(1,726)
Letter of credit	—	841	—	700
Lines of credit	—	497	—	747

Fair values were determined as follows:

The carrying amounts of cash and cash equivalents, short-term notes receivable, commercial paper and notes payable approximates fair value because of the short-term maturity of these instruments

Marketable securities and long-term investments are based on quoted market prices for these or similar instruments. Long-term notes receivable are estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings.

The fair value of long-term debt, including current portion, is estimated based on quoted market prices for the same or similar issues or on the current rates offered to the company for debt of the same maturities.

Other noncurrent financial liabilities consist primarily of deferred payments, for which cost approximates fair value.

Foreign currency contract obligations are estimated by obtaining quotes from brokers.

Letters of credit and lines of credit amounts are based on fees currently charged for similar agreements or on the estimated cost to terminate or settle the obligations.

FOSTER WHEELER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS
(In thousands of Dollars, except per share amounts)

16. Financial Instruments and Risk Management

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate values:

Cash and Short-term Investments—All investments are considered available for sale and the carrying amount approximates fair value because of the short maturity of these instruments.

Long-term investments—The fair values of some investments are estimated based on quoted market prices for those or similar investments.

Long-term Debt—The fair value of the Corporation's long-term debt (including current installments) is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Corporation for debt of the same remaining maturities.

Foreign Currency Contracts and Interest Rate Swaps—The fair values of these financial instruments (used for hedging purposes) are estimated by obtaining quotes from brokers. The Corporation is exposed to market risks from changes in interest rates and fluctuations in foreign exchange rates. Financial instruments are utilized by the Corporation to reduce these risks. The Corporation does not hold or issue financial instruments for trading purposes. The Corporation is exposed to credit loss in the event of nonperformance by the counterparties. All of these financial instruments are with significant financial institutions that are primarily rate A (S&P) or better (see Notes 1 and 8).

Carrying Amounts and Fair Values—The estimated fair values of the Corporation's financial instruments are as follows:

	1997 Carrying Amount	1997 Fair Value	1996 Carrying Amount	1996 Fair Value
Nonderivatives:				
Cash and short-term investments	$259,305	$259,305	$404,329	$404,329
Long-term investments	700	1,240	700	1,170
Long-term debt	(889,196)	(888,321)	(829,043)	(828,287)
Derivatives:				
Foreign currency contracts	31,210	31,210	1,430	1,430
Interest rate swaps	—	(605)	—	260

In the ordinary course of business, the Corporation is contingently liable for performance under letters of credit totaling approximately $252,000 and $166,000 at December 26, 1997 and December 27, 1996, respectively. In the Corporation's past experience, no material claims has been made against these financial instruments. Management of the Corporation does not expect any material losses to result from these off-balance-sheet instruments and, therefore, is of the opinion that the fair value of these instruments is zero. As of December 26, 1997, the Corporation had $475,000 of forward exchange contracts outstanding. These forward exchange contracts mature between 1998 and 2002. Approximately 18% of these contracts require a domestic subsidiary to sell Japanese yen and receive U.S. dollars. The remaining contracts have been established by various international subsidiaries to sell a variety of currencies and either receive their respective functional currencies or other currencies for which they have payment obligations to third parties.

THE INTERLAKE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

Note 16. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents—The carrying amount approximates fair value because of the short maturities of such instruments.

Other assets—The fair values for financial instruments included in other assets were estimated based on quoted market prices for the same or similar issues.

Long-term debt (See Note 12)—The fair values of the long-term debt other than bank debt were estimated based on quoted market prices for the same or similar issues. The interest rate on the Company's bank debt is reset every quarter to reflect current market rates. Consequently, the carrying value of the bank debt approximates fair value.

Convertible exchangeable preferred stock (See Note 13)—The fair value of the preferred stock, which was issued in a private placement, is included in the following table at carrying value as such stock is not traded in the open market and a market price is not readily available.

Foreign exchange contracts (See Note 1)—The fair value associated with the foreign currency contracts has been estimated by valuing the net position of the contracts using applicable spot or forward rates as of the end of the fiscal year.

The estimate fair values of the Company's financial instruments are as follows:

	Dec. 28, 1997		Dec. 29, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$84,508	$84,508	$70,228	$70,228
Other assets	6,000	6,000	6,000	5,715
Long-term debt*	319,117	334,765	392,974	403,879
Convertible exchangeable preferred stock	39,155	39,155	39,155	39,155
Foreign currency contracts	—	(361)	—	(31)

**Includes current maturities and excludes capitalized long-term leases*

LEE ENTERPRISES, INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

The carrying amounts of cash and cash equivalents, temporary investments, receivables, and accounts payable approximate fair value because of the short maturity of those instruments. The carrying value of other investments is as follows: $8,688,000 of debt and equity securities in a deferred compensation trust are carried at a fair value based upon quoted market prices and $3,818,000 of equity securities, consisting primarily of the Company's 17% ownership of the non-voting common stock of The Capital Times Company, are carried at cost, as the fair value is not readily determinable.

The fair value of the Company's debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The estimated fair values of the Company's debt instruments are as follows:

(In thousands)	Carrying Amount	Fair Value
September 30:		
1997	$203,735	$204,603
1996	95,503	97,672
1995	123,489	127,723

TRIBUNE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Fair Value of Financial Instruments

Estimated fair values and carrying amounts of the Company's financial instruments were as follows:

	Dec. 28, 1997		Dec. 29, 1996	
(In thousands)	Fair Value	Carrying Amount	Fair Value	Carrying Amount
Cost method investments				
Practicable to estimate fair value	$282,081	$283,826	$340,011	$331,413
Not practicable	—	—	—	5,294
Debt securities	139,565	139,565	220,413	220,413
Debt	1,575,421	1,554,801	1,039,385	1,010,827
Contracts payable for broadcast rights	403,588	441,397	350,498	388,343

The following methods and assumptions were used to estimate the fair value of each category of financial instruments.

Cost Method Investments and Debt Securities. Cost method investments in public companies and debt securities were recorded at fair value in the consolidated balance sheets (see Notes 1 and 6). Cost method investments in private companies were recorded at cost, and fair value was generally estimated based on prices recently paid for shares in that company. For certain investments, it was not practicable to estimate fair value at December 29, 1996.

Debt. Fair value was determined based on quoted market prices for similar issues or on current rates available to the Company for debt of the same remaining maturities and similar terms.

Contracts Payable for Broadcast Rights. Fair value was estimated using the discounted cash flow method.

USX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. Fair Value of Financial Instruments

Fair value of the financial instruments disclosed herein is not necessarily representative of the amount that could be realized or settled, nor does the fair value amount consider the tax consequences of realization or settlement. The following table summarizes financial instruments, excluding derivative financial instruments disclosed in Note 28, by individual balance sheet account:

	1997		1996	
(In millions) December 31	Fair Value	Carrying Amount	Fair Value	Carrying Amount
Financial assets:				
Cash and cash equivalents	$ 54	$ 54	$ 55	$ 55
Receivables	1,417	1,417	1,270	1,270
Investments and long-term receivables	177	120	252	211
Total financial assets	1,648	1,591	1,577	1,536
Financial liabilities:				
Notes payable	$ 121	$ 121	$ 81	$ 81
Accounts payable	2,011	2,011	2,204	2,204
Accrued interest	95	95	102	102
Long-term debt (including amounts due within one year)	3,646	3,281	4,332	4,083
Trust preferred securities and preferred stock of subsidiary	435	432	254	250
Total financial liabilities	$6,308	$5,940	$6,973	$6,720

Fair value of financial instruments classified as current assets or liabilities approximates carrying value due to the short-term maturity of the instruments. Fair value of investments and long-term receivables was based on discounted cash flows or other specific instrument analysis. Fair value of trust preferred securities and preferred stock of subsidiary was based on market prices. Fair value of long-term debt instruments was based on market prices where available or current borrowing rates available for financings with similar terms and maturities.

USX's unrecognized financial instruments consist of receivables sold and financial guarantees. It is not practicable to estimate the fair value of these forms of financial instrument obligations because there are no quoted market prices for transactions which are similar in nature. For details relating to sales of receivables see Note 13, and for details relating to financial guarantees see Note 30.

CONCENTRATIONS OF CREDIT RISK

AMCAST INDUSTRIAL CORPORATION (AUG)

NOTES TO FINANCIAL STATEMENTS
(Dollars in thousands)

Major Customers and Credit Concentration

The Company sells products to customers primarily in the United States and, with the acquisition of Speedline, will also sell products to original equipment automotive manufacturers in Europe. The Company performs ongoing credit evaluations of customers, and generally does not require collateral. Allowances are maintained for potential credit losses and such losses have been within management's expectations. On August 31, 1997, total trade receivables from the domestic and foreign automotive industry were $66,635, and $22,388 was due from the construction industry.

Sales to Engineered Component's largest customer, General Motors Corporation, were $139,721, $114,473, and $120,100 for the years ended August 31, 1997, 1996, and 1995, respectively. Trade receivables from General Motors Corporation on August 31, 1997 and 1996, were $16,511 and $14,551, respectively, and were current. No other single customer accounted for a material portion of trade receivables.

AMERICAN GREETINGS CORPORATION (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies

Concentration of Credit Risks: The Corporation sells primarily to customers in the retail trade, including those in the mass merchandiser, drug store, supermarket and other channels of distribution. These customers are located throughout the United States, Canada, the United Kingdom, Australia, New Zealand, France, Mexico and South Africa. The Corporation conducts business based on periodic evaluations of its customers' financial condition and generally does not require collateral. While the competitiveness of the retail industry presents an inherent uncertainty, the Corporation does not believe a significant risk of loss from a concentration of credit exists.

ARMCO INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Concentrations of Credit Risk
Armco is primarily a producer of stainless, electrical and galvanized carbon steels and steel products, which are sold to a number of markets, including automotive, industrial machinery and equipment, construction, power distribution and appliances. Armco sells domestically to customers primarily in the Midwestern and Eastern United States, while approximately 10% of sales are to foreign customers, primarily in Canada, Mexico and Western Europe. Approximately 21% of trade receivables outstanding at December 31, 1997 are due from businesses that supply the U.S. automotive industry. Except in a few situations where the risk warrants it, Armco does not require collateral on trade receivables; and while it believes its trade receivables will be collected, Armco anticipates that in the event of default it would follow normal collection procedures. Overall, credit risk related to Armco's trade receivables is limited due to the large number of customers in differing industries and geographic areas.

CABOT CORPORATION (SEP)

NOTES TO FINANCIAL STATEMENTS

Note M (In Part): Financial Instruments & Concentrations of Credit Risk

Concentrations of Credit Risk
Financial instruments that subject the Company to concentrations of credit risk consist principally of trade receivables. International tire manufacturers comprise a significant portion of the Company's carbon black customer base. At September 30, 1997 and 1996, the Company had trade receivables of approximately $62.6 million and $66.2 million, respectively, from international tire manufacturers. Although the Company's exposure to credit risk associated with nonpayment by tire manufacturers is affected by conditions or occurrences within the tire industry, trade receivables from the international tire manufacturers were current at September 30, 1997, and no manufacturer exceeded 5% of the Company's receivables at that date.

HYDE ATHLETIC INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Concentration of Credit Risk:

Financial instruments which potentially subject the Company to credit risk consist primarily of cash, cash equivalents and trade receivables.

The Company maintains cash and cash equivalents with various major financial institutions. Cash equivalents include investments in commercial paper of companies with high credit ratings, investments in money market securities and securities backed by the U.S. Government. At times such amounts may exceed the F.D.I.C. limits. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash investments.

Trade receivables subject the Company to the potential for credit risk with customers in the retail and distributor sectors. To reduce credit risk, the Company performs ongoing evaluations of its customers financial condition but does not generally require collateral. Approximately 31% of the Company's gross trade receivables balance was represented by 8 customers at January 2, 1998,

which exposes the Company to a concentration of credit risk.

INTEL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of investments and trade receivables. Intel places its investments with high credit-quality counterparties and, by policy, limits the amount of credit exposure to any one counterparty based on Intel's analysis of that counterparty's relative credit standing. A majority of the Company's trade receivables are derived from sales to manufacturers of computer systems, with the remainder spread across various other industries. The Company's five largest customers accounted for approximately 39% of net revenues for 1997. At December 27, 1997, these customers accounted for approximately 34% of net accounts receivable.

The Company endeavors to keep pace with the evolving computer industry and has adopted credit policies and standards intended to accommodate industry growth and inherent risk. Management believes that credit risks are moderated by the diversity of its end customers and geographic sales areas. Intel performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary.

NALCO CHEMICAL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Concentration of Credit Risk:
Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. Management believes the likelihood of incurring material losses due to concentration of credit risk is remote. The principal financial instruments subject to credit risk are as follows::

Cash and Cash Equivalents, Short-term Marketable Securities—Nalco has a formal policy of placing these instruments in investment grade companies or financial institutions and limiting the size of an investment with any single entity.

Receivables—A large number of customers in diverse industries and geographies, as well as the practice of establishing reasonable credit lines, limits credit risk. The allowances for doubtful accounts are adequate to cover potential credit risk losses.

Foreign Exchange Contracts and Derivatives—The Company has formal policies which establish credit limits and investment grade credit criteria of "A" or better for all counterparties.

NATIONAL SERVICE INDUSTRIES, INC. (AUG)

1 (In Part): Accounting Policies

Concentrations of Credit Risk
Concentrations of credit risk with respect to receivables are limited due to the wide variety of customers and markets into which the company's products and services are provided, as well as their dispersion across many different geographic areas. As a result, as of August 31, 1997, the company does not consider itself to have any significant concentrations of credit risk.

PEERLESS MFG. CO. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B–Concentrations of Credit Risk

A significant portion of the Company's sales are to customers whose activities are related to the oil and gas industry, including some who are located in foreign countries. The Company generally extends credit to these customers. Its exposure to credit risk is affected by conditions within the oil and gas industry. Also, with respect to foreign sales, collection may be more difficult in the event of a default.

However, the Company closely monitors extensions of credit and has never experienced significant credit losses. Substantially all foreign sales are made to large, well-established companies. The Company generally requires collateral or guarantees on foreign sales to smaller companies.

Sales to one customer accounted for approximately 12.3% of revenues for the year ended June 30, 1997. No single customer accounted for more than 10% of revenues in 1996 or 1995.

PHILLIPS PETROLEUM COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 11 (In Part): Financial Instruments and Derivative Contracts

Credit Risk
The company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents, trade receivables and over-the-counter derivative contracts. Phillips' cash equivalents are placed in high-quality time deposits with major international banks and financial institutions, limiting the company's exposure to concentrations of credit risk. The company's trade receivables result primarily from its petroleum and chemicals operations and reflect a broad customer base, both nationally and internationally. The company also routinely assesses the financial strength of its customers.

The credit risk from the company's over-the-counter derivative contracts, such as forwards and swaps, derives from the counterparty to the transaction, typically a major bank or financial institution. Phillips does not anticipate non-performance by any of these counterparties, none of whom does sufficient volume with the company

to create a significant concentration of credit risk. Futures contracts have a negligible credit risk because they are traded on the New York Mercantile Exchange (NYMEX) or International Petroleum Exchange of London Limited (IPE).

TOSCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Financial Instruments

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, marketable securities, short-term deposits, trade receivables, and derivative instruments. The Company places its cash equivalents, marketable securities, and short-term deposits with several high-quality financial institutions. The Company's customer base consists of a large number of diverse customers. The Company conducts ongoing evaluations of its customers and requires letters of credit or other collateral arrangements as appropriate. Accordingly, trade receivable credit losses have not been significant: The Company does not believe that it has a significant credit risk on its derivative instruments which are transacted through the New York Mercantile Exchange, or with counterparties meeting established collateral and credit criteria.

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 recorded 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 1-14 lists the subsequent events disclosed in the financial statements of the survey companies.

Example of subsequent event disclosures follow.

TABLE 1-14: SUBSEQUENT EVENTS

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Business combinations pending or effected	92	70	72	53
Debt incurred, reduced or refinanced	62	69	66	56
Discontinued operations	34	39	39	33
Litigation	32	26	36	45
Capital stock issued or purchased	22	22	11	18
Stock splits or dividends	17	13	17	7
Stock purchase rights	10	9	15	5
Employee benefits	18	10	14	19
Formation of jointly owned companies	11	N/C	N/C	N/C
Other-described	58	48	51	58

N/C - Not compiled.

Business Combinations

BAUSCH & LOMB INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS
(Dollar Amounts in Millions, Except per share data)

2. Subsequent Events

On December 29, 1997, the company acquired Chiron Vision Corporation (Chiron Vision), the ophthalmic products unit of Chiron Corporation, for a purchase price of $300.0 in cash. Chiron Vision researches, develops and manufactures innovative products that improve results in cataract and refractive surgery and the treatment of progressive eye diseases. Chiron Vision had unaudited net sales of $212.7 for the twelve months ended December 1997. Further, on December 31, 1997, the company acquired Starz Instrument Company (Starz) from American Home Products Corporation, for a purchase price of $380.0 in cash. Starz is a leading manufacturer of high quality ophthalmic surgical instruments, surgical and diagnostic equipment, intraocular lens implants and ophthalmic pharmaceuticals. Starz had unaudited net sales of $205.7 for the twelve months ended December 1997. The acquisitions will be accounted for using the purchase method of accounting. Accordingly, a portion of the purchase price will be allocated to net tangible and intangible assets acquired based on their estimated fair values. A portion will also be allocated to in-process research and development projects that had not reached technological feasibility and had no probable alternative future uses which will be expensed in the first quarter of 1998. The balance of the purchase price will be recorded as goodwill. The company is currently in the process of preparing the purchase price allocation and determining the useful lives of the assets acquired. The acquisitions were financed initially through $680.0 of short-term borrowings, the majority of which the company plans to convert to long-term during 1998. The company expects the full year earnings impact of the acquisitions in 1998 to be neutral.

BEMIS COMPANY, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 16: Subsequent Event

Effective February 1, 1998, the Company acquired, for cash, one-third of all outstanding shares of Dixie Toga, S.A.'s flexible packaging business located in Brazil. This joint venture between Bemis, the largest supplier of flexible packaging in North America, and Dixie Toga, one of the largest suppliers of flexible packaging in South America, will create an organization strong in market knowledge and leading technology to service the needs of the South American marketplace. Dixie Toga has recently consolidated its three flexible packaging businesses, Dixie Toga Flexible Packaging, Itap Flexiveis, and BMT, into a single business entity with annual sales of approximately $133 million. This recently consolidated business will be named Itap/Bemis Ltda. This business, which currently has Brazilian manufacturing sites in Sao Paulo and

Cambe, Parana, will be consolidating manufacturing sites onto a new business campus in Londrina, Parana. Itap/Bemis Ltda. serves a variety of markets in Brazil and the Mercosul, the Southern Cone Common Markets. This Dixie Toga business unit has strong relationships with the major packaged food companies in the markets it serves. Since Bemis did not purchase a controlling interest in the company, the investment and future earnings will be recorded on the equity basis of accounting.

EKCO GROUP, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

19. Subsequent Event

On January 16, 1998 the Company completed the acquisition (the "Acquisition") of all of the outstanding equity securities of APP Holding Corporation ("APP"), the parent corporation and sole stockholder of Aspen Pet Products, Inc. ("Aspen"), a marketer of dog and cat supplies and accessories as well as other pet products. Pursuant to the Stock Purchase and Sale Agreement, the Company paid approximately $24.5 million in cash and refinanced APP's outstanding bank debt of approximately $9.1 million. In addition, if Aspen achieves certain predetermined financial results during the five fiscal years ending December 31, 1998, 1999, 2000, 2001, and 2002, the Company will make additional annual payments to certain former APP stockholders equal, in the aggregate, to 25% of the amount by which Aspen's Gross Profit (as defined) of each such year exceeds the Base Profit Amount (as defined). The Acquisition will be accounted for under the purchase method of accounting and goodwill of approximately $24 million will be amortized over 40 years. At December 29, 1997, APP's total assets were $21 million and total liabilities were $12 million. For the year ended December 31, 1997, APP had net sales of approximately $30 million and operating income of approximately $3 million.

FEDERAL-MOGUL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Financial Instruments

Foreign Exchange Risk and Commodity Price Management

In connection with the proposed T&N plc acquisition (refer to Note 20) the Company purchased a British pound currency option for $28.1 million with a notional amount of $2.5 billion to cap the effect of potential unfavorable fluctuations in the British pound/U.S. dollar exchange rate. The cost of the option and its change in fair value has been reflected in the results of operations in the fourth quarter of 1997. At December 31, 1997, the Company recognized a net loss on this transaction of $10.5 million. The option was settled in the first quarter of 1998 resulting in a loss of $17.3 million (refer to Note 20).

20 (In Part): Subsequent Events

T&N PLC Transaction

On October 16, 1997, the Company announced it made a cash offer to acquire all the outstanding common stock of T&N plc (T&N) for 260 pence per share. The offer valued T&N's issued share capital at approximately $2.4 billion. T&N, headquartered in Manchester, England, had 1997 net sales of approximately $2.9 billion. On January 6, 1998, the Company's offer to acquire all of the outstanding common stock of T&N was declared unconditional as to acceptances. By the second closing date under the offer, January 2, 1998, valid acceptances of the offer had been received for approximately 95% of the entire issued share capital of T&N. The Company will finance the acquisition through a committed bank facility from a reputable financial institution. The Company's intention is to put in place a permanent capital structure with an appropriate combination of equity and debt financing.

The offer is subject to various conditions customary in the United Kingdom and the receipt of all applicable regulatory approvals in the United States and Europe. As part of the acquisition process, certain financing, professional and other related fees have been incurred in 1997. These fees have been capitalized as incurred and will be accounted for as direct acquisition or financing costs once the transaction closes. Management fully expects the acquisition to close in the first quarter of 1998, however, in the event the acquisition is not completed, these fees would be charged to operations and would materially impact earnings at that time. As of December 31, 1997, the Company had capitalized $28 million of these fees. In addition, the Company may elect to accelerate payment of certain portions of the bank facility which would result in an extraordinary charge due to the write-off of the financing cost associated with the early retirement of debt.

The British pound currency option (refer to Note 8) was settled by the Company in the first quarter of 1998 resulting in a $17.3 million pretax loss. Also in the first quarter of 1998, the Company entered into a forward contract to purchase 1.5 billion British pounds for a notional amount of approximately $2.45 billion. The forward contract expires in the first quarter of 1998.

MALLINCKRODT INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 21. Subsequent Event—Acquisition

On July 23, 1997, the Company announced the execution of a definitive agreement to purchase for cash all outstanding shares of Nelicor Puritan Bennett Incorporated (Nellcor) common stock for $28.50 per share.

Under the terms of the merger agreement unanimously approved by the boards of both of the companies, the Company commenced a tender offer for all of the outstanding shares of Nellcor on July 29, 1997. The offer expires on August 25, 1997 unless further extended. The tender offer was conditioned upon , among other things, there being validly tendered and not withdrawn a number of shares that equal at least a majority of the outstanding shares of Nellcor. After the consummation of the tender

offer, the Company agreed to acquire any of the remaining outstanding shares of Nellcor pursuant to a second-step merger in which holders of such shares will receive $28.50 per share. The aggregate purchase price of the common stock is approximately $1.9 billion. The acquisition of Nellcor is anticipated to be completed during the first quarter of 1998 and will be accounted for using purchase accounting.

In July 1997, Mallinckrodt finalized a $2.0 billion credit agreement to fund the acquisition of Nellcor. The credit facility consists of a $400 million two-year term loan and a $1.6 billion five-year revolving credit facility. Interest rates on borrowings under the agreement are based on the London Interbank Offered Rate (LIBOR), or other alternatives, plus a margin dependent on the Company's senior debt ratings.

The Company's senior debt and commercial paper ratings are currently under review for downgrade and will likely be lowered upon the review of the rating agencies. It is expected that the review will be completed no later than the end of September 1997. Initial drawings under the credit agreement will be at LIBOR plus .30% or lower.

Nellcor reported revenues of $779 million and net income of approximately $39 million for the fiscal year ended July 6, 1997. It also reported total assets of $673 million and shareholders' equity of $479 million at the end of fiscal 1997.

MEREDITH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Subsequent Event (unaudited)

On July 1, 1997, the company acquired three of the television stations of First Media Television, L.P. The acquisition price for the purchased net assets was $216 million. On September 4, 1997, Meredith acquired and traded the fourth First Media station, WCPX in Orlando, for WFSB, a CBS affiliate serving Hartford/New Haven, Conn., to comply with FCC regulations that prohibit the ownership of multiple stations in one market. The company acquired WFSB from Post-Newsweek through an exchange of assets plus a $60 million cash payment to Meredith. The result was a net cost to the company of $159 million for the acquisition of WFSB. The company intends to continue the operations of all of the television stations purchased. The acquisition of three of the First Media television stations on July 1, 1997, and of the Hartford/New Haven television station on September 4, 1997, will be accounted for as purchases in fiscal 1998. The respective purchase prices will be allocated to the assets acquired and liabilities assumed based upon their estimated fair values per independent appraisals.

The purchase price allocation of the $216 million acquisition of the three First Media stations included the following intangibles: FCC license of $123 million; network affiliation of $49 million; and goodwill of $30 million. These intangible assets will be amortized over periods ranging from 25 to 40 years. The purchase price allocation of the $159 million acquisition of the Hartford/New Haven station has not been completed as of September 10, 1997.

These acquisitions were financed by a credit agreement with a group of seven banks led by Wachovia Bank, N.A., as agent. Total debt outstanding under the credit agreement was $270 million at September 10, 1997. See Management's Discussion and Analysis for further information regarding the credit agreement.

The following unaudited pro forma summary presents the consolidated results of operations as if the acquisition of the three First Media stations had been made at the beginning of the respective periods presented, based on an independent appraisal. These results do not purport to be indicative of what would have occurred had the acquisition actually been made as of such dates or of results which may occur in the future.

Years ended June 30	1997	1996
(In millions, except per share)		
Revenues	$899.7	$906.8
Earnings from continuing operations	$ 67.3	$ 50.3
Earnings per share from continuing operations	$ 1.21	$ .89

POTLATCH CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 16. Subsequent Event

In February 1998, the board of directors of the company approved the contribution of all of the company's approximately 514,000 acres of timberlands in Arkansas to a newly formed real estate investment trust, Timberland Growth Corporation (TGC). The board also approved an agreement pursuant to which TGC will acquire from Anderson-Tully Company (ATCO) 324,000 acres of primarily hardwood timberlands concentrated in Mississippi and Arkansas and other real estate assets through a cash merger for approximately $410 million. The merger will be funded primarily by a proposed initial public offering of TGC's common stock. After TGC's initial public offering, the company will own a majority of the economic interest in TGC and will have voting power equal to its economic interest.

The company will also acquire directly from ATCO two hardwood sawmills, a veneer plant and log transportation assets. The company and TGC will enter into a long-term timber purchase agreement by which the company will purchase and harvest timber from TGC's initial timberlands at fair market value primarily for use at the company's converting facilities in Arkansas and the two former ATCO sawmills and veneer plant in Mississippi.

Consummation of these transactions is subject to certain contingencies, including regulatory approvals.

The company initially will consolidate TGC's financial statements and will reflect ATCO's assets acquired by TGC based on fair values as follows:

(Dollars in millions)	
Assets acquired:	
Timber and timberlands	$366
Commercial real estate and farmland	43
Related equipment	1
	$410

This acquisition will be funded primarily from the net proceeds of TGC's proposed initial public offering, which will be shown in the consolidated financial statements as a minority interest. Additional long-term debt will be incurred or assumed by TGC to finance the balance of the acquisition. The acquisition by the company of the two hardwood sawmills, veneer plant and log transportation assets will also be accounted for under the purchase method of accounting.

NORTEK, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Subsequent Events

On March 9, 1998, the Company through a wholly-owned subsidiary, entered into an agreement to purchase NuTone, Inc., a wholly-owned subsidiary of Williams plc, for approximately $242,500,000 in cash. The acquisition is subject to the requirements of the Hart-Scott-Rodino Antitrust Improvements Act. In connection with its review of the transaction under the Act, the Federal Trade Commission ("FTC") has issued a "second request" for certain additional information. The FTC has taken no position with respect to the transaction and there can be no assurance that the transaction, as proposed, will be consummated. If the acquisition is not consummated, the Company expects that it would incur an approximately $3,000,000 ($0.31 per diluted share) net after tax charge to its earnings as a result of fees, expenses and other acquisition related costs.

THE STANDARD REGISTER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 13. Subsequent Events

On December 31, 1997, the Company acquired all outstanding shares of Uarco Incorporation (UARCO), a subsidiary of Settsu Corporation of Osaka, Japan, pursuant to a definitive purchase agreement dated November 27, 1997. UARCO produces and markets business forms, pressure sensitive labels, business equipment, supplies, and workflow systems to the U.S. market. At December 31, 1997, UARCO had approximately 3,200 employees located in 18 production facilities and 125 sales offices. The unaudited sales of UARCO during 1997 were approximately $470 million, excluding operations divested prior to the acquisition date.

The purchase price was $245 million in cash, of which $230 million was financed under a new five-year, unsecured bank revolving credit agreement. The credit line provides for borrowings up to $300 million and bears interest at a floating rate of LIBOR plus a spread dependent upon the debt to equity ratio. On January 23, 1998, $200 million of the outstanding debt was swapped to an effective fixed interest rate of 6.09%.

The acquisition will be accounted for as a purchase in fiscal 1998. The purchase price will be allocated to the assets acquired and liabilities assumed based upon their estimated fair market values. The purchase price allocation will be determined during 1998 when additional information becomes available. Results of operations for UARCO will be included with those of the Company beginning in fiscal 1998.

STANDEX INTERNATIONAL CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Event

On August 20, 1997, the Company signed a purchase and sale agreement with ACME Manufacturing Company whereby the Company would acquire the net assets of ACME. The acquisition will be accounted for as a purchase and was not significant with respect to the Company's consolidated financial statements. On an unaudited pro forma basis, if the acquisition had occurred July 1, 1996, net sales and net earnings for fiscal 1997 would have been approximately $623,400,000 and $28,800,000, respectively.

USA WASTE SERVICES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Subsequent Events

On January 14, 1998, the Company acquired the solid waste divisions of City Management Holdings Trust ("City Management") for approximately $735,000,000 consisting primarily of cash and a limited amount of debt assumed. The businesses acquired include 20 collection operations, ten landfills, and 12 transfer stations primarily in the state of Michigan. This acquisition was accounted for under the purchase method of accounting.

The unaudited pro forma information set forth below assumes acquisitions in 1996, 1997, and through February 1, 1998, accounted for as purchases had occurred at the beginning of 1996. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated at that time (in thousands, except per share amounts):

	Years Ended December 31,	
	1997	1996
	(unaudited)	(unaudited)
Operating revenues	$3,394,513	$3,268,485
Income before extraordinary item	315,307	154,969
Net income	309,014	154,969
Basic earnings per common share:		
Income before extraordinary item	1.49	0.85
Net income	1.46	0.85
Diluted earnings per common share:		
Income before extraordinary item	1.41	0.81
Net income	1.39	0.81

Debt Incurred, Reduced Or Refinanced

COLTEC INDUSTRIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

19 (In Part): Subsequent Events

In February 1998, the Company amended its existing credit facility increasing the total commitment to $900,000 from $850,000.

HILLENBRAND INDUSTRIES, INC. (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Subsequent Events

On December 8, 1997, the Company issued $100 million of 6¾% debentures under a shelf registration statement filed with the Securities and Exchange Commission in 1993. The debentures are due December 15, 2027 and are redeemable, as a whole or in part, at the option of the Company at any time. There are no sinking fund requirements. The debentures were priced at 99.184% to yield 6.814% to maturity. Interest is payable semiannually on June 15 and December 15 commencing June 15, 1998. Net proceeds to the Company of $98.309 million will be used for general corporate purposes, including working capital, capital expenditures and possible future acquisitions.

LAM RESEARCH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note U: Subsequent Event—Convertible Subordinated Notes

During August 1997, Lam completed an offering of $310.0 million of Convertible Subordinated Notes (the Notes). The Notes bear interest at five percent, mature on September 1, 2002 and are convertible into shares of Lam's Common Stock at $87.77 per share. Expenses associated with the offering of approximately $9.0 million will be deferred and will be included in other assets. Such expenses will be amortized to interest expense over the term of the Notes.

In connection with the issuance of the Notes, the Company received consents and waivers with respect to certain financial and other covenants contained in agreements related to certain existing financial arrangements. In addition, as a consequence of the Merger with OnTrak as well as issuance of the Notes, the Company, on or prior to the end of the fiscal quarter ending September 30, 1997, would be out of compliance with certain other financial covenants unless appropriate waivers are completed prior to that time. The company is currently in discussions with lenders that are parties to these agreements. Based on these discussions, the Company believes that appropriate amendments or waivers will be obtained prior to fiscal quarter end on terms no less favorable to the Company than the existing terms. In the event any such amendments or waivers are not obtained by fiscal quarter end, the Company could be required to terminate the revolving credit facility, purchase certain of its leased facilities, purchase sold receivables and pay certain of the Japanese term loans.

MINNESOTA MINING AND MANUFACTURING COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Debt (In Part):

In February 1998, the company issued $330 million of 30-year, 6.375 percent debentures. The company's net effective all-in borrowing cost is 6.46 percent. This issuance exhausted 3M's $600 million shelf registration with the Securities and Exchange Commission. At year-end 1997, the company had available short-term lines of credit totaling about $300 million.

OMNICOM GROUP INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Subsequent Events

On January 6, 1998, the Company issued $230,000,000 of 2¼% Convertible Subordinated Debentures with a scheduled maturity in 2013. The debentures are convertible into common stock of the Company at a conversion price of $49.83 per share subject to adjustment in certain events. Debenture holders have the right to require the

Company to redeem the debentures on January 6, 2004 at a price of 118.968%, or upon the occurrence of a Fundamental Change, as defined in the indenture agreement, at the prevailing redemption price. The Company may redeem the debentures, as a whole or in part, on or after December 31, 2001 initially at 112.841% and at increasing prices thereafter to 118.968% until January 6, 2004, and 100% thereafter. Unless the debentures are redeemed, repaid or converted prior thereto, the debentures will mature on January 6, 2013 at their principal amount. The proceeds of this issuance are being used for general corporate purposes, including working capital.

On January 29, 1998, the Company announced that it had reached agreement on the terms of a recommended cash offer for The GGT Group plc ("GGT"), an advertising and marketing services group headquartered in the United Kingdom and operating primarily in France, the United Kingdom and the United States. The offer price of 200p for each share valued GGT's fully diluted ordinary share capital at £143 million (approximately $235 million at the January 29, 1998 exchange rate). On March 24, 1998, the Company had received acceptances in respect of, or was the beneficial owner of, over 90% of GGT's ordinary share capital.

On February 20, 1998, the Company amended and restated the $360 million revolving credit agreement originally entered into in 1996. The amended and restated $500 million revolving credit agreement is with a consortium of banks and expires on June 30, 2003.

On March 4, 1998, the Company issued 4,000,000 shares of common stock for aggregate proceeds before expenses of $171,400,000. The proceeds of this issuance will be used for general corporate purposes, including the funding of the acquisition of The GGT Group plc.

RAYTHEON COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note S: Subsequent Events

In January 1998, the company sold its Monolithic Microwave Integrated Circuit (MMIC) operations for approximately $39 million.

In February 1998, the company announced that it had entered into an agreement to sell its commercial laundry business for approximately $358 million. There can be no assurance that the sale will be consummated.

In March 1998, the company issued $1.6 billion of debt. Partial proceeds from the issuance were used to refinance debt assumed in connection with the company's recent merger with Hughes Defense. The company issued $500 million of notes due 2001 which have a coupon rate of 5.95 percent, $450 million of notes due 2005 which have a coupon rate of 6.3 percent, $300 million of notes due 2010 which have a coupon rate of 6.55 percent, and $350 million of debentures due 2018 which have a coupon rate of 6.75 percent. The notes due in 2001 and 2005 are not redeemable prior to maturity. The notes due in 2010 and the debentures due in 2018 are redeemable under certain circumstances. The issuance of $900 million of debt securities essentially completes the company's previously announced plans to refinance the acquisition of TI Defense and its merger with Hughes Defense. The remaining $700 million is additional refinancing of bank and commercial paper borrowings.

On March 26, 1998, the company announced that it had reached an agreement to sell its European-based Raytheon Electronic Controls business for approximately $38 million. There can be no assurance that the sale will be consummated.

TYLER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 (In Part): Subsequent Events

In February 1998, the Company entered into a three year bank credit agreement in an amount not to exceed $50,000,000, including a $5,000,000 sublimit for the issuance of standby and commercial letters of credit (the "Senior Credit Facility"). The proceeds of the Senior Credit Facility are intended to be used to fund acquisitions and meet short-term working capital needs and capital expenditures which may arise from time to time. Borrowings under the Senior Credit Facility bear interest at either the bank's prime rate plus a margin of zero to .25% or the London Interbank Offered Rate plus a margin of 1% to 2% depending on the Company's ratio of indebtedness to earnings before interest, taxes, depreciation and amortization. The Senior Credit Facility is secured by a pledge of the common stock of all present and future operating subsidiaries and will be guaranteed by all such subsidiaries. Under the terms of the Senior Credit Facility the Company is required to maintain certain financial ratios and other financial conditions. The Senior Credit Facility also prohibits the Company from incurring certain additional indebtedness, limits certain investments, advances or loans and restricts substantial asset sales, capital expenditures and cash dividends.

Discontinued Operations

CAMPBELL SOUP COMPANY (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Million dollars)

21. Subsequent Events

In September 1997, the company announced its intention to spin off certain specialty foods business to its shareowners as an independent publicly-held company. The new company will include Swanson frozen foods, Vlasic pickles, and certain European and Argentine businesses. The company expects to complete the spinoff in 1998, subject to various regulatory approvals, the receipt of a ruling from the Internal Revenue Service that the spinoff will be tax-free transaction to shareowners and final approval from the company's Board of Directors.

Also in September 1997, the company agreed to finance a proposal by Arnotts to acquire its outstanding shares held by minority shareholders. It is expected that

this transaction would increase the company's ownership of Arnotts to 100%. The estimated financing is approximately $300 and Arnotts expects to complete the transaction in the second quarter of 1998.

PHELPS DODGE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Subsequent Events

In January 1998, the Corporation sold Accuride Corporation and its subsidiaries, its wheel and rim manufacturing business, to an affiliate of Kohlberg Kravis Roberts and Co. (KKR), and the existing management of Accuride. The Corporation retained a 10 percent interest in Accuride. Under the terms of the sales agreement, the Corporation received proceeds of $453.2 million from KKR resulting in a pre-tax gain of approximately $187.3 million ($123.6 million after-tax, or $2.11 per common share).

RALSTON PURINA COMPANY (SEP)

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

Discontinued Operations

In December 1997, the Company reached agreement to sell its Soy Protein Products operations to E.I. Du Pont de Nemours and Company (DuPont) for approximately $1.5 billion comprised of DuPont common stock and the assumption of certain liabilities. The amount received will be recorded in the first quarter of fiscal 1998, and will result in a gain for the Company. The Soy Protein Products business is the world's leading producer and marketer of high-quality dietary isolated protein and fiber food ingredients, and a leading marketer of polymer products worldwide. In addition, the Company has made significant progress in its efforts to separate its Agricultural Products business in a tax-free spin-off to shareholders. The spin-off is expected to be completed during the second quarter of fiscal 1998 after receipt of a favorable tax ruling from the Internal Revenue Service and approval by the Board of Directors. The Agricultural Products business is one of the world's largest producers and marketers of formula feeds outside the United States.

The Soy Protein Products and Agricultural Products segments are accounted for as discontinued operations, and accordingly, amounts in the financial statements and related notes for all periods shown have been restated to reflect discontinued operations accounting. Summarized results of these businesses are shown separately as Discontinued Operations in the accompanying consolidated financial statements. The Investment in Discontinued Operations is primarily comprised of accounts receivable, inventory, fixed assets and accounts payable. Operating results of these businesses are as follows:

	1997	1996	1995
Net sales	$1,983.8	$1,812.4	$1,526.2
Earnings before income taxes	$ 116.3	$ 114.6	$ 114.6
Income taxes	41.5	49.3	47.2
Net earnings from discontinued operations	$ 74.8	$ 65.3	$ 67.4

SPRINGS INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Other Matters

Subsequent Events

On February 17, 1998, Management adopted a plan to close one of its facilities. The phase-down of the facility is expected to take four to five months. A pretax charge of $23 million will be recorded during the first quarter of 1998. The charge includes $11.3 million for write-offs of plant and equipment, $4.0 million for severance arising from the elimination of approximately 480 positions, and $7.7 million for certain other expenses associated with the closing of the facility. In addition, the Company expects to incur approximately $8 million for equipment relocation and other realignment expenses which do not qualify as "exit costs."

STANDARD MOTOR PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Discontinued Operations

Brake Business

In July 1997, the Company signed a letter of intent to exchange its brake business for the temperature control business of Moog Automotive, Inc., a subsidiary of Cooper Industries. This anticipated transaction will involve an exchange of certain assets, assumption of certain liabilities, and possible payment of cash to achieve an equivalent exchange value. The Company filed the transaction with the Department of Justice and received regulatory approval of the exchange in December of 1997. Execution of the exchange, which is anticipated in March 1998, is subject to reaching a definitive Purchase Agreement.

The estimated loss on the disposal of the Brake Business is $14,500,000 consisting of an estimated loss on the disposal of the business of $14,000,000 and a provision of $500,000 for anticipated operating losses until the completion of the disposal. The income (loss) from operations of the discontinued Brake Business includes an allocation of consolidated interest based upon the ratio of net assets of the discontinued Brake business to the total net assets of the Company, which are applicable to interest bearing expenses. The interest allocated to the discontinued Brake Business amounted to $5,183,000, $4,594,000 and $3,253,000 for the years ended December 31, 1997, 1996, and 1995 respectively.

The operating results of the discontinued Brake Business are summarized as follows:

	For the Years Ended Dec. 31,		
(In thousands)	1997	1996	1995
Net sales	$164,202	$165,800	$167,554
Income (loss) from operations before income taxes	(568)	(10,573)	1,311
Income taxes	—	(3,067)	710
Income (loss) from operations	(568)	(7,506)	601
Estimated loss on disposal	(14,500)	—	—
Income taxes	—	—	—
Net loss on disposal	(14,500)	—	—
Total loss on discontinued operation	$ (15,068)	$ (7,506)	$ 601

The $14,500 loss associated with the disposal of the Brake business reflects no income tax benefit. The net assets retained and held for sale at December 31, 1997, of the discontinued Brake Business are summarized as follows:

(In thousands)	Total	Retained	Held for Sale
Current assets	$77,266	$32,161	$45,105
Property, plant and equipment, net	28,952	465	28,487
Other non-current assets net of amortization	1,202	—	1,202
Current liabilities	(22,253)	(18,167)	(4,086)
Other liabilities	(12,447	(12,447)	—
Net assets of the discontinued Brake business	$72,720	$ 2,012	$70,708

19. Subsequent Event (Unaudited)

On March 30, 1998 the Company completed the exchange of its brake business as described in Note 3.

SYBASE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Subsequent Events

On February 26, 1998, the Company announced a restructuring plan. The restructuring, which is expected to reduce Sybase's cost structure in 1998, is intended for focus the Company's core technology strengths around three market growth initiatives in Web computing, occasionally connected computing and data warehousing.

The restructuring plan includes the discontinuation of certain product lines, termination of employees, vacating certain facilities and cancellation of real estate leases as a result of the employee terminations. On February 26, 1998, the Company terminated approximately 600 employees as a part of the restructuring. Restructuring charges to be incurred in 1998 are estimated to be approximately $70 million.

Litigation

APPLIED MATERIALS, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Subsequent Events

Subsequent to the end of fiscal 1997, the Company settled all outstanding litigation with ASM International N.V. (ASM). As a result of this settlement, the Company received a convertible note for $80 million, against which a payment of $15 million was received in early November. ASM is also required to pay ongoing royalties for certain system shipments subsequent to the date of the settlement. The Company's results of operations for its first fiscal quarter of 1998 will include $80 million of pre-tax non-operating income associated with this settlement, consisting of the $15 million in cash and the unpaid balance of the note.

ATMEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (In Part): Subsequent Events (unaudited)

The Company has been named as a defendant in a patent infringement suit that was filed on January 21, 1998. The plaintiff contends that certain of the Company's devices infringe seven patents it allegedly owns and is seeking a judgment of infringement for each of these asserted patents and other costs. The Company is reviewing the suit and believes that the complaints are without merit. No assurance can be given, however, that this matter will be resolved in the Company's favor.

Capital Stock Issued Or Purchased

CROWN CORK & SEAL COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

T. Subsequent Events

On March 2, 1998, the Company completed the repurchase of approximately 4.1 million shares of its common stock at $49.00 per share and approximately 3.7 million shares of its acquisition preferred at $46.00 per share from CGIP. The repurchased shares represented approximately 5.3% of the Company's then outstanding voting securities and leaves CGIP with 4.99% voting power in the Company. The repurchased shares include all of CGIP's acquisition preferred position which represented approximately 30% of the then outstanding shares of acquisition preferred. The transaction includes an agreement to terminate the Shareholders Agreement dated February 22, 1996 between the Company and CGIP. Among other changes, CGIP will no longer retain the right to designate Company directors. The transaction value of $369 was financed through an increase in short-term indebtedness.

OCCIDENTAL PETROLEUM CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 19 (In Part): Subsequent Events

In February 1998, Occidental announced that it will redeem in March 1998, all of the 15,106,444 outstanding voting and nonvoting shares of its $3.875 preferred stock at a call price of $51.9375 per share plus accumulated and unpaid dividends to but not including the redemption date. Each share of preferred stock is convertible at the option of the holder, until the close of business on the redemption date, into approximately 2.2 shares of Occidental common stock. If all the shares of preferred stock were converted into common stock, Occidental would issue approximately 33.2 million shares of common stock.

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From January 1, 1998 through February 16, 1998 Occidental repurchased 6.1 million shares of its common stock under the common stock repurchase program. See Note 12 for a discussion of the common stock repurchase program.

SHAW INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Subsequent Event

On February 9, 1998, the Company commenced a "dutch auction" tender offer to acquire up to approximately 10,600,000 shares of its common stock, representing approximately 8.1 percent of its currently outstanding shares. Under the terms of the offer, the Company's shareholders may tender their shares at a price within a range of $11.00 to $14.00 per share for a period of 20 business days. In addition, the Company announced no further cash dividends would be paid in fiscal 1998 subsequent to the quarterly dividend on February 27, 1998 to shareholders of record on February 16, 1998.

STANDARD COMMERCIAL CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Common Stock

Subsequent to March 31, 1997 the Company completed the registration and sale of 3,022,500 shares of common stock, priced at $16.75 per share. Assuming that the net proceeds to the Company from the offering were used to repay short-term borrowings as of April 1, 1996, primary and fully diluted earnings per share would have been $1.78 and $1.71, respectively, and the corresponding weighted-average shares outstanding for purposes of these computations would have been 12,383,000 and 14,861,000.

Stock Splits/Dividends

COMPAQ COMPUTER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Stockholders' Equity and Employee Benefit Plans

Stock Splits. On July 28, 1997 and January 20, 1998, Compaq effected a five-for-two and a two-for-one stock split, respectively, both in the form of a stock dividend. Shareholders of record as of July 14, 1997 and December 31, 1997 received three additional shares of common stock for every two shares they owned and one additional share of common stock for every share they owned on those dates, respectively. Share and per share data for all periods presented herein have been adjusted to give effect to both splits.

MARK IV INDUSTRIES, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Stockholders' Equity and Stock Options

The Company's Board of Directors declared a five percent stock dividend in March 1997, as well as previous five percent stock dividends which were distributed in each of April 1996 and 1995. All share amounts have been presented as if the stock distributions had occurred at the beginning of fiscal 1995. The company is currently authorized to repurchase up to 7.3 million shares of its outstanding Common Stock. The Company is also authorized to issue 10 million shares of Preferred Stock, and there are no shares outstanding at the present time.

Stock Purchase Rights

OPTICAL COATING LABORATORY, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Stockholders' Equity

Stockholder Rights Plan. On December 16, 1997, the Board of Directors of the Registrant adopted a new Stockholder Rights Plan (the "Plan") to succeed the Stockholder Rights Plan first adopted on November 25, 1987. Under the terms of the Plan, which expires in November 1999, the Company declared a dividend of preferred stock purchase rights which only become exercisable, if not redeemed, ten days after a person or group has acquired 20% or more of the Company's common stock or the announcement of a tender offer which would result in a person or group acquiring 30% or more of the Company's common stock. Under certain circumstances, the plan allows stockholders, other than the acquiring person or group, to purchase the Company's common stock or the common stock of the acquirer at an exercise price of half the market price.

INTERFACE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Subsequent Events

Also, subsequent to year end, the Board of Directors adopted a Rights Agreement pursuant to which holders of Common Stock will be entitled to purchase from the Company a fraction of a share of the Company's Series B Participating Cumulative Preferred Stock (see note 9) if a third party acquired beneficial ownership of 15% or more of the Common Stock and will be entitled to purchase the stock of an acquiring person at a discount upon the occurrence of certain triggering events.

Employee Benefits

HAMPTON INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

G (In Part): Profit Sharing Plans

Effective January 1, 1998, the Company instituted a Nonqualified Deferred Compensation Plan for Key Employees (the Deferred Plan) to permit certain key employees to defer receipt of current compensation in order to provide retirement benefits on behalf of such employees. The Company may provide a matching contribution to the Deferred Plan. The Company may provide supplemental profit sharing credits which are determined at the discretion of the Board of Directors. Amounts of matching contributions and profit sharing credits are vested in the same manner as vesting occurs under the Company's Qualified Profit Sharing and Retirement Savings Plan. For 1998 the Company has established a matching rate of 20% of the employee's deferrals. The Deferred Plan is not intended to be a qualified plan under the provisions of the Internal Revenue Code. It is intended to be unfunded and, therefore, all compensation deferred under the Deferred Plan is held by the Company and commingled with its general assets. However, employee deferrals and the Company's match are deposited each month in Company owned insurance contracts. Within these contracts the employees have the option of selecting a variety of investments. The return on these underlying investments will determine the amount of earnings credit. The Company has the option of changing the matching contribution each year, the right to amend, modify or terminate the Deferred Plan.

LAM RESEARCH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note T: Subsequent Event—Approval of Lam Research Corporation 1997 Stock Incentive Plan

On August 5, 1997, the stockholders of the Company approved the Lam Research Corporation 1997 Stock Incentive Plan, which will provide for the grant of stock options, restricted stock, deferred stock and performance share awards to participating officers, directors, employees, consultants and advisors of the Company and its subsidiaries. Initially, 3,000,000 shares were reserved for issuance. The number of shares to be issued will automatically be increased each calendar quarter subject to certain provisions and restrictions but in no event exceed 5,000,000 shares.

Formation Of Joint Ventures

TEXACO INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20. Subsequent Event

On January 15, 1998, Texaco and Shell Oil Company reached agreement on the formation and operational start-up of Equilon Enterprises LLC (Equilon), a newly formed Delaware limited liability company. Equilon is a joint venture that combines major elements of the companies' western and midwestern U.S. refining and marketing businesses and their nationwide trading, transportation and lubricants businesses. Texaco owns 44% and Shell owns 56% of Equilon.

Texaco will account for its interest in Equilon using the equity method. Commencing 1998, Texaco will record its share of Equilon's results of operations on a one-line basis in the Consolidated Statement of Income and will reclassify the net amount of assets and liabilities of the businesses contributed to Equilon to Investments and Advances in the Consolidated Balance Sheets. The approximate carrying amounts at December 31, 1997, of the principal assets and liabilities of these businesses were $.3 billion of net working capital assets, $2.8 billion of net properties, plant and equipment and $.2 billion of debt. In addition, Texaco will record a receivable from Equilon of approximately $.5 billion, representing a portion of proceeds from a planned financing by Equilon.

Texaco, Shell and Saudi Refining, Inc. are finalizing agreements for a separate joint venture involving their eastern and Gulf Coast refining and marketing businesses in the United States. This transaction is expected to be completed in early 1998. Initially, Texaco and Saudi Refining, Inc. will each own 32.5% and Shell will own 35% of the joint venture.

UNIFI, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Subsequent Events

On June 30, 1997, the Company entered into a Contribution Agreement (the "Agreement") with Parkdale Mills, Inc. ("Parkdale") that set forth the terms and conditions by which Parkdale and the Company contributed all of the assets of their spun cotton yarn operations utilizing open-end and air jet spinning technologies to a newly created limited liability company named Parkdale America, LLC (the "LLC"). In accordance with the Agreement, each entity's inventory, owned real and tangible personal property and improvements thereon and the Company's leased real property associated with these operations were contributed to the LLC. Additionally, the Company contributed $32.9 million in cash to the LLC on June 30, 1997, and is required to contribute $10.0 million on June 30, 1998, and $10.0 million on June 30, 1999, whereas Parkdale contributed cash of $51.6 million on June 30, 1997. The LLC assumed certain long-term debt obligations of Unifi and Parkdale in the amounts of $23.5 million and $46.0 million, respectively. In exchange for the assets contributed to the LLC and the liabilities assumed by the LLC, Unifi received a 34% ownership interest in the LLC and Parkdale received a 66% ownership in the LLC.

The following pro forma condensed balance sheet reflects the Company's investment in Parkdale America, LLC as if the transaction was consummated as of June 29, 1997.

(Amounts in thousands)	
Assets:	
Current assets	$ 348,963
Property, plant and equipment, net	464,473
Investment in affiliate	181,119
Other noncurrent assets	40,632
	$1,035,187
Liabilities and Shareholders' Equity:	
Current liabilities	$ 163,804
Due to LLC	20,000
Long-term debt	255,732
Deferred income taxes	47,120
Shareholders' equity	548,531
	$1,035,187

On June 30, 1997, the excess of the Company's investment over the Company's equity in the underlying net assets of the LLC is estimated to be approximately $60 million. Fiscal year 1997 sales from the Company's spun cotton operations contributed to the LLC amounted to $304.3 million.

USX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31. Subsequent Event—Business Combinations

On December 12, 1997, USX and Ashland Inc. (Ashland) signed definitive agreements to combine the major elements of their refining, marketing and transportation (RM&T) operations. Pursuant to those agreements, on January 1, 1998, USX transferred certain RM&T net assets to a new consolidated subsidiary, which was named Marathon Ashland Petroleum LLC (MAP). Also on January 1, 1998, USX acquired certain RM&T net assets from Ashland in exchange for a 38% interest in MAP. The acquisition will be accounted for under the purchase method of accounting. The purchase price was determined to be $1.9 billion, based upon an external evaluation of the fair value. The change in USX's ownership interest in MAP resulted in a change in interest gain which will be recognized in the first quarter 1998.

In connection with the formation of MAP, USX and Ashland entered into a Limited Liability Company Agreement dated January 1, 1998 (the LLC Agreement). The LLC Agreement provides for an initial term of MAP expiring on December 31, 2022 (25 years from its formation). The term will automatically be extended for ten-year periods, unless a termination notice is given by either party.

Also in connection with the formation of MAP, the parties entered into a Put/Call, Registration Rights and Standstill Agreement (the Put/Call Agreement). The Put/Call Agreement provides that at any time after December 31, 2004, Ashland will have the right to sell to USX all of Ashland's ownership interest in MAP, for an amount in cash and/or the Marathon Oil Company or USX debt or equity securities equal to the product of 85% (90% if equity securities are used) of the fair market value of MAP at that time, multiplied by Ashland's percentage interest in MAP. Payment could be made at closing, or at USX's option, in three equal annual installments, the first of which would be payable at closing. At any time after December 31, 2004, USX will have the right to purchase all of Ashland's ownership interests in MAP, for an amount in cash equal to the product of 115% of the fair market value of MAP at that time, multiplied by Ashland's percentage interest in MAP.

The following unaudited pro forma data for USX includes the results of operations for the Ashland RM&T net assets, giving effect of the acquisition as if it had been consummated at the beginning of the year presented. The pro forma data is based on historical information and does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations.

(In millions, except per share amounts)	1997[(a)]
Consolidated:	
Revenues	$29,288
Net income	987[b]
Net income per common share of Marathon Stock:	
Basic	1.58
Diluted	1.57

(a) The USX data is based on a calendar year. Ashland data is based on a twelve-month period ended September 30, 1997.

(b) Excluding the pro forma inventory market valuation adjustment, pro forma net income would have been $1,150 million. Reported net income, excluding the reported inventory market valuation adjustment, would have been $1,167 million.

Lease Transactions

COLLINS INDUSTRIES, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Subsequent Event

In November 1997, the Company entered into a capitalized lease agreement with the City of South Hutchinson, Kansas for the issuance of $3.5 million of 1997 Industrial Revenue Bonds. The Bonds will bear interest at annual rates ranging from 4.75% to 5.80% and will mature serially over a period of ten years. The Bonds will be callable at par on February 1, 2003. The net proceeds will be used to construct and equip an addition to the Company's bus manufacturing facilities.

CONSOLIDATED PAPERS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Subsequent Event

In January 1998, the company exercised its early purchase option to buy out an operating lease on production equipment at Lake Superior Paper Industries by paying $149.3 million in cash and assuming $120.4 million in debt. This purchase resulted in an increase in fixed assets of $269.7 million.

Corporate Headquarters Relocation

BALL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Event

On February 4, 1998, Ball announced that it would relocate its corporate headquarters to an existing company-owned building in Broomfield, Colorado. In connection with the relocation, the Company expects to record in 1998 a charge estimated to be approximately $20 million pretax, primarily for employee related costs and the write-down of certain assets to net realizable values. This move is expected to be largely completed by the end of 1998.

Fraud

ENGELHARD CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 21. Subsequent Event

In 1998, management learned that Engelhard and several other companies operating in Japan had been victims of a sophisticated, fraudulent scheme involving base-metal inventory held in third-party warehouses in Japan. Based on preliminary information, management estimates the inventory loss to be approximately $39.0 million in 1997 and $16.0 million in 1998. The Company has not yet recorded any insurance or third-party recovery due to the ongoing nature of the investigation and the complexity of the fraud uncovered. However, the Company has placed its insurance carriers on notice and is vigorously pursuing recovery from them and responsible third parties. This event is not expected to have a material adverse impact on the business and operations of the ICM group.

Forward Exchange Contract

VISHAY INTERTECHNOLOGY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Subsequent Events

On March 2, 1998, the Company completed its purchase of 80.4% of the capital stock of Siliconix Incorporated (NASDQ:SILI) and 100% of the capital stock of TEMIC Semiconductor GmbH for approximately $500,000,000 in cash. TEMIC's and Siliconix' businesses involve the design, manufacture, and sale of integrated circuits (the IC Division) and discrete active components. On March 4, 1998, Vishay sold (subject to satisfaction of certain foreign regulatory approvals) the IC Division for approximately $110,000,000. The discrete active components business is conducted primarily in the United States, Germany, Austria, and Asia.

The purchase of TEMIC and Siliconix was funded from the Company's $1.1 billion revolving credit facilities made available to Vishay on March 2, 1998 (see Note 5).

In connection with the acquisition of TEMIC and Siliconix, Vishay entered into a forward exchange contract on December 16, 1997 to protect against the impact of fluctuations in the exchange rate between the U.S. Dollar and the Deutsche Mark on the amount of U.S. Dollars required for the purchase of TEMIC and Siliconix. The Company has accounted for the contract by marking it to market and recording the resulting gains or losses in the income statement. At December 31, 1997, the contract had an unrealized loss of $5,295,000 which was reflected in other expense (see Note 7). On March 2, 1998, upon completion of the TEMIC and Siliconix acquisitions, the forward exchange contract was settled and the Company recorded a realized loss of $11,500,000.

RELATED PARTY TRANSACTIONS

Statement of Financial Accounting Standards No. 57 specifies the nature of information which should be disclosed in financial statements about related party transactions. In 1997, 160 survey companies disclosed related party transactions. Examples of related party disclosures follow.

Transactions Between Reporting Entity and Investees

BADGER METER, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Transactions with Affiliated Company

The company carries its 15% interest in a Mexican company, Medidores Azteca, S.A. (Azteca) at cost ($75,000). During 1997, 1996 and 1995, the company sold approximately $1,500,000, $1,175,000, and $441,000 of product to Azteca. Trade receivables from Azteca at December 31, 1997 and 1996, were $608,000 and $541,000, respectively.

EXIDE CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

12. Related-Party Transactions:

The Company purchased $20,493, $20,290 and $4,920 of product from Yuasa-Exide, Inc., ("YEI"), a 13.5%-owned affiliate, during fiscal 1995, 1996 and 1997, respectively. The Company also sold $10,850, $10,618 and $6,580 of product to YEI during fiscal 1995, 1996

and 1997, respectively. In addition, the Company provides certain administrative services and pays certain expenses for YEI. YEI reimbursed the Company for these costs totaling $4,867, $2,282 and $1,753 during fiscal 1995, 1996 and 1997, respectively. As of March 31, 1996 and 1997, the Company had a net receivable of $2,119 and $5,051, respectively.

ORYX ENERGY COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Related Party Transactions

During the fourth quarter of 1995, the Company, Apache Corporation and Parker & Parsley Petroleum Company formed Producers Energy Marketing, LLC (ProEnergy) to jointly market natural gas. In 1997, Pioneer Natural Resources Company (formerly Parker & Parsley Petroleum Company) terminated its relationship with ProEnergy. As of December 31, 1997, the Company had an ownership interest of 40 percent in ProEnergy; however, ownership varies based on the Company's share of natural gas throughput for the preceding quarter. The Company accounts for its investment in ProEnergy using the equity method and as of December 31, 1997, had an investment in ProEnergy of $4 million. The Company sells the majority of its domestic natural gas production to ProEnergy at index prices. Full operations commenced in April of 1996 and natural gas sales to ProEnergy totaled $221 million and $195 million for the year ended December 31, 1997 and nine months ended December 31, 1996. At December 31, 1997 and 1996, the Company had an outstanding receivable balance of $22 million and $48 million from ProEnergy.

Transactions Between Reporting Entity and Major Stockholders

GTI CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

Note 5: Credit Agreements and Related-Party Note

Through December 1997, the Company had a line of credit agreement with a bank. Interest on outstanding borrowings accrued at Prime plus one and one quarter percent, and the line was secured by substantially all the Company's domestic assets. The line of credit agreement expired in December 1997, and as of December 31, 1997 and 1996, there were zero and $4.9 million, respectively, outstanding under this arrangement.

In February 1998, the Company negotiated a new line of credit, subject to activation. However, based on recent financial performance (see Note 13), it is unlikely that this line will be activated.

In February 1997, the Company entered into a Note Purchase Agreement (the "Note") with Telemetrix PLC ("Telemetrix," the Company's majority shareholder). By the terms of the Note, Telemetrix loaned $2,500 to the Company with principal to be repaid in four equal semiannual installments of $625 (plus applicable interest) beginning August 1997 and ending February 1999. Interest accrues at Prime plus 4% (12.5% as of December 31, 1997). The loan is secured by a subordinated security interest in all of the Company's assets. As of December 31, 1997, the outstanding balance on this Note was $1,875. Also, by the terms of the Note and related agreements, the Company granted Telemetrix a warrant to acquire 150,000 shares of GTI common stock at an exercise price of $6 per share. The warrant expires 30 days after the Note is repaid in full.

Transactions Between Reporting Entity and Officers/Directors

SPAN-AMERICA MEDICAL SYSTEMS, INC. (SEP)

NOTES TO FINANCIAL STATEMENTS

13. Related-Party Transactions

The company has patents and patent rights acquired from its former chairman of the board of directors and major shareholder. As consideration, the Company paid royalties equal to three percent of gross sales on all manufactured products covered by the patents through December 1995. For the 1996 and 1995 fiscal years, royalties totaled approximately $15,000 and $55,000, respectively.

The Company paid approximately $51,000 in 1997, $68,000 in 1996 and $41,000 in 1995 in legal fees to a firm having a member who is also a director of the Company.

SPEIZMAN INDUSTRIES, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Leases

The Company conducts its operations from leased facilities which include both offices and warehouses. Its primary operating facility is leased from a partnership in which Mr. Robert S. Speizman, the Company's president, has a 50% interest. The lease extends through March 1998. Lease payments to the partnership approximated $356,000, $323,000, and $204,000 in fiscal years 1997, 1996 and 1995, respectively.

THORN APPLE VALLEY, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Commitments

Operating Leases:
The Company leases transportation, manufacturing equipment and office space under several operating leases expiring through 2005. The majority of the leases

contain purchase options at stated amounts or fair market value. Rent expense under all operating leases amounted to approximately $7,792,000, $8,203,000 and $6,817,000 for the years ended 1997, 1996 and 1995, respectively. Total future minimum rentals under noncancelable operating leases as of May 30, 1997, including those discussed below are:

Year Ending	Amount
1998	$6,610,000
1999	4,614,000
2000	2,250,000
2001	1,223,000
2002	1,025,000
Thereafter	1,540,000

The Company maintains inventory at a freezer warehouse that is 75 percent owned by an officer and director of the Company. Additionally, the Company rents a portion of the freezer warehouse for use as a distribution center. Currently, the Company is operating under a one-year lease option that expires in December 1997. Freezer warehouse rent expense amounted to $882,000 for the years ended 1997, 1996 and 1995. Storage and handling expenses paid to this freezer warehouse amounted to approximately $1,482,000, $1,218,000 and $973,000 for the years ended 1997, 1996 and 1995, respectively.

Transactions Between Companies Under Common Management

B/E AEROSPACE, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

10 (In Part): Commitments and Contingencies

Supply Agreement

The Company has entered into a supply agreement with Applied Extrusion Technologies, Inc. (AET), a related party by way of common management. Under this agreement, the Company has agreed to purchase its requirements for certain component parts through March 1998 at a price that results in a 33⅓% gross margin to AET. The Company's purchases under this contract for the years ended February 22, 1997, February 24, 1996, and February 25, 1995 were $1,642, $1,301 and $984, respectively.

INFLATION ACCOUNTING

Effective for financial reports issued after December 2, 1986, *Statement of Financial Accounting Standards No. 89* states that companies previously required to disclose current cost information are no longer required to disclose such information.

Many of the survey companies include a discussion of inflation in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

	1997	1996	1995	1994
Balance Sheet	565	564	562	562
Statement of Financial Position	30	30	32	33
Statement of Financial Condition	5	6	6	5
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.

Effective for fiscal years ending after December 15, 1988, *Statement of Financial Accounting Standards No. 94* requires that companies consolidate subsidiaries having nonhomogeneous operations. This requirement resulted in certain survey companies presenting an unclassified balance sheet (12 companies in 1997) or a balance sheet classified as to industrial operations but showing assets and liabilities of nonhomogeneous operations as segregated amounts (4 companies in 1997). Prior to the effective date of *SFAS No. 94,* the survey companies, with rare exception, presented classified balance sheets.

TABLE 2-2: BALANCE SHEET FORMAT

	1997	1996	1995	1994
Report form	461	450	436	439
Account form	138	149	164	161
Financial position form	1	1	—	—
Total Companies	**600**	**600**	**600**	**600**

CASH

Table 2-3 lists the balance sheet captions used by the survey companies to describe cash. As indicated in Table 2-3, the most frequently used caption is cash and cash equivalents. Examples of cash presentations and disclosures follow.

TABLE 2-3: CASH–BALANCE SHEET CAPTIONS

	1997	1996	1995	1994
Cash	56	61	63	68
Cash and cash equivalents	460	447	433	425
Cash and equivalents	41	41	45	45
Cash includes certificates of deposit or time deposits	5	9	6	10
Cash combined with marketable securities	32	35	46	50
No amount for cash	6	7	7	2
Total Companies	**600**	**600**	**600**	**600**

ALPHA INDUSTRIES, INC. (MAR)

($000)	1997	1996
Current assets		
Cash and cash equivalents	$5,815	$11,326
Short-term investments	1,218	4,143
Accounts receivable, trade, less allowance for doubtful accounts of $521 and $634	17,019	17,688
Inventories	10,267	12,015
Prepayments and other current assets	857	1,379
Total current assets	35,176	46,551

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash, Cash Equivalents and Short-term Investments: Cash and cash equivalents include cash deposited in demand deposits at banks and highly liquid investments with original maturities of 90 days or less.

CERIDIAN CORPORATION (DEC)

(Dollars in millions)	1997	1996
Current assets		
Cash and equivalents	$268.0	$ 71.1
Trade and other receivables		
Trade, less allowance of $10.5 and $11.2	277.1	222.2
Other	40.4	26.9
Total	317.5	249.1
Current portion of deferred income taxes	117.6	—
Net assets of discontinued operations	—	124.4
Other current assets	17.0	14.4
Total current assets	720.1	459.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Accounting Policies

Cash and Short-Term Investments — Investments which are readily convertible to cash within three months of purchase are classified in the balance sheet as cash equivalents. Investments, if any, with longer maturities are considered available-for-sale under FAS 115 and reported in the balance sheet as short-term investments.

JLG INDUSTRIES, INC. (JUL)

(In thousands)	1997	1996
Current Assets		
Cash	$25,436	$30,438
Accounts receivable, less allowance for doubtful accounts of $1,282 in 1997 and $1,215 in 1996	70,164	54,342
Inventories:		
Finished goods	30,441	12,925
Work in process	12,132	13,972
Raw materials	11,154	12,536
	53,727	39,433
Other current assets	6,381	4,649
Total Current Assets	155,708	128,862

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary Of Significant Accounting Policies (In Part):

Cash and Cash Equivalents
The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents and classifies such amounts as cash.

ELI LILLY AND COMPANY (DEC)

(Dollars in millions)	1997	1996
Current Assets		
Cash and cash equivalents	$1,947.5	$ 813.7
Short-term investments	77.1	141.4
Accounts receivable, net of allowances of $53.3 (1997) and $82.4 (1996)	1,544.3	1,474.6
Other receivables	338.9	262.5
Inventories	900.7	881.4
Deferred income taxes	325.7	145.2
Prepaid expenses	186.5	172.5
Total current assets	5,320.7	3,891.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash equivalents: The company considers all highly liquid investments, generally with a maturity of three months or less, to be cash equivalents. The cost of these investments approximates fair value.

WHITMAN CORPORATION (DEC)

(in millions)	1997	1996
Current assets:		
Cash and cash equivalents	$ 52.4	$ 4.7
Receivables, net of allowance for doubtful accounts of $3.4 million in 1997 and $1.7 million in 1996	131.7	125.4
Inventories:		
Raw materials and supplies	28.1	23.8
Finished goods	41.8	40.2
Total inventories	69.9	64.0
Other current assets	36.3	47.9
Net current assets of companies held for disposition	270.5	356.1
Total current assets	560.8	598.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Cash and cash equivalents. Cash and cash equivalents consist of deposits with banks and financial institutions which are unrestricted as to withdrawal or use, and which have original maturities of three months or less.

MARKETABLE SECURITIES

Statement of Financial Accounting Standards No. 115 is the authoritative pronouncement on accounting and reporting for investments in equity securities that have readily determinable fair value and for all investments in debt securities. Except for debt securities classified as held-to-maturity securities, which are reported at amortized cost, *SFAS No. 115* requires that investments in debt and equity securities be reported at fair value. *SFAS No. 115* requires that the fair value of held-to-maturity securities be disclosed.

Statement of Financial Accounting Standards No. 107 requires that the basis for estimating the fair value of financial instruments be disclosed. 127 survey companies stated that fair value approximated carrying amount.

Table 2-4 lists the balance sheet carrying bases for investments in debt and equity securities presented as current assets. Examples of presentations and disclosures for such investments follow.

TABLE 2-4: MARKETABLE SECURITIES—BASES

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Market/fair value	138	120	116	81
Cost	47	66	85	108
Lower of cost or market	1	2	3	16

Available-For-Sale Securities

ARDEN GROUP, INC. (DEC)

(In Thousands)	1997	1996
Current assets:		
Cash	$ 7,099	$ 5,473
Marketable securities	15,623	21,356
Accounts and notes receivable, net	6,310	6,629
Inventories	11,552	10,728
Other current assets	1,626	3,102
Total current assets	42,210	47,288

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Marketable Securities

Marketable securities consist of mutual funds, fixed-income securities, preferred stock, common stock, mortgage-backed government securities and collateralized mortgage obligations. Marketable securities are stated at market value as determined by the most recently traded price of each security at the balance sheet date. By policy, the Company invests primarily in high-grade marketable securities. All marketable securities are defined as trading securities or available-for-sale securities under the provisions of Statement of Financial Accounting Standards No. ("SFAS") 115, "Accounting for Certain Investments in Debt and Equity Securities."

Management determines the appropriate classification of its investments in marketable securities at the time of purchase and reevaluates such determination at each balance sheet date. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and unrealized holding gains and losses are included in earnings. Debt securities for which the Company does not have the intent or ability to hold to maturity and equity securities are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. The cost of investments sold is determined on the specific identification or the first-in, first-out method.

2. Marketable Securities

Marketable securities are carried on the balance sheet at their market value.

(In Thousands)	Cost	Unrealized Gain (Loss)	Market Value
As of January 3, 1998:			
Available-for-sale securities:			
Mutual funds	$14,529	$843	$15,372
Equity securities	832	(581)	251
Total	$15,361	$262	$15,623
As of December 28, 1996:			
Trading securities:			
Mutual funds	$10,997	$ 35	$11,032
Fixed income securities	7,707	(662)	7,045
Equity securities	1,413	114	1,527
Mortgage-backed government securities	1,419	7	1,426
Collateralized mortgage obligations	328	(2)	326
Total	$21,864	$(508)	$21,356

Realized gains from sale of securities were $605,000, $36,000 and $31,000 in 1997,1996 and 1995, respectively.

DSC COMMUNICATIONS CORPORATION (DEC)

(In thousands)	1997	1996
Current Assets		
Cash and cash equivalents	$ 277,200	$ 155,101
Marketable securities	340,642	178,938
Receivables	436,093	411,947
Inventories	374,247	343,566
Deferred income taxes	79,879	61,086
Other current assets	86,969	52,240
Total current assets	1,595,030	1,202,878

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Investments in Debt and Equity Securities
Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Held to maturity securities are stated at amortized cost. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available for sale, along with any investments in equity securities. Securities available for sale are carried at fair value, with the unrealized gains and losses, net of income taxes, reported as a separate component of Shareholders' Equity. The Company has had no investments that qualify as trading.

The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity or, in the case of asset-backed securities, over the estimated life of the security. Such amortization and accretion as well as interest are included in Interest Income. Realized gains and losses are included in Other Income, Net in the Consolidated Statements of Operations. The cost of securities sold is based on the specific identification method.

The Company's investments in debt and equity securities are diversified among high-credit quality securities in accordance with the Company's investment policy.

Investments in Debt and Equity Securities

The following is a summary of the investments in debt securities classified as current assets (in thousands):

	December 31,	
	1997	1996
Available for sale securities:		
U.S. Treasury securities and obligations of U.S. government agencies	$166,901	$ 90,114
Certificates of deposits	116,939	28,996
Corporate debt securities	50,340	45,680
Asset-backed securities	6,462	14,148
	$340,642	$178,938

The amortized cost of available for sale securities approximated their fair value at both December 31, 1997 and 1996. Gross realized gains and losses on sales of available for sale securities were immaterial in 1997, 1996 and 1995.

The estimated fair value of available for sale securities by contractual maturity at December 31, 1997 is as follows (in thousands):

Due in one year or less	$276,679
Due after one year through three years	47,539
Due after three years	16,424
	$340,642

Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

Investments in debt securities classified as held to maturity consisted of collateralized bank obligations with an amortized cost of $30.0 million at both December 31, 1997 and 1996. The amortized cost of these investments, which mature in March 1999 and December 2000, approximated their market value. These investments are included in other noncurrent assets on the Consolidated Balance Sheets.

DEERE & COMPANY (OCT)

(In millions of dollars)	1997	1996
ASSETS		
Cash and short-term investments	$330.0	$291.5
Cash deposited with unconsolidated subsidiaries	—	—
Cash and cash equivalents	330.0	291.5
Marketable securities	819.6	869.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marketable Securities

Marketable securities are held by the insurance and health care subsidiaries. All marketable securities are classified as available-for-sale under FASB Statement No. 115, with unrealized gains and losses shown as a component of stockholders' equity. Realized gains or losses from the sales of marketable securities are based on the specific identification method.

The amortized cost and fair value of marketable securities in millions of dollars follow:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
October 31, 1997				
Equity securities	$ 3	$ 2		$ 5
U.S. government and agencies	160	5		165
States and municipalities	160	11		171
Corporate	237	9	$1	245
Mortgage-backed securities	224	8		232
Other	2			2
Marketable securities	$786	$35	$1	$820
October 31, 1996				
Equity securities	$ 5	$ 2		$ 7
U.S. government and agencies	225	5	$1	229
States and municipalities	163	9	1	171
Corporate	265	6	1	270
Mortgage-backed securities	188	5	3	190
Other	2			2
Marketable securities	$ 848	$27	$6	$869

The contractual maturities of debt securities at October 31, 1997 in millions of dollars follow:

	Amortized Cost	Fair Value
Due in one year or less	$ 40	$ 40
Due after one through five years	239	243
Due after five through 10 years	156	165
Due after 10 years	346	365
Debt securities	$781	$813

Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations. Proceeds from the sales of available-for-sale securities were $114 million in 1997, $11 million in 1996 and $79 million in 1995. Gross realized gains and losses on those sales were not significant. The increase in the net unrealized holding gain after income taxes was $8 million, $11 million and $3 million during 1997, 1996 and 1995, respectively.

DOVER CORPORATION (DEC)

(In thousands)	1997	1996
Current Assets:		
Cash and cash equivalents	$ 124,780	$ 199,956
Marketable securities, at market	21,929	17,839
Receivables (less allowance for doubtful accounts of $27,157 in 1997, $24,821 in 1996)	818,293	715,495
Inventories	562,830	499,870
Prepaid expenses and other current assets	63,513	56,653
Total current assets	1,591,345	1,489,813

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

J. Marketable Securities: In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," trading securities are reported at fair value with unrealized gains and losses recognized in earnings, and available-for-sale securities are also reported at fair value but unrealized gains and losses are shown in the caption "unrealized holding gains (losses)" included in stockholders' equity.

The Company did not hold any trading securities at December 31, 1997 or December 31, 1996. The net realized gains for the years ended December 31, 1997, 1996 and 1995 were $1,995,000, $5,600,000 and $2,140,000, respectively. As of December 31, 1997 and 1996 available-for-sale securities totaled $21,929,000 and $17,839,000 respectively, with related gross unrealized gains of $5,790,000 and $3,663,000 respectively, and consisted of investments in certain mutual funds which invest primarily in equity securities. In each of the above mentioned three years, gains and losses were determined using average cost.

HUMANA INC. (DEC)

(Dollars in millions)	1997	1996
Current assets:		
Cash and cash equivalents	$ 627	$ 322
Marketable securities	1,507	1,262
Premiums receivable, less allowance for doubtful accounts of $48 in 1997 and $38 in 1996	351	211
Deferred income taxes	34	94
Other	231	113
Total current assets	2,750	2,002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Marketable Securities

At December 31, 1997 and 1996, marketable debt and equity securities have been categorized as available for sale and, as a result, are stated at fair value based generally on quoted market prices. Commercial mortgage loans are carried at cost. Marketable debt and equity securities available for current operations are classified as current assets. Marketable securities available for the Company's capital spending, professional liability, long-term insurance product requirements and payment of long-term workers' compensation claims are classified as long-term assets. Unrealized holding gains and losses, net of applicable deferred taxes, are included as a component of stockholders' equity until realized.

For purpose of determining gross realized gains and losses, the cost of securities sold is based upon specific identification.

4. Marketable Securities

Marketable securities classified as current assets at December 31, 1997 and 1996 included the following:

	1997				1996			
Dollars in millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government obligations	$ 178	$ 1	$—	$ 179	$ 68	$ —	$ (1)	$ 67
Tax exempt municipal bonds	723	5	(2)	726	613	3	(6)	610
Corporate bonds	282	6	—	288	313	1	(3)	311
Redeemable preferred stocks	113	1	(2)	112	117	—	(1)	116
Collateralized mortgage obligations	35	1	—	36	54	1	—	55
Marketable equity securities	114	5	(1)	118	79	2	(3)	78
Other	45	3	—	48	22	6	(3)	25
	$1,490	$22	$(5)	$1,507	$1,266	$13	$(17)	$1,262

Marketable securities classified as long-term assets at December 31, 1997 and 1996 included the following:

	1997				1996			
Dollars in millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government obligations	$146	$—	$—	$146	$ 3	$—	$—	$ 3
Tax exempt municipal bonds	284	3	(2)	285	77	—	(1)	76
Redeemable preferred stocks	16	—	—	16	9	—	—	9
Marketable equity securities	19	1	—	20	5	—	—	5
Other	45	—	—	45	49	1	—	50
	$510	$ 4	$(2)	$512	$143	$ 1	$(1)	$143

The contractual maturities of debt securities available for sale at December 31, 1997, regardless of their balance sheet classification, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Dollars in millions	Amortized Cost	Fair Value
Due within one year	$ 330	$ 332
Due after one year through five years	685	680
Due after five years through ten years	328	335
Due after ten years	145	153
Not due at a single maturity date	379	381
	$1,867	$1,881

Gross realized gains and losses for the years ended December 31, 1997,1996 and 1995 were immaterial.

PACCAR INC (DEC)

(Million of dollars)	1997	1996
Current Assets		
Cash and cash equivalents	$318.6	$203.0
Trade and other receivables, net of allowance for losses (1997 - $15.8 and 1996 - $14.7)	600.3	560.5
Marketable securities	357.0	304.9
Inventories	393.5	406.5
Deferred taxes and other current assets	86.7	73.3
Total Manufacturing and Parts Current Assets	1,756.1	1,548.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary Of Accounting Policies

Cash, Cash Equivalents and Marketable Securities: Cash equivalents consist of short-term liquid investments with a maturity at date of purchase of three months or less. Cash equivalents were $281.1 and $174.0 at December 31, 1997 and 1996, respectively. The Company's investments in cash equivalents and marketable securities are classified as debt securities available-for-sale. These investments are stated at fair value with any unrealized holding gains or losses, net of tax, included as a component of stockholders' equity until realized.

The cost of debt securities available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity. Interest and dividend income are included as a component of investment income. The cost of securities sold is based on the specific identification method.

B. Investments In Debt Securities

All investments in debt securities were classified as available-for-sale at December 31, 1997 and 1996. Amounts at December 31, 1997, are as follows:

	Amortized Cost	Fair Value
U.S. government securities	$ 84.9	$ 85.2
Tax-exempt securities	353.6	355.0
Other debt securities	197.9	197.9
	$636.4	$638.1

Amounts at December 31, 1996, are as follows:

	Amortized Cost	Fair Value
U.S. government securities	$ 76.4	$ 76.3
Tax-exempt securities	218.3	219.2
Other debt securities	183.3	183.5
	$478.0	$479.0

Fair value of investments in debt securities are included in cash and equivalents and marketable securities as follows:

	1997	1996
Manufacturing and Parts:		
Cash and equivalents	$275.7	$168.5
Marketable securities	357.0	304.9
Financial Services:		
Cash and equivalents	5.4	5.6
	$638.1	$479.0

The contractual maturities of debt securities at December 31, 1997, are as follows:

Maturities in:	Amortized Cost	Fair Value
One year or less	$363.0	$363.1
One to five years	267.1	268.5
Five to ten years	6.3	6.5
	$636.4	$638.1

Gross realized gains and losses and unrealized holding gains and losses were not significant for any of the years presented.

Held-to-Maturity Securities

FANSTEEL INC. (DEC)

	1997	1996
Current Assets		
Cash and cash equivalents	$ 8,038,229	$ 3,588,290
Marketable securities	5,041,196	5,173,804
Accounts receivable, less allowance of $280,000 in 1997 and $276,000 in 1996	21,782,872	18,700,927
Inventories		
Raw material and supplies	3,815,376	4,715,341
Work-in-process	15,306,393	13,461,036
Finished goods	7,273,625	6,423,995
	26,395,394	24,600,372
Less:		
Allowance to state certain inventories at LIFO cost	6,931,677	7,083,466
Total inventories	19,463,717	17,516,906
Other assets - current		
Deferred income taxes	2,279,162	1,681,398
Other	1,576,333	1,370,062
Total Current Assets	58,181,509	48,031,387

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

All investments with a maturity greater than three months are accounted for under Financial Accounting Standards Board (FASB) Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company determines the appropriate classification at time of purchase. Securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at cost, adjusted for amortization of premiums and discounts to maturity. Marketable securities not classified as held-to-maturity are classified as available-for-sale. Available-for-sale securities are carried at fair value, which is based on quoted prices. Unrealized gains and losses, net of tax, are reported as a separate component of shareholders' equity. The cost of securities available-for-sale is adjusted for amortization of premiums and discounts to maturity. Interest and amortization of premiums and discounts for all securities are included in interest income. Realized gains and losses are included in other income. Cost of securities sold is determined on a specific identification basis.

Marketable Securities

At December 31, 1997, the Company held investments in marketable securities which were classified as held-to-maturity. Securities classified as held-to-maturity at December 31, 1997 consisted of a security with a maturity date within one year, and are classified as Marketable Securities as a part of Current Assets. This security is stated at amortized cost plus accrued interest.

The held-to-maturity securities at December 31, 1997 include the following:

	Amortized Cost	Fair Value
U.S. Treasury Note, face value of $5,000,000, interest at 5.125%, due April 30, 1998	$4,997,318	$4,992,188
Accrued Interest	43,878	
Net Book Value - Held-to-Maturity Securities:	$5,041,196	

At December 31, 1996, all the Company's investments in marketable securities were classified as held-to-maturity. These securities included both a security due within one year and a security with a maturity date beyond one year. The security with a maturity date within one year was classified as Marketable Securities as a part of Current Assets and was stated at amortized cost plus accrued interest. The security with a maturity date beyond one year was included in Other Non-Current Assets and was stated at amortized cost.

The held-to-maturity securities at December 31, 1996 included the following:

	Amortized Cost	Fair Value
Marketable Securities - Current:		
U.S. Treasury Note, face value of $5,000,000, interest at 6.250%, due January 31, 1997	$5,000,000	$5,001,563
Accrued Interest	173,804	
	5,173,804	
Marketable Securities - Non-Current:		
U.S. Treasury Note, face value of 45,000,000, interest at 5.125%, due April 30, 1998	4,989,159	$4,948,438
Net Book Value - Held-to-Maturity Securities:	$10,162,963	

The calculation of gross unrealized (loss) for the years ended December 31, 1997 and 1996 is as follows:

	Fair Value	Cost	Gross Unrealized Gain (Loss)
1997:			
Held-to-maturity securities:			
U.S. Treasury Note, face value of $5,000,000, interest at 5.125%, due April 30, 1998	$4,992,188	$4,997,318	$(5,130)
Gross unrealized (loss)			$(5,130)
1996:			
Held-to-maturity securities:			
U.S. Treasury Note, face value of $5,000,000, interest at 5.125%, due April 30, 1998	$4,948,438	$4,989,159	$(40,721)
U.S. Treasury Note, face value of $5,000,000, interest at 6.250%, due January 31, 1997	5,001,563	5,000,000	1,563
Gross unrealized (loss)			$(39,158)

Net unrealized gains (losses) on held-to-maturity securities have not been recognized in the accompanying consolidated financial statements.

Net realized gains on marketable securities for the year ended December 31, 1996 were $2,899. There were no realized gain or losses fro the years ended December 31, 1997 or 1995.

HARSCO CORPORATION (DEC)

(In thousands)	1997	1996
Current assets		
Cash and cash equivalents	$221,565	$ 45,862
Investments in debt securities	43,867	29,180
Accounts receivable, net	259,565	268,230
Inventories	135,154	126,018
Other current assets	53,501	39,256
Total current assets	713,652	508,546

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Investments in Debt Securities

Marketable debt securities are classified as available-for-sale or held-to-maturity. Management determines the appropriate classification of debt securities at the time of purchase. Debt securities classified as available-for-sale are stated at fair value, with unrealized gains and losses reported in a separate component of shareholders' equity, net of deferred income taxes. Realized gains and losses on sales of investments are included in other revenues. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Interest on debt securities is included in interest income.

5. Investments in Debt Securities

The debt securities held at December 31, 1997 and 1996 consist of:

(In thousands)	1997			
	Amortized	Unrealized		Fair
Available-for-sale	Cost	Gains	Losses	Value
Corporate debt securities	$39,903	$—	$46	$39,857
Held-to-maturity				
Corporate debt securities	$ 3,007	$ 5	$—	$ 3,012
Government debt securities non-U.S.	1,003	1	—	1,004
	$ 4,010	$ 6	$—	$ 4,016

(In thousands)	1996			
	Amortized	Unrealized		Fair
Held-to-maturity	Cost	Gains	Losses	Value
Corporate debt securities	$23,468	$63	$14	$23,517
Government debt securities non-U.S.	9,770	45	7	9,808
	$33,238	$108	$21	$33,325

Trading Securities

INTEL CORPORATION

(In millions)	1997	1996
Current assets:		
Cash and cash equivalents	$4,102	$4,165
Short-term investments	5,630	3,742
Trading assets	195	87
Accounts receivable, net of allowance for doubtful accounts of $65 ($68 in 1996)	3,438	3,723
Inventories	1,697	1,293
Deferred tax assets	676	570
Other current assets	129	104
Total current assets	15,867	13,684

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part)

Investments. Highly liquid investments with insignificant interest rate risk and with original maturities of three months or less are classified as cash and cash equivalents. Investments with maturities greater than three months and less than one year are classified as short-term investments. Investments with maturities greater than one year are classified as long-term investments.

The Company accounts for investments in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company's policy is to protect the value of its investment portfolio and to minimize principal risk by earning returns based on current interest rates. For equity investments entered into for the promotion of business and strategic objectives, an insignificant portion of the investment portfolio, the Company typically does not attempt to reduce or eliminate the inherent market risks. A substantial majority of the Company's marketable investments are classified as available-for-sale as of the balance sheet date and are reported at fair value, with unrealized gains and losses, net of tax, recorded in stockholders' equity. The cost of securities sold is based on the specific identification method. Realized gains or losses and declines in value, if any, judged to be other than temporary, on available-for-sale securities are reported in other income or expense. Investments in non-marketable instruments are recorded at the lower of cost or market and included in other assets.

Trading assets. During 1996, the Company began purchasing securities classified as trading assets. Net gains on the trading asset portfolio were $37 million and $12 million in 1997 and 1996, respectively. The Company maintains its trading asset portfolio to generate returns that offset changes in certain liabilities related to deferred compensation arrangements. The trading assets consist of marketable equity securities and are stated at fair value. Both realized and unrealized gains and losses are included in other income or expense and generally offset the change in the deferred compensation liability, which is also included in other income or expense.

Fair values of financial instruments. Fair values of cash and cash equivalents approximate cost due to the short period of time to maturity. Fair values of long-term investments, long-term debt, short-term investments, short-term debt, long-term debt redeemable within one year, trading assets, non-marketable instruments, swaps, currency forward contracts, currency options and options hedging marketable instruments are based on quoted market prices or pricing models using current market rates. No consideration is given to liquidity issues in valuing debt.

Fair Values Of Financial Instruments

The estimated fair values of financial instruments outstanding at fiscal year-ends were as follows:

	1997		1996	
(In millions)	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Cash and cash equivalents	$4,102	$4,102	$4,165	$4,165
Short-term investments	$5,561	$5,561	$3,736	$3,736
Trading assets	$195	$195	$87	$87
Long-term investments	$1,821	$1,821	$1,418	$1,418
Non-marketable instruments	$ 387	$ 497	$ 119	$ 194
Swaps hedging investments in debt securities	$ 64	$ 64	$ (12)	$ (12)
Options hedging investments in marketable equity securities	$ —	$ —	$ (25)	$ (25)
Short-term debt	(212)	$ (212)	$(389)	$(389)
Long-term debt redeemable within one year	$ (110)	$ (109)	$ —	$ —
Long-term debt	$ (448)	$ (448)	$(728)	$ (731)
Swaps hedging debt	$ —	$ (1)	$ —	$ 13
Currency forward contracts	$ 26	$ 28	$ 5	$ 18
Currency options	$ 1	$ 1	$ —	$ —

CURRENT RECEIVABLES

Table 2-5 summarizes both the descriptive titles used in the balance sheet to describe trade receivables and the types of receivables, other than trade receivables, which the survey companies most frequently showed as current assets.

201 survey companies disclosed fair value information about current receivables of which 198 stated that fair value approximated carrying amount. Paragraph 13 of *Statement of Financial Accounting Standards No. 107* states that no disclosure about the fair value of trade receivables is required if the fair value approximates the carrying amount of the trade receivables.

Examples of presentations and disclosures for current receivables follow.

TABLE 2-5: CURRENT RECEIVABLES

	1997	1996	1995	1994
Trade Receivable Captions				
Accounts receivable	269	268	255	250
Receivables	138	137	143	159
Trade accounts receivable	130	123	131	119
Accounts and notes receivable	63	72	71	72
Total Companies	**600**	**600**	**600**	**600**
Receivables Other Than Trade Receivables				
Contracts	46	46	51	48
Tax refund claims	45	31	38	34
Investees	26	25	24	27
Finance	20	28	28	25
Insurance claims	6	5	6	2
Sales of assets	5	5	5	6
Retained interest in sold receivables	5	—	—	—
Employees	4	6	8	5
Installment notes or accounts	4	2	6	5

RECEIVABLES OTHER THAN TRADE RECEIVABLES

Contracts

CENTEX CORPORATION (MAR)

(Dollars in thousands)	1997	1996
Assets		
Cash and Cash Equivalents	$ 31,320	$ 14,042
Receivables-		
Residential Mortgage Loans	632,657	629,756
Construction Contracts	208,847	199,232
Trade, including Notes of $19,244 and $8,531	145,881	81,571
Affiliates	—	—
Inventories-		
Housing Projects	944,216	1,055,478
Land Held for Development and Sale	26,061	149,972
Construction Products	31,482	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Revenue Recognition

Revenues from housing projects and Investment Real Estate are recognized as homes and properties are sold and title passes. Earnings from sale of mortgage servicing rights and from loan origination fees are recognized when the related loan is sold and delivered to third-party purchasers.

Long-term construction contract revenues are recognized on the percentage-of-completion method based on the costs incurred relative to total estimated costs. Full provision is made for any anticipated losses. Billings for long-term construction contracts are rendered monthly, including the amount of retainage withheld by the customer until contract completion. As a general contractor, the company withholds similar retainages from each subcontractor. Retainages of $74 million included in construction contracts receivable and $73 million included in accounts payable at March 31, 1997 are generally receivable and payable within one year.

Claims are recognized as revenue only after management is confident of collection or when agreement has been reached with the customer.

Notes receivable at March 31, 1997 are collectible primarily over three years, with $10.0 million being due within one year. The weighted average interest rate at March 31, 1997 was 7.8%.

HALLIBURTON COMPANY (DEC)

Millions of dollars	1997	1996
Current assets:		
Cash and equivalents	$ 221.3	$ 213.6
Receivables:		
Notes and accounts receivable (less allowance for bad debts of $38.4 and $43.6)	1,815.8	1,413.4
Unbilled work on uncompleted contracts	390.0	288.9
Total receivables	2,205.8	1,702.3
Inventories	326.9	292.2
Deferred income taxes, current	106.6	108.7
Other current assets	111.0	81.2
Total current assets	2,971.6	2,398.0

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Receivables. The Company's receivables are generally not collateralized. Notes and accounts receivable at December 31, 1997 include $30.4 million ($24.9 million at December 31, 1996) due from customers in accordance with applicable retainage provisions of engineering and construction contracts, which will become billable upon future deliveries or completion of such contracts. This amount is expected to be collected during 1998. Additionally, other noncurrent assets include $7.3 million ($6.7 million at December 31, 1996) of such retainage which is expected to be collected in years subsequent to 1998. Unbilled work on uncompleted contracts generally represents work currently billable and such work is usually billed during normal billing processes in the next month. At December 31, 1997, notes of $9.5 million ($14.6 million at December 31, 1996) with varying interest rates are included in notes and accounts receivable.

SEQUA CORPORATION (DEC)

Amounts in thousands	1997	1996
Current assets		
Cash and cash equivalents	$ 93,743	$ 92,079
Short-term investments	25,000	—
Trade receivables (less allowances of $15,816 and $12,992)	282,602	248,835
Unbilled receivables, net (Note 3)	27,777	26,771
Inventories	246,449	223,498
Other current assets	20,272	20,994
Total current assets	695,843	612,177

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Unbilled Receivables, Net

Unbilled receivables, net consist of the following:

(Amount in thousands) At December 31,	1997	1996
Fixed-price contracts	$24,128	$22,640
Cost-reimbursement contracts	3,649	4,131
	$27,777	$26,771

Unbilled receivables on fixed-price contracts arise as revenues are recognized under the percentage-of-completion method. These amounts are billable at specified dates, when deliveries are made or at contract completion, which is expected to occur within one year. All amounts included in unbilled receivables are related to long-term contracts and are reduced by appropriate progress billings.

Unbilled amounts on cost-reimbursement contracts represent recoverable costs and accrued profits not yet billed. These amounts are billable upon receipt of contract funding, final settlement of indirect expense rates, or contract completion.

Allowances for estimated nonrecoverable costs are primarily to provide for losses which may be sustained on contract costs awaiting funding and for the finalization of indirect expenses. Unbilled amounts at December 31, 1997 and 1996 are reduced by allowances for estimated nonrecoverable costs of $2,073,000 and $2,587,000, respectively.

Tax Refund Claims

FIGGIE INTERNATIONAL INC. (DEC)

(In thousands)	1997	1996
Current Assets		
Cash and Cash Equivalents	$104,243	$44,447
Trade Accounts Receivable, Less Allowance for Uncollectible Accounts of $394 in 1997 and $151 in 1996	35,862	43,480
Inventories	30,049	32,903
Prepaid Expenses	885	826
Recoverable Income Taxes	4,120	7,689
Current Deferred Tax Asset	6,400	12,600
Net Assets Related to Discontinued Operations	—	59,901
Total Current Assets	181,559	201,846

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Income Taxes

As of December 31, 1997, the Company had recoverable income taxes on the balance sheet of $4.1 million. Of this amount, $2.0 million represents a refund from Inland Revenue in the United Kingdom, which was received in January 1998, and $2.1 million represents a refund from an Internal Revenue Service audit for the Company's 1991-1993 tax years, of which $0.7 million was received in January 1998 and the balance is expected in March 1998.

KNAPE & VOGT MANUFACTURING COMPANY (JUN)

	1997	1996
Current Assets		
Cash and equivalents	$ 1,146,546	$ 244,271
Accounts receivable, less allowances of $525,000 and $563,000, respectively	24,991,341	22,763,645
Refundable income taxes	1,578,681	1,860,191
Inventories	18,629,454	23,016,541
Prepaid expenses	3,686,042	3,058,021
Net current assets of discontinued operation	1,462,089	1,790,740
Total Current Assets	51,494,153	52,733,409

TEMTEX INDUSTRIES, INC. (AUG)

(In thousands)	1997	1996
Current Assets		
Cash and cash equivalents	$575	$445
Accounts receivable, less allowance for doubtful accounts: 1997—$364,000 and 1996—$435,000	5,100	6,971
Inventories	8,172	10,224
Prepaid expenses and other assets	258	285
Income taxes recoverable—Note G	653	—
Deferred taxes	440	226
Total Current Assets	15,198	18,151

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G (In Part): Income Taxes

The Company generated a federal net operating loss of approximately $1,200,000 in 1997 which the Company anticipates carrying back to the tax year ended August 31, 1994 and is included in income taxes recoverable. Any unused net operating loss will expire in the year 2013.

Finance Receivables

CATERPILLAR INC. (DEC)

(Dollars in millions)	1997	1996	1995
Current assets:			
Cash and short-term investments	$ 292	$ 487	$ 638
Receivables—trade and other	3,331	2,956	2,531
Receivable—finance (Note 6)	2,660	2,266	1,754
Deferred income taxes and prepaid expenses	928	852	803
Inventories	2,603	2,222	1,921
Total current assets	9,814	8,783	7,547

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

6 (In part): Finance receivables

Finance receivables are receivables of Cat Financial, which generally could be repaid or refinanced without penalty prior to contractual maturity. Total finance receivables are net of an allowance for credit losses.

Please refer to Table III for additional finance receivables information and Note 15 for fair value information.

TABLE III—Finance Receivables Information

Contractual maturities of outstanding receivables:

	December 31, 1997			
Amounts Due In	Installment Contracts	Financing Leases	Notes	Total
1998	$ 613	$1,047	$1,065	$2,725
1999	418	774	411	1,603
2000	267	503	404	1,174
2001	131	256	178	565
2002	44	96	84	224
Thereafter	12	108	151	271
	1,485	2,784	2,293	6,562
Residual value	—	725	—	725
Less: Unearned income	165	478	19	662
Total	$1,320	$3,031	$2,274	$6,625

Impaired loans and leases:

	1997	1996	1995
Average recorded investment	$47	$43	$51
At December 31:			
Recorded investment	$30	$33	$37
Less: Fair value of underlying collateral	18	21	25
Potential loss	$12	$12	$12

Allowance for credit loss activity:

	1997	1996	1995
Balance at beginning of year	$74	$57	$50
Provision for credit losses	39	41	43
Less: Net credit losses	19	21	33
Less: Other—net	10	3	3
Balance at end of year	$84	$74	$57

Cat Financial's net investment in financing leases:

	December 31,		
	1997	1996	1995
Total minimum lease payments receivable	$2,784	$2,383	$1,858
Estimated residual value of leased assets:			
Guaranteed	206	162	113
Unguaranteed	519	402	297
	3,509	2,947	2,268
Less: Unearned income	478	430	363
Net investment in financing leases	$3,031	$2,517	$1,905

15 (In Part): Fair values of financial instruments

Finance receivables—fair value was estimated by discounting the future cash flow using current rates, representative of receivables with similar remaining maturities. Historical bad debt experience was also considered.

CHRYSLER CORPORATION (DEC)

In millions of dollars	1997	1996
Assets:		
Cash and cash equivalents	$ 4,898	$ 5,158
Marketable securities	2,950	2,594
Total cash, cash equivalents and marketable securities	7,848	7,752
Accounts receivable—trade and other (less allowance for doubtful accounts: 1997 and 1996—$52 million and $44 million, respectively)	1,646	2,126
Inventories	4,738	5,195
Prepaid employee benefits, taxes and other expenses	2,193	1,929
Finance receivables and retained interests in sold receivables (Note 4)	13,518	12,339
Property and equipment	17,968	14,905
Special tools	4,572	3,924
Intangible assets	1,573	1,995
Other noncurrent assets	6,362	6,019
Total Assets	$60,418	$56,184

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Finance Receivables And Retained Interests In Sold Receivables

Finance receivables and retained interests in sold receivables were as follows:

In millions of dollars	December 31 1997	1996
Automotive financing	$ 6,369	$ 6,517
Nonautomotive financing	2,715	2,204
Retained senior interests in wholesale receivables held in trusts	1,511	677
Total finance receivables	10,595	9,398
Retained interests in sold receivables	3,488	3,488
Allowance for credit losses	(565)	(547)
Total	$13,518	$12,339

Retained interests in sold receivables are generally restricted and subject to credit risk.

Contractual maturities of total finance receivables as of December 31, 1997, were as follows (in millions of dollars): 1998—$5,001; 1999—$954; 2000—$1,151; 2001—$516; 2002—$455; and 2003 and thereafter—$2,518. Actual cash flows will vary from contractual maturities due to future sales of finance receivables, prepayments and charge-offs.

Changes in the allowance for credit losses were as follows:

In millions of dollars	Year Ended December 31 1997	1996	1995
Balance at beginning of year	$547	$617	$522
Provision for credit losses	444	373	372
Net credit losses	(415)	(398)	(252)
Other adjustments	(11)	(45)	(25)
Balance at End of Year	$565	$547	$617

Nonearning finance receivables, including receivables sold subject to credit risk, totaled $248 million and $278 million at December 31, 1997 and 1996, respectively, which represented 0.7 percent and 0.8 percent of such receivables outstanding, respectively.

Note 16. Financial Instruments

The estimated fair values of financial instruments have been determined by Chrysler using available market information and the valuation methodologies described below. However, judgment is often required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein may not be indicative of the amounts that Chrysler could realize in a current market exchange. The use of different assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

Amounts related to Chrysler's financial instruments were as follows:

In millions of dollars	Dec. 31, 1997 Carrying Amount	Fair Value	Dec. 31, 1996 Carrying Amount	Fair Value
Balance Sheet Financial Instruments:				
Marketable securities	$2,950	$2,950	$2,594	$2,594
Finance receivables and retained interests [1]	10,948	10,941	10,353	10,315
Debt	15,485	16,020	13,448	13,929
Currency exchange agreements	—	—	52	57

[1] The carrying value of finance receivables and retained interests excludes $2,570 million and $1,986 million of direct finance and leveraged leases classified as finance receivables in the consolidated balance sheet at December 31, 1997 and 1996, respectively.

The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximated fair values due to the short-term maturities of these instruments.

The methods and assumptions used to estimate the fair values of balance sheet and other financial instruments are summarized as follows:

Finance Receivables and Retained Interests in Sold Receivables

The carrying value of variable-rate finance receivables was assumed to approximate fair value since they are

priced at current market rates. The fair value of fixed-rate finance receivables was estimated by discounting expected cash flows using rates at which loans of similar maturities would be made as of the date of the consolidated balance sheet. The fair values of residual cash flows and other subordinated amounts due CFC arising from receivable sale transactions were estimated by discounting expected cash flows at current market rates.

QUALCOMM INCORPORATED (SEP)

	In thousands	
	1997	1996
Current assets:		
Cash and cash equivalents	$ 248,837	$110,143
Investments	448,235	236,129
Accounts receivable, net	445,382	217,433
Finance receivables	111,501	—
Inventories	225,156	171,511
Other current assets	70,484	15,974
Total current assets	1,549,595	751,190

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Finance Receivables

Finance receivables result from sales under arrangements in which the Company has agreed to provide customers with the option to issue long-term interest bearing notes to the Company for the purchase of equipment and/or services. At September 30, 1997, the finance receivables of $111.5 million primarily resulted from sales to one customer having the ability to convert outstanding amounts into loans receivable with interest at selected market rates plus applicable margin and with an eight year principal amortization term. During fiscal 1997, the Company entered into an agreement to sell loans receivable from the customer to a financial institution at par value on a non-recourse basis. Pursuant to this agreement, the Company sold approximately $17 million of such customer loans during fiscal 1997. During October 1997, the Company sold approximately $76 million of the $111.5 million finance receivables outstanding as of September 30, 1997. The Company expects to realize the remaining finance receivables within one year from September 30, 1997.

Unfunded commitments to extend long-term financing under sales arrangements at September 30, 1997, including amounts in finance receivables at September 30, 1997, aggregated approximately $257 million. Such commitments are subject to the customers meeting certain conditions established in the financing arrangements. Commitments represent the estimated amounts to be financed under these arrangements, however, actual financing may be in lesser or greater amounts.

Wireless network operators increasingly have required their suppliers to arrange or provide long-term financing for them as a condition to obtaining equipment and services contracts. As such, the Company may continue to enter into significant future commitments to provide or guarantee long-term financing for its customers.

Receivables From Affiliates

ANALOGIC CORPORATION (JUL)

(000 omitted)	1997	1996
Current assets:		
Cash and cash equivalents	$24,954	$18,040
Marketable securities, at market	89,496	82,509
Accounts and notes receivable, net of allowance for doubtful accounts (1997, $1,370; 1996, $1,426)	50,728	45,207
Accounts receivable, affiliates	1,910	1,608
Inventories	47,800	50,232
Prepaid expenses and other current assets	6,714	4,416
Total current assets	221,602	202,012

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Investments in and advances to affiliated companies

The Company owns 50% of Analogic Scientific, Inc. ("Scientific"), a joint venture corporation with Kejian Corporation of The People's Republic of China. The Company's original investment of $1,500,000 has been accounted for using the equity method of accounting. The Company's share of Scientific's loss amounted to $425,000 in fiscal year 1997. The Company did not report any income or loss in fiscal years 1996 and 1995 related to this investment. During fiscal 1996, the Company invested an additional $500,000 in Scientific. The carrying value of this investment was $5,775,000 at July 31, 1997 and $6,200,000 at July 31, 1996. Transactions with Scientific for fiscal years 1997, 1996 and 1995 consisted of revenues of approximately $526,000, $735,000 and $1,076,000, respectively. At July 31, 1997 and 1996, accounts receivable from this affiliate were $668,000 and $676,000, respectively.

On July 3, 1997 Park Meditech, Inc.'s subsidiary, Park Medical Systems, filed for assignment in bankruptcy. A trustee was appointed to sell the assets of Park Medical Systems, which includes patents on imaging technology. In view of this filing, the Company recognized the impairment of its investment in Park Meditech, Inc. and wrote off $1,742,000. The Company currently owns 5,715,384 shares or approximately 14% of the outstanding shares of Park Meditech, Inc. Park Meditech, Inc. shares were traded on the Montreal Exchange (PKM) as well as the NASDAQ small cap exchange (PMDTF). The investment in Park Meditech, Inc. was included in marketable securities at July 31, 1996.

On February 22, 1996, the Company invested $2,000,000 for a 33% interest in a privately held company which designs and will manufacture medical imaging equipment. Effective May 1, 1997, the Company increased its interest from 33% to 50% with an investment of $340,000. During June, 1997 the Company and the other investor each invested an additional $1,000,000. The carrying value of this investment was $570,000 at July 31, 1997 and $1,179,000 at July 31, 1996. Transactions with this privately held company for fiscal years 1997 and 1996 consisted of revenues of approximately $5,406,000 and $2,667,000, respectively. At July 31, 1997 and 1996, accounts receivable from this company were $1,243,000 and $932,000, respectively.

ADOLPH COORS COMPANY (DEC)

(In thousands)	1997	1996
Current assets:		
Cash and cash equivalents	$168,875	$110,905
Short-term investments	42,163	5,958
Accounts and notes receivable:		
Trade, less allowance for doubtful accounts of $557 in 1997 and $275 in 1996	89,731	86,421
Affiliates	19,677	14,086
Other, less allowance for certain claims of $1,500 in 1997 and $0 in 1996	15,077	13,836
Inventories:		
Finished	44,729	43,477
In process	20,119	23,157
Raw materials	35,654	40,737
Packaging materials, less allowance for obsolete inventories of $1,049 in 1997 and $1,046 in 1996	5,977	13,699
Total inventories	106,479	121,070
Other supplies, less allowance for obsolete supplies of $4,165 in 1997 and $2,273 in 1996	32,362	36,103
Prepaid expenses and other assets	18,224	18,836
Deferred tax asset	24,606	9,427
Total current assets	517,194	416,642

RECEIVABLES USED FOR FINANCING

Table 2-6 shows that 1997 annual reports of 131 survey companies disclosed either the sale of receivables or the pledging of receivables as collateral. *Statement of Financial Accounting Standards No. 125* sets forth accounting and reporting standards that are effective for all transfers of financial assets occurring after December 31, 1997.

Examples of disclosures made in the reports of the survey companies financing receivables follow.

TABLE 2-6: RECEIVABLES USED FOR FINANCING

	1997	**1996**	**1995**	**1994**
Receivables sold	106	97	92	86
Receivables used as collateral	31	33	42	44
Total References	**137**	**130**	**134**	**130**
Reference to receivable financing	131	127	131	125
No reference to receivable financing	469	473	469	475
Total Companies	**600**	**600**	**600**	**600**

Receivables Sold

CINCINNATI MILACRON INC. (DEC)

In millions	1997	1996
Current assets		
Cash and cash equivalents	$ 25.7	$ 27.8
Notes and accounts receivable (less allowances of $13.0 in 1997 and $13.7 in 1996)	275.0	267.0
Inventories		
Raw materials	26.5	27.8
Work-in-process and finished parts	217.7	202.7
Finished products	146.2	159.2
Total inventories	390.4	389.7
Other current assets	60.0	43.4
Total current assets	751.1	727.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Receivables

In January, 1996, the company entered into a new three year receivables purchase agreement with an independent issuer of receivables-backed commercial paper. This agreement replaced a similar agreement that expired in January, 1996. Under the terms of the new agreement, the company agreed to sell on an ongoing basis and without recourse, an undivided percentage ownership interest in designated pools of accounts receivable. To maintain the balance in the designated pools of accounts receivable sold, the company is obligated to sell undivided percentage interests in new receivables as existing receivables are collected. The agreement permits the sale of up to $75.0 million of undivided interests in accounts receivable through January, 1999.

At December 27, 1997, December 28, 1996, and December 30, 1995, the undivided interests in the company's gross accounts receivable that had been sold to the purchasers aggregated $75.0 million, $75.0 million and $69.0 million, respectively. Increases and decreases in the amount sold are reported as operating cash flows in the Consolidated Statement of Cash Flows. Costs related to the sales are included in other costs and expenses-net in the Consolidated Statement of Earnings.

CIRCUIT CITY STORES, INC. (FEB)

(Amounts In Thousands)	1997	1996
Current Assets:		
Cash and cash equivalents	$ 202,643	$ 43,704
Net accounts and notes receivable (Note 10)	531,974	324,395
Inventory	1,392,363	1,323,183
Deferred income taxes	21,340	26,996
Prepaid expenses and other current assets	14,813	17,399
Total Current Assets	2,163,133	1,735,677

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary Of Significant Accounting Policies

(M) Transfers and Servicing of Financial Assets and Extinguishments of Liabilities: In fiscal 1997, the Company adopted SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996, and is to be applied prospectively. Adoption of SFAS No. 125 did not have a material impact on the Company's financial position, results of operations or liquidity.

10. Securitizations

(A) Credit Card Securitizations: The Company enters into securitization transactions, which allow for the sale of credit card receivables to unrelated entities, to finance the consumer revolving credit receivables generated by First North American National Bank, its wholly owned credit card bank subsidiary (the "Bank Subsidiary"). The Company implemented SFAS No. 125 with respect to sales of credit card receivables occurring after December 31, 1996. Proceeds from securitization transactions were $551.1 million for fiscal 1997, $692.3 million for fiscal 1996 and $428.4 million for fiscal 1995.

At February 28 or 29 the following amounts were outstanding:

(Amounts In Thousands)	1997	1996
Securitized receivables	$2,594,651	$1,860,459
Interest retained by Company	(293,586)	(110,459)
Net receivables transferred	$2,301,065	$1,750,000
Net receivables transferred with recourse	$1,317,565	$760,000
Program capacity	$2,665,000	$1,910,000

The Bank Subsidiary finances its private-label credit card program through a single master trust, through both private placement and the public market. During fiscal 1997, the Bank Subsidiary placed an additional $225 million in the public market for a total program capacity of $1,215 million. The master trust vehicle permits further expansion of the securitization programs to meet future receivables growth. The agreements have no recourse provisions.

In addition, the Bank Subsidiary has an asset securitization program in place for its bank card receivables that allows, as of February 28, 1997, the transfer of up to $1,450 million in receivables. The bank card securitization agreements provide recourse to the Company for any cash flow deficiencies. The Company believes that as of February 28, 1997, no liability existed under these recourse provisions. The finance charges from the transferred receivables are used to fund interest costs, charge-offs, servicing fees and other related costs.

The Bank Subsidiary's servicing revenue, including gains on sales of receivables of $3.7 million for fiscal 1997, totaled $197.0 million for fiscal 1997, $142.9 million for fiscal 1996 and $77.8 million for fiscal 1995. The servicing fees specified in the credit card securitzation agreements adequately compensate the Bank Subsidiary for servicing the accounts. Accordingly, no servicing asset or liability has been recorded. Rights recorded for future interest income from serviced assets that exceed the contractually specified servicing fees are carried at fair value and amounted to $3.2 million at February 28, 1997, and are included in net accounts receivable.

(B) Auto Loan Securitization: In fiscal 1996, the Company entered into a securitization agreement to finance the consumer installment credit receivables generated by First North American Credit Corporation ("FNAC"), an installment lending division of the Company. Proceeds from the auto loan securitization transaction were $58 million during fiscal 1997 and $87 million during fiscal 1996. The seasoned portfolio and more estimable losses allowed the Company to recognize gains on the sales of these receivables beginning in fiscal 1997.

At February 28 or 29 the following amounts were outstanding:

(Amounts In Thousands)	1997	1996
Securitized receivables	$155,234	$ 93,065
Interest retained by Company	(10,234)	(6,065)
Net receivables transferred	$145,000	$87,000
Program capacity	$175,000	$100,000

The finance charges from the transferred receivables are used to fund interest costs, charge-offs and servicing fees. A restructuring of the facility during fiscal 1997 resulted in the recourse provisions being eliminated. Servicing revenue for FNAC, including gains on sales of receivables of $4.3 million in fiscal 1997, totaled $8.7 million for fiscal 1997 and $2.0 million for fiscal 1996 and for fiscal 1995.

The servicing fee specified in the auto loan securitization agreement adequately compensates FNAC for servicing the loans. Accordingly, no servicing asset or liability has been recorded. Rights recorded for future interest income from serviced assets that exceed the contractually specified servicing fee are carried at fair value and amounted to $3.1 million at February 28, 1997, and are included in net accounts receivable.

DAYTON HUDSON CORPORATION (JAN)

(Millions of Dollars)	1998	1997
Current Assets		
Cash and cash equivalents	$ 211	$ 201
Retained securitized receivables	1,555	1,720
Merchandise inventories	3,251	3,031
Other	544	488
Total Current Assets	5,561	5,440

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Retained Securitized Receivables

Through its special purpose subsidiary, Dayton Hudson Receivables Corporation (DHRC), the Company transfers, on an ongoing basis, substantially all of its receivables to a trust in return for certificates representing undivided interests in the trust's assets. DHRC owns the undivided interest in the trust's assets, other than the sold securitized receivables and the 5 percent of trust assets held by Retailers National Bank (RNB), a wholly owned subsidiary of the Corporation that also services the receivables. The undivided interests held by DHRC and RNB, as well as related income and expenses, are reflected in each operating division's assets and operating results based on the origin of the credit sale giving rise to the receivable.

In third quarter 1997, DHRC sold to the public $400 million of securitized receivables. This issue of asset-backed securities has an expected maturity of five years and a stated rate of 6.25 percent. Proceeds from the sale were used for general corporate purposes, including funding the growth of receivables. As required by SFAS No. 125, the transaction resulted in a pre-tax gain of $32 million. Total year results also include an additional $13 million pre-tax gain attributable to the application of SFAS No. 125 to our 1995 securitization. Combined, these gains total $45 million ($.06 per share). The net impact from these sales is a reduction of revenues and bad debt expense. As of year end, $800 million of securitized receivables have been sold to investors and DHRC has borrowed $100 million of debt secured by receivables.

The fair value of the retained securitized receivables, classified as available for sale, was $1,555 million and $1,720 million at year end 1997 and 1996, respectively. The fair value of the retained securitized receivables was lower than the aggregate receivables value by $126 million and $119 million at year end 1997 and 1996, respectively, due to Company estimates of ultimate collectibility. Write-downs have been included in selling, publicity and administrative expenses in the consolidated results of operations.

THE DIXIE GROUP, INC. (DEC)

Dollars in thousands	1997	1996
Current Assets		
Cash and cash equivalents	$ 1,848	$ 1,988
Accounts receivable (less allowance for doubtful accounts of $3,207 in 1997 and $3,614 in 1996)	29,450	14,628
Inventories	82,661	93,226
Assets held for sale	10,000	10,350
Other	11,977	10,520
Total Current Assets	135,936	130,712

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
dollars in thousands

Note D - Sale Of Accounts Receivable

On October 15, 1993, the Company entered into a seven year agreement and sold a $45,000 undivided interest in a revolving pool of its trade accounts receivable. No further interest has been sold under this agreement subsequent to the original sale. At December 27, 1997 and December 28, 1996, the $45,000 interest sold is reflected as a reduction of accounts receivable in the Company's consolidated balance sheets. Cost of this program were fixed at 6.08% per annum on the amount of the interest sold plus administrative fees typical in such transactions. These costs, which were approximately $2,985 for 1997, $2,948 for 1996, and $2,998 for 1995 are included in other expense - net. In addition, the Company is generally at risk for credit losses associated with sold receivables and provides for such in the Company's financial statements.

FEDERAL-MOGUL CORPORATION (DEC)

(Millions of Dollars)	1997	1996
Cash and equivalents	$ 541.4	$ 33.1
Accounts receivable	158.9	204.3
Investment in accounts receivable securitization	48.7	27.0
Inventories	277.0	417.0
Prepaid expenses and income tax benefits	113.2	81.5
Total current assets	1,139.2	762.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Financial Instruments

Accounts Receivable Securitization

During 1997, the Company replaced an existing accounts receivable securitization program with a new program which provides up to $100 million of financing. On an ongoing basis, the Company sells certain accounts receivable to Federal-Mogul Funding Corporation (FMFC), a wholly-owned subsidiary of the Company, which then sells such receivables, without recourse, to a master trust. Amounts sold under these arrangements were $63.2 million and $95 million at December 31, 1997 and 1996 respectively, and have been excluded from the balance sheets. The Company's retained interest in the accounts receivable sold to FMFC is included in the balance sheet caption Investment in Accounts Receivable Securitization.

FRUIT OF THE LOOM, INC. (DEC)

(In thousands of dollars)	1997	1996
Current Assets		
Cash and cash equivalents (including restricted cash)	$ 16,100	$ 18,700
Notes and accounts receivable (less allowance for possible losses of $11,900,000 and $20,600,000, respectively)	98,100	167,300
Inventories		
Finished goods	570,400	428,600
Work in process	212,300	188,500
Materials and supplies	64,800	47,400
	847,500	664,500
Other	53,900	38,100
Total current assets	1,015,600	888,600

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sale of Accounts Receivable

Under a three-year receivables purchase agreement entered into in December 1996, the Company, through a wholly-owned special purpose entity ("SPE"), can sell up to a $250,000,000 undivided interest in a defined pool of its trade accounts receivable. The maximum amount outstanding as defined under the agreement varies based upon the level of eligible receivables. Under the agreement, $183,000,000 and $200,000,000 of trade accounts receivable were sold at December 31, 1997 and 1996, respectively.

Prior to January 1, 1997, the Company accounted for these sales in accordance with FAS 77 "Reporting by Transferors for Transfers of Receivables with Recourse," under which accounts of the SPE were consolidated. Effective January 1, 1997, the Company adopted FAS 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," for sales of trade accounts receivable. Adoption of FAS 125 had no impact on net income in 1997. Under FAS 125, however, the Company no longer consolidates the SPE. Rather, the SPE is reflected as an equity basis investment as of December 31, 1997, in the accompanying Consolidated Balance Sheet.

Sales of trade accounts receivable are reflected as a reduction of notes and accounts receivable in the accompanying Consolidated Balance Sheet and the proceeds received are included in cash flows from operating activities in the accompanying Consolidated Statement of Cash Flows. The proceeds from the sale are less than the face amount of trade accounts receivable sold by a discounted amount which closely approximates the purchaser's financing cost of issuing its own commercial paper backed by these and other accounts receivable. Trade accounts payable in the accompanying Consolidated Balance Sheet at December 31, 1997, included advances totaling $83,100,000 owed to the ultimate purchaser by the Company.

The full amount of the allowance for possible losses has been retained by the SPE and classified as a recourse liability because the SPE, as agent for the purchaser, retains the same risk of credit loss, including collection and administrative responsibilities, as if the receivables had not been sold. The fair value of the recourse liability of $20,900,000 included in current liabilities in the accompanying Consolidated Balance Sheet at December 31, 1996 approximated the allocated allowance for possible losses given the short-term nature of the transferred receivables.

The discount and fees under this agreement are variable based on the general level of interest rates and the Company's debt ratings. Rates ranged from 5.14% to 5.92% during 1997 and from 5.37% to 5.83% during 1996 on the amount of the undivided interest sold plus certain administrative and servicing fees typical in such transactions. These costs were approximately $11,800,000 and $1,700,000 in 1997 and 1996 and were charged to other expense-net in the accompanying Consolidated Statement of Operations. The Company receives compensation for servicing that is approximately equal to its cost of servicing the accounts receivable. Accordingly, no servicing assets or liability is recorded.

GEORGIA GULF CORPORATION (DEC)

In Thousands	1997	1996
Cash and cash equivalents	$ 1,621	$ 698
Receivables, net of allowance for doubtful accounts of $2,400 in 1997 and 1996	67,553	64,131
Inventories	92,921	89,196
Prepaid expenses	6,508	9,934
Deferred income taxes	7,409	6,410
Total current assets	176,012	170,369

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Receivables

In 1997, the Company adopted SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The impact of the adoption was not material to the financial statements.

The Company has entered into an agreement pursuant to which it sold a percentage ownership interest in a defined pool of the Company's trade receivables. As collections reduce accounts receivable included in the pool, the Company sells participating interests in new receivables to bring the amount in the pool up to the $50,000,000 maximum permitted by the agreement. The receivables are sold at a discount, which approximates the purchaser's financing cost of issuing its own commercial paper backed by these accounts receivable. The ongoing costs of this program of $3,045,000, $2,882,000 and $2,003,000 for 1997, 1996 and 1995, respectively, were charged to selling and administrative expense in the accompanying consolidated statements of income.

IKON OFFICE SOLUTIONS, INC. (SEP)

(dollars in thousands)	1997	1996
Current Assets		
Cash	$ 21,341	$ 46,056
Accounts receivable, less allowances of: 1997- $54,192; 1996-$35,308	765,660	513,378
Finance receivables, net	670,784	435,434
Inventories	442,207	350,774
Prepaid expenses	101,294	80,352
Deferred taxes	124,520	83,161
Total current assets	2,125,806	1,509,155

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Accounting Changes

FASB Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 125), was adopted effective January 1, 1997. As a result, the Company has modified its agreements to meet the new requirements to enable it to continue recognizing transfers of certain receivables to special-purpose entities as sales, therefore, SFAS 125 did not have a material effect on the Company's financial statements.

6 (In Part): Finance Receivables

The Company's wholly owned finance subsidiaries are engaged in purchasing office equipment from Company dealers and leasing the equipment to customers under direct financing leases.

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IKON's U.S. finance subsidiary has entered into asset securitization agreements for $275,000,000 of eligible direct financing lease receivables that expire in March 1998 ($125,000,000) and September 1998 ($150,000,000). The agreements contain limited recourse provisions that require the finance subsidiary to assign an additional amount of undivided interest in leases as a reserve to cover any potential losses to the purchaser due to uncollectible leases. As collections reduce previously sold interests, new leases can be sold up to the agreement amount. In fiscal year 1997, the finance subsidiary sold an additional $103,401,000 in leases, replacing leases liquidated during the year, under the agreements.

The changes in the finance subsidiary servicing liabilities relating to the asset securitization agreements for the fiscal years ended September 30, 1997 and 1996, are as follows:

(In thousands)	1997	1996
Beginning of period	$ 8,467	$ 4,187
Additions	3,170	6,050
Less: Amortization	(3,389)	(1,770)
Balance at September 30	$ 8,248	$ 8,467

The estimated fair value of the servicing liabilities aggregated $7,485,000 at September 30, 1997 and $7,587,000 at September 30, 1996.

NACCO INDUSTRIES, INC. (DEC)

(In millions)	1997	1996
Current Assets		
Cash and cash equivalents	$ 24.1	$ 47.8
Accounts receivable, net of allowance of $14.1 and $12.5	240.8	212.2
Inventories	302.9	309.6
Prepaid expenses and other	31.8	22.2
	599.6	591.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Accounts Receivable Securitization

In 1997, NMHG entered into a one-year agreement to sell all of its domestic accounts receivable, on a revolving basis, to Lift Truck Funding Company, LLC ("LTF"), a wholly owned subsidiary of NMHG. LTF was formed prior to the execution of this agreement for the purpose of buying and selling accounts receivable and is designed to be bankruptcy remote.

Also in 1997, NMHG and LTF entered into a one-year agreement with a financial institution whereby LTF can sell, on a revolving basis, an undivided percentage ownership interest in certain eligible accounts receivable, as defined, up to a maximum of $60.0 million. This two-step transaction is accounted for as a sale of receivables. Accordingly, the Company's Consolidated Balance Sheets reflect the portion of receivables transferred to the financial institution as a reduction of accounts receivable, net. The discount and any other transaction gains and losses are included in other-net in the Consolidated Statements of Income. NMHG continues to service the receivables and maintains an allowance for doubtful accounts based upon the expected collectibility of all NMHG accounts receivable, including the portion of receivables sold by LTF.

In accordance with this agreement, gross proceeds of $264.0 million were received during 1997, and the balance of accounts receivable sold at December 31, 1997, was $18.6 million, net of a discount. The proceeds from the initial sale of receivables of $33.0 million were used to retire debt outstanding under NMHG's revolving credit agreement. The net effect of the sale of receivables during 1997 was not material to the operating results of NACCO.

Receivables Used As Collateral

NASHUA CORPORATION (DEC)

In thousands	1997	1996
Current assets		
Cash and cash equivalents	$ 3,736	$ 20,018
Accounts receivable	14,915	20,112
Inventories		
Materials and supplies	6,196	6,676
Work in process	3,650	2,498
Finished goods	4,791	7,494
	14,637	16,668
Other current assets	12,362	15,367
Net current assets of discontinued operations	120	—
	45,770	72,165

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Indebtedness (In Part):

During 1997, the Company negotiated a new secured $18 million line of credit of which $5 million is available exclusively for letters of credit. Borrowings under this facility are collateralized by a security interest in the Company's receivables and inventory. Interest on amounts outstanding under the line of credit is payable at 2 percent above the LIBOR rate which was 6 percent at December 31, 1997. The maturity of this line of credit is April 3, 1999. The agreement contains certain financial covenants with respect to tangible net worth, liquidity and other ratios. In addition, without prior consent of the lenders, the agreement does not allow the payment of dividends and restricts, among other things, the incurrence of additional debt, guarantees, lease arrangements or sale of certain assets. As of December 31, 1997, the Company was in compliance with these covenants. At December 31, 1997, borrowings of $2 million were outstanding under the secured revolving credit facility.

PLASMA-THERM, INC. (NOV)

	1997	1996
Current assets		
Cash and cash equivalents	$ 5,398,030	$ 5,266,279
Accounts receivable	13,755,778	8,046,130
Inventories	9,875,801	7,958,620
Prepaid expenses and other	414,521	326,883
Deferred tax asset	293,814	388,313
Total current assets	29,737,944	21,986,225

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Short-term And Long-term Borrowings

Line of Credit
In April, 1997 the Company increased its existing line of credit with its bank from $3,000,000 to $7,000,000. The term of the line of credit agreement is through May, 1998. Interest is payable monthly at the one month LIBOR rate plus 2% (7.97% at November 30, 1997). The line is collateralized by accounts receivable. The line is cross-collateralized with the term loan below, and the bank has a security interest in the proceeds from the collection of accounts receivable and the Company's depository accounts. In addition, a negative pledge agreement was executed which does not permit the Company to hold a lien or encumbrance on its inventory. As of November 30, 1997, the Company's availability under the line of credit was reduced by $42,150 as a result of outstanding letters of credit. The unused balance on the line at November 30, 1997 and 1996 was $4,957,850 and $2,000,000 respectively.

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.

TABLE 2-7: DOUBTFUL ACCOUNT CAPTIONS

	1997	1996	1995	1994
Allowance for doubtful accounts	281	270	271	260
Allowance	167	160	161	166
Allowance for losses	21	23	26	26
Allowance for uncollectible accounts	12	9	8	9
Reserve	13	14	15	14
Reserve for doubtful accounts	6	7	8	7
Other caption titles	20	29	31	37
	520	512	520	519
Receivables shown net	17	20	16	15
No reference to doubtful accounts	63	68	64	66
Total Companies	**600**	**600**	**600**	**600**

INVENTORIES

Chapter 4 of *Accounting Research Bulletin No. 43* states that the "primary basis of accounting for inventories is cost..." but "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 costs and indicates the portion of inventory cost determined by LIFO. 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 and accumulated costs for contracts in process.

Twenty-eight 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. Seventeen companies disclosed the effect on income from using LIFO rather than FIFO or average cost to determine inventory 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. The decrease in the number of survey companies using LIFO was caused in part by the fact that more companies deleted from the survey used LIFO than those companies selected as replacements. Two survey companies changed from the LIFO method to another method of determining inventory cost.

Examples of presentations and disclosures for inventories follow.

TABLE 2-8: INVENTORY COST DETERMINATION

	Number of Companies			
	1997	1996	1995	1994
Methods				
First-in first-out (FIFO)	415	417	411	417
Last-in first-out (LIFO)	326	332	347	351
Average cost	188	181	185	192
Other	32	37	40	42
Use of LIFO				
All inventories	17	15	14	17
50% or more of inventories	170	178	191	186
Less than 50% of inventories	99	92	88	98
Not determinable	40	47	54	50
Companies Using LIFO	**326**	**332**	**347**	**351**

TABLE 2-9: INDUSTRY CLASSIFICATION OF COMPANIES USING LIFO

	1997		1996	
	No.	%*	No.	%*
Advertising	—	—	—	—
Aerospace	7	37	6	32
Apparel, shoes	9	50	10	59
Beverages	3	50	3	50
Building materials, glass	9	60	10	62
Chemicals	28	88	28	87
Computer and data services	—	—	—	—
Computers, office equipment	2	10	2	10
Electronics, electrical equipment	13	25	14	27
Engineering, construction	2	25	2	33
Entertainment	1	33	1	50
Food	18	46	17	43
Forest and paper products	25	89	26	93
Furniture	7	78	7	78
Hotels, casinos	—	—	—	—
Industrial and farm equipment	28	68	29	67
Metal products	19	79	17	74
Metals	17	71	17	71
Mining, crude oil production	4	36	4	33
Motor vehicles and parts	18	72	17	71
Petroleum refining	20	87	21	91
Pharmaceuticals	6	46	6	46
Publishing, printing	13	62	13	65
Retailing–grocery stores	11	100	11	100
Retailing–other stores	15	71	15	75
Rubber and plastic products	10	83	9	82
Scientific, photographic, and control equipment	12	32	13	35
Soaps, cosmetics	4	44	3	33
Textiles	8	80	10	82
Tobacco	2	40	3	50
Transportation equipment	2	50	2	50
Waste management	—	—	—	—
Wholesalers	6	38	9	53
Not otherwise classified	7	28	7	28
Total Companies	**326**	**54**	**332**	**55**

* Percent of total number of companies for each industry classification included in the survey.

FIFO

CONCORD FABRICS INC. (AUG)

	1997	1996
Current Assets:		
Cash and cash equivalents	$ 7,381,044	$ 9,743,024
Investments in held to maturity securities	13,522,758	
Accounts receivable (less doubtful accounts of $1,350,000 in 1997 and $1,610,000 in 1996)	21,311,977	27,097,106
Inventories (Notes A and B)	12,903,902	17,323,179
Prepaid and refundable income taxes	255,000	423,200
Prepaid expenses and other current assets	1,416,839	1,620,319
Deferred income taxes	1,773,000	2,189,000
Total Current Assets	58,564,520	58,395,828

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

3. Inventories - Inventories are stated at lower of cost or market using first-in, first-out method. Inventory costs comprise material, direct labor and overhead.

(B) Inventories:

Inventories are summarized as follows:

	August 31, 1997	September 1, 1996
Finished goods	$ 8,164,772	$ 9,750,156
Work-in-process	2,527,339	3,268,677
Greige goods and yarn	2,211,791	4,304,346
Total	$12,903,902	$17,323,179

At August 31, 1997, the Company had outstanding commitments to purchase greige good aggregating approximately $12,900,000.

DATA GENERAL CORPORATION (SEP)

(Dollars In Thousands)	1997	1996
Current assets		
Cash and temporary cash investments	$ 216,814	$ 178,997
Marketable securities	151,455	25,624
Receivables, less allowances of $16,588 at Sept. 27, 1997 and $14,480 at Sept. 28, 1996	296,375	257,815
Inventories	166,008	129,783
Other current assets	27,584	24,593
Total current assets	858,236	616,812

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Accounting Policies

Inventories. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Inventories consist primarily of components and subassemblies and finished products held for sale. Rapid technological change and new product introductions and enhancements could result in excess or obsolete inventory. To minimize this risk, the Company evaluates inventory levels and expected usage on a periodic basis and records adjustments as required.

Certain components and products that meet the Company's requirements are available only from a single supplier or a limited number of suppliers. Among those components are disk drives, microprocessors, and certain proprietary integrated circuits. The rapid rate of technological change and the necessity of developing and manufacturing products with short life-cycles may intensify these risks. The inability to obtain components and products as required, or to develop alternative sources, if and as required in the future, could result in delays or reductions in product shipments, which in turn could have a material adverse effect on the Company's business, financial condition, and results of operations.

Property, Plant, And Equipment. Property, plant, and equipment is stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method, based on the following estimated useful lives: land improvements, 10-12 years; buildings and building improvements, 3-25 years; equipment, 3-10 years; application software, 5-10 years. Included in property, plant, and equipment are computer equipment spares which are not available for resale. These spares are used to support systems the Company has sold or is using internally. Spares are depreciated over a 3-year estimated useful life.

Note 4 (In Part): Consolidated Balance Sheet Details

	As Of	
In Thousands	Sept. 27, 1997	Sept. 28, 1996
Inventories		
Raw materials	$ 16,169	$ 4,560
Work in process	78,335	50,769
Finished systems	44,349	43,710
Field engineering parts and components	27,155	30,744
Total inventories	$166,008	$129,783

LAM RESEARCH CORPORATION (JUN)

(in thousands)	1997	1996
Cash and cash equivalents	$125,725	$62,879
Short-term investments	38,520	67,605
Accounts receivable less allowance for doubtful accounts of $1,977 in 1997 and $1,663 in 1996	217,723	256,767
Inventories	253,762	322,366
Prepaid expenses and other assets	36,547	17,193
Deferred income taxes	73,761	50,035
Total current assets	746,038	776,845

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market. The Company evaluates the need to record adjustments for impairment of inventory on a quarterly basis. The Company's policy is to evaluate all inventory including manufacturing raw materials, work-in-process, finished goods, and spare parts. Inventory in excess of the Company's estimated usage requirements is written down to its estimated net realizable value. Inherent in the estimates of net realizable value are management estimates related to the Company's future manufacturing schedules, customer demand, possible alternative uses and ultimate realization of potentially excess inventory.

Note E: Inventories

Inventories consist of the following at June 30:

(in thousands)	1997	1996
Raw materials	$133,995	$167,513
Work-in-process	88,413	122,828
Finished goods	31,354	32,025
	$253,762	$322,366

LIFO

AMERICAN BILTRITE INC. (DEC)

(In thousands of dollars)	1997	1996
Current assets:		
Cash and cash equivalents	$19,306	$33,658
Short-term investments	7,900	17,500
Accounts and notes receivable, less allowances of $5,052 in 1997 and $4,935 in 1996 for doubtful accounts and discounts	30,254	34,849
Inventories	74,355	81,058
Prepaid expenses and other current assets	9,187	8,660
Total current assets	141,002	175,725

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method for most of the Company's domestic inventories and the first-in, first-out (FIFO) method for the Company's foreign inventories.

2. Inventories

Inventory at December 31 consisted of the following:

(In thousands)	1997	1996
Finished goods	$53,139	$55,356
Work-in-process	9,422	9,315
Raw materials and supplies	11,794	16,387
	$74,355	$81,058

At December 31, 1997, domestic inventories determined by the LIFO inventory method amounted to $54,713,000 ($58,312,000 at December 31, 1996). If the FIFO inventory method had been used for these inventories, they would have been $1,224,000 higher at December 31,1997 and $329,000 lower at December 31, 1996.

LEGGETT & PLATT, INCORPORATED (DEC)

(Dollar amounts in millions)	1997	1996
Current Assets		
Cash and cash equivalents	$ 7.7	$ 3.7
Accounts and notes receivable, less allowance of $11.5 in 1997 and $8.6 in 1996	$438.6	335.3
Inventories		
Finished goods	228.0	204.2
Work in process	50.3	39.4
Raw materials and supplies	170.0	138.6
LIFO allowance	(15.1)	(11.7)
Total inventories	433.2	370.5
Other current assets	65.1	53.8
Total current assets	944.6	763.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary Of Significant Accounting Policies

Inventories: All inventories are stated at the lower of cost or market. Cost includes materials, labor and production overhead. Cost is determined by the last-in, first-out (LIFO) method for approximately 55% of the inventories at December 31, 1997 and 1996. The first-in, first-out (FIFO) method is principally used for the remainder. The FIFO cost of inventories at December 31,1997 and 1996 approximated replacement cost.

MAYTAG CORPORATION (DEC)

(In thousands)	1997	1996
Current assets		
Cash and cash equivalents	$ 27,991	$ 27,543
Accounts receivable, less allowance for doubtful accounts (1997-$36,386; 1996-$13,790)	473,741	462,882
Inventories	350,209	327,136
Deferred income taxes	46,073	30,266
Other current assets	36,703	57,132
Total current assets	934,717	904,959

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary Of Significant Accounting Policies (In Part):

Inventories: Inventories are stated at the lower of cost or market. Inventory costs are determined by the last-in, first-out (LIFO) method for approximately 86 percent and 91 percent of the Company's inventories at December 31, 1997 and 1996, respectively. Costs for other inventories have been determined principally by the first-in, first-out (FIFO) method.

Inventories

In thousands	December 31 1997	1996
Raw materials	$ 61,740	$ 53,319
Work in process	53,069	45,406
Finished goods	229,450	222,954
Supplies	5,950	5,457
	$350,209	$327,136

If the FIFO method of inventory accounting, which approximates current cost, had been used for all inventories, they would have been $81.4 million and $79.5 million higher than reported at December 31, 1997 and 1996, respectively.

PRAB, INC. (OCT)

	1997	1996
Current Assets		
Cash	$ 26,325	$ 491,367
Accounts receivable, net of allowance for doubtful accounts of $42,094 in 1997 and $39,190 in 1996	3,364,163	2,728,507
Inventories (Note 2)	1,367,463	1,143,456
Deferred income taxes	290,000	262,830
Other current assets	206,068	37,843
Total current assets	5,253,929	4,664,003

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Nature Of Business And Significant Accounting Policies

Inventories - inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method.

Note 2 - Inventories

Inventories consist of the following:

	1997	1996
Raw materials	$ 938,863	$ 798,026
Work in process	348,597	171,355
Finished goods and display units	80,003	174,075
Total inventories	$1,367,463	$1,143,456

Inventories are stated at the lower of cost, determined by the LIFO method, or market.

If the FIFO method had been used for the entire consolidated group, inventories, after an adjustment to the lower of cost or market, would have been approximately $1,760,000 and $1,520,000 at October 31, 1997 and 1996, respectively.

REYNOLDS METALS COMPANY (DEC)

(millions)	1997	1996
Current assets:		
Cash and cash equivalents	$ 70	$ 38
Receivables:		
Customers, less allowances of $16 (1996-$18)	841	811
Other	174	150
Total receivables	1,015	961
Inventories	744	787
Prepaid expenses and other	165	87
Total current assets	1,994	1,873

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Inventories

Inventories are stated at the lower of cost or market. Inventory costs were determined by the last-in, first-out (LIFO), first-in, first-out (FIFO) and average-cost methods. LIFO method inventories were $270 million at the end of 1997 (1996-$279 million). FIFO and average-cost method inventories were $474 million at the end of 1997 (1996-$508 million). Inventories would increase by $467 million at the end of 1997 (1996-$470 million) if the FIFO method were applied to LIFO method inventories.

In 1996, the liquidation of certain LIFO layers decreased cost of products sold by $30 million. The inventories in these LIFO layers were acquired at lower costs in prior years.

Since inventories are sold at various stages of processing, there is no practical distinction between finished products, in-process products and other materials. Inventories are therefore presented as a single classification.

Average Cost

BMC INDUSTRIES, INC. (DEC)

(in thousands)	1997	1996
Current Assets		
Cash and cash equivalents	$ 2,383	$ 2,544
Trade accounts receivable, less allowances of $2,118 and $2,330	29,824	24,979
Inventories	70,111	50,451
Deferred income taxes	5,881	5,372
Other current assets	13,595	8,354
Total Current Assets	121,794	91,700

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Inventories—are stated at the lower of cost or market. Cost is determined principally on the average cost method. Provision for potentially obsolete or slow-moving inventory is made based on management's analysis of inventory levels and future sales forecasts.

2. Inventories

The following is a summary of inventories at December 31:

	1997	1996
Raw materials	$24,542	$15,461
Work in process	15,971	9,807
Finished goods	29,598	25,183
Total inventories	$70,111	$50,451

CSP, INC. (AUG)

(Dollars in thousands)	1997	1996
Current assets:		
Cash and cash equivalents	$4,344	$10,928
Marketable securities	5,581	6,127
Accounts receivable, net	8,584	4,147
Income tax receivable	37	—
Inventories	6,227	2,405
Deferred income taxes	504	481
Prepaid expenses	1,301	351
Total current assets	26,578	24,439

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Inventories:
Inventories are stated at the lower of cost or market; cost being determined principally by use of the average-cost method, which approximates the first-in, first-out method.

4. Inventories

Inventories consist of the following:

(In thousands)	1997	1996
Raw materials	$3,922	$1,083
Work-in-process	918	739
Finished goods	1,387	583
Total	$6,227	$2,405

Production Cost

LITTON INDUSTRIES, INC. (JUL)

(Thousands of dollars)	1997	1996
Current Assets		
Cash and marketable securities	$ 19,894	$ 92,855
Accounts receivable less allowance for doubtful accounts of $37,019 (1997) and $38,335 (1996)	666,867	685,216
Inventories less progress billings	629,206	571,056
Deferred tax assets	414,177	365,657
Prepaid expenses	30,272	31,989
Total Current Assets	1,760,416	1,746,773

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Inventories and Long-term Contracts. Inventory costs under long-term contracts generally reflect actual or average costs and include general and administrative costs of the Marine Engineering and Production segment. For the Company's other business segments, general and administrative costs are expensed as incurred. Other inventories are stated at the lower of cost or market, generally using the average or actual cost method. Progress payments received are first offset against the related balance of unbilled receivables and inventories with any remainder included in "Contract liabilities and customer deposits".

Revenues and profits on long-term contracts, performed over extended periods of time, are recognized under the percentage-of-completion method of accounting, principally based on direct labor dollars incurred for the Marine Engineering and Production segment and generally on the costs incurred or units-of-delivery basis for the Company's other operations. Revenues and profits on long-term contracts are based on the Company's estimates to complete and are reviewed periodically, with adjustments recorded in the period in which the revisions are made. Any anticipated losses on contracts are charged to operations as soon as they are determinable.

Note D (In Part): Accounts Receivable And Inventories

Summarized below are the components of inventory balances:

	July 31	
(Thousands of dollars)	1997	1996
Raw materials and work in process	$ 318,920	$ 306,615
Finished goods	51,196	59,801
Inventoried costs related to long-term contracts	668,797	573,399
Gross inventories	1,038,913	939,815
Less progress billings, principally related to long-term contracts	(409,707)	(368,759)
Net inventories	$ 629,206	$ 571,056

The amounts included in "Inventoried costs related to long-term contracts" representing general and administrative costs and production cost of delivered units in excess of anticipated average cost of all units expected to be produced are not significant.

Specific Cost

INTERSTATE BAKERIES CORPORATION (MAY)

(In Thousands)	1997	1996
Current assets:		
Accounts receivable, less allowance for doubtful accounts of $4,577,000 ($3,606,000 in 1996)	$190,747	$179,538
Inventories	63,962	67,254
Other current assets	70,453	71,481
Total current assets	325,162	318,273

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Description of Business and Significant Accounting Policies

Inventories - Inventories are stated at the lower of cost or market. Specific invoiced costs are used with respect to ingredients and average costs are used for other inventory items.

The components of inventories are as follows:

(In Thousands)	May 31, 1997	June 1, 1996
Ingredients and packaging	$43,195	$42,591
Finished goods	14,420	14,806
Other	6,347	9,857
	$63,962	$67,254

Precious Metals

JOSTENS, INC. (DEC)

(Dollars in thousands)	1997	1996
Current Assets		
Short-term investments	$6,068	$2,639
Accounts receivable, net of allowance of $7,446 and $6,884, respectively	108,697	107,314
Inventories:		
Finished products	38,122	40,174
Work-in-process	29,388	28,176
Materials and supplies	24,552	30,143
	92,062	98,493
Deferred income taxes	15,543	14,928
Other receivables, net of allowance of $8,322 and $7,344, respectively	25,495	24,893
Prepaid expenses and other current assets	4,679	9,233
Total Current Assets	252,544	257,500

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part):

Inventories. In July 1996, the company implemented a new inventory cost accounting system, which provides more precise, detailed performance information by product within each line. The new system results in a more accurate valuation of inventories and recording of cost of products sold during the individual quarters, consistent with the manner used to value inventory at previous June year ends. As a result of this implementation, cost of products sold reported during the six months ended December 28, 1996, was $16.9 million (26 cents per share) higher than what would have been reported using the prior method, while cost of products sold in the six months ended June 28, 1997, had an equally positive impact. Implementation of the new cost accounting system does not impact the comparability of reported cost of products sold or earnings per share for the six months ended January 3, 1998, since the new cost accounting system was in place for both the 1997 and 1996 periods.

Inventories are stated at the lower of cost or market. Cost is primarily determined using standard costs, which approximate costs utilizing the first-in, first-out (FIFO) method. Gold and certain other precious metal inventories aggregating $677,000 at January 3, 1998, and $3.8 million at December 28, 1996, are stated at the lower of last-in, first-out (LIFO) cost or market, and are $6.8 and $15 million lower in the respective periods than such inventories determined under the lower of FIFO cost or market. During the year ended January 3, 1998, gold inventory quantities were reduced, which caused a liquidation of LIFO inventory values. The liquidation increased net income by $6.8 million (10 cent per share).

Inventory Obsolescence. The company uses a systematic methodology that includes quarterly evaluations of inventory, based upon business trends, to specifically identify obsolete, slow-moving and nonsalable inventory. Inventory allowances are evaluated quarterly to ensure they reflect the current business environment and trends.

PREPAID EXPENSES

Table 2-10 summarizes the number of survey companies disclosing, either on the balance sheet or in the notes to financial statements, an amount for *prepaid expenses* or items identified as prepaid expenses. Rarely is the nature of *prepaid expenses* disclosed. Examples of items identified as prepaid expenses follow.

TABLE 2-10: PREPAID EXPENSES

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Prepaid expenses	129	140	146	163
Prepaid expenses and other current assets	170	166	161	157
Prepaid expenses and deferred taxes	14	11	9	8
Prepaid expenses and advances	5	9	6	5
Prepaid expenses and other receivables	3	3	3	4
Advertising costs	13	12	N/C	N/C
Employee benefits	4	6	4	4
Other captions indicating prepaid expenses	19	21	28	20

N/C-Not Compiled.

THE COCA-COLA COMPANY (DEC)

(In millions)	1997	1996
Current Assets		
Cash and cash equivalents	$1,737	$1,433
Marketable securities	106	225
	1,843	1,658
Trade accounts receivable, less allowances of $23 in 1997 and $30 in 1996	1,639	1,641
Inventories	959	952
Prepaid expenses and other assets	1,528	1,659
Total Current Assets	5,969	5,910

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

Advertising Costs—The Company expenses production costs of print, radio and television advertisements as of the first date the advertisements take place. Advertising expenses included in selling, administrative and general expenses were $1,576 million in 1997, $1,441 million in 1996 and $1,292 million in 1995. As of December 31, 1997 and 1996, advertising costs of approximately $358 million and $247 million, respectively, were recorded primarily in prepaid expenses and other assets in the accompanying balance sheets.

PEPSICO, INC. (DEC)

(In millions)	1997	1996
Current Assets		
Cash and cash equivalents	$1,928	$307
Short-term investments, at cost	955	289
	2,883	596
Accounts and notes receivable, less allowance: $125 in 1997 and $166 in 1996	2,150	2,276
Inventories	732	853
Prepaid expenses, deferred income taxes and other current assets	486	225
Total Current Assets	6,251	3,950

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Marketing Costs. Marketing costs are reported in selling, general and administrative expenses and include costs of advertising and other marketing activities. Marketing costs not deferred at year-end are charged to expense ratably in relation to sales over the year in which incurred. Advertising expenses were $1.8 billion, $1.8 billion and $1.4 billion in 1997, 1996 and 1995, respectively. Advertising expenses deferred at year-end, which are classified as prepaid expenses in the Consolidated Balance Sheet, were $53 million and $37 million in 1997 and 1996, respectively. Deferred advertising consists of media and personal service advertising-related prepayments, promotional materials in inventory and production costs of future media advertising; these assets are expensed in the year first used.

UNION TEXAS PETROLEUM HOLDINGS, INC. (DEC)

(Dollars in thousands)	1997	1996
Current assets:		
Cash and cash equivalents	$24,324	$43,574
Accounts and notes receivable	82,172	96,687
Inventories	38,318	39,721
Prepaid expenses and other current assets	30,539	23,560
Total current assets	175,353	203,542

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

Note 4 - Prepaid Expenses and Other Current Assets

At December 31, 1997 and 1996, prepaid expenses and other current assets consisted of the following:

	1997	1996
Prepaid Insurance	$15,027	$7,257
Prepaid Taxes	565	558
Deferred Charges	14,947	15,745
	$30,539	$23,560

OTHER CURRENT ASSET CAPTIONS

Table 2-11 summarizes the nature of accounts (other than cash, marketable securities, inventories, and prepaid expense) appearing in the current asset section of the balance sheets of the survey companies. Examples of such other current asset captions follow.

TABLE 2-11: OTHER CURRENT ASSET CAPTIONS

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Nature of Asset				
Deferred income taxes	375	378	365	363
Property held for sale	33	37	32	36
Unbilled costs	14	16	19	28
Advances or deposits	4	6	7	9
Other-identified	29	30	33	29

Deferred Taxes

FORT JAMES CORPORATION (DEC)

(In millions)	1997	1996
Current assets:		
Cash and cash equivalents	$ 33.6	$ 34.6
Accounts receivable	787.8	781.3
Inventories	854.3	801.6
Deferred income taxes	214.4	138.5
Prepaid expenses and other current assets	26.4	52.6
Total current assets	1,916.5	1,808.6
• • •	• •	•
Total current liabilities	1,583.9	1,542.0
Long-term debt	4,155.5	4,305.3
Deferred income taxes	650.8	690.5
Accrued postretirement benefits other than pensions	474.8	475.9
Other long-term liabilities	283.9	291.7
Total liabilities	7,148.9	7,305.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Income Taxes

The income tax effects of temporary differences that gave rise to the net deferred tax liability as of December 28, 1997, and December 29, 1996, were related to the following:

(In millions)	1997	1996
Property, plant and equipment	$ 904.4	$ 928.3
Pension benefits	88.5	75.3
Other items	91.8	64.1
Total deferred tax liabilities	1,084.7	1,067.7
Accrued liabilities	(290.2)	(148.5)
Postretirement benefits other than pensions	(187.0)	(181.3)
Alternative minimum tax credit carryforwards	(87.7)	(99.5)
Intangibles	(77.4)	(59.6)
Tax loss carryforwards	(26.3)	(62.7)
Other items	(66.1)	(43.4)
Total deferred tax assets	(734.7)	(595.0)
Valuation allowance	86.4	79.3
Net deferred tax liability	$ 436.4	$ 552.0

The change in the valuation allowance from December 29, 1996, to December 28, 1997, is primarily related to the effects of a French law change offset by the usage of foreign net operating losses not previously recognized. If recognized in the future, $39.0 million of these tax benefits will be allocated to reduce goodwill of certain acquired subsidiaries.

As of December 28, 1997, the Company had $64.5 million of foreign net operating loss carryforwards which expire primarily from 1998 through 2004 and $1.8 million of foreign tax credit carryforwards which expire from 1998 through 2002. The Company also had alternative minimum tax ("AMT") credit carryforwards of $87.7 million which have been reflected as a reduction of deferred taxes. AMT credits may generally be carried forward indefinitely and used in future years to the extent the Company's regular tax liability exceeds the AMT liability for such future years.

LYNCH CORPORATION (DEC)

(In Thousands)	1997	1996
Current Assets:		
Cash and cash equivalents	$33,557	$33,946
Marketable securities and short-term investments	985	2,156
Trade accounts receivable, less allowances of $1,448 and $1,525 in 1997 and 1996, respectively includes $1,776 and $9,624 of costs in excess of billings at 1997 and 1996, respectively	54,480	52,963
Inventories	35,685	36,859
Deferred income taxes	17,993	5,571
Other current assets	10,059	8,598
Total Current Assets	152,759	140,093
• • • • • •		
Total Current Liabilities	96,808	98,461
Long-Term Debt	242,776	219,579
Deferred Income Taxes	33,764	22,389
Minority Interests	13,839	13,268

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Income Taxes

Deferred income taxes for 1997 and 1996 are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Cumulative temporary differences and carryforwards at December 31, 1997 and 1996 are as follows:

	Dec. 31, 1997 Deferred tax		Dec. 31, 1996 Deferred Tax	
(In Thousands)	Asset	Liability	Asset	Liability
Inventory allowance	$474	—	$435	—
Fixed assets written up under purchase accounting and tax over book depreciation	—	$18,514	—	$14,818
Discount on long-term debt	—	1,184	—	1,286
Basis difference in subsidiary and affiliate stock	—	3,378	—	3,486
Partnership tax losses in excess of book losses	6,109	8,040	—	1,669
Other accruals	5,459	—	2,536	—
Net operating loss carryforwards of subsidiary companies	4,056	—	2,568	—
Other	1,895	2,648	194	1,130
	17,993	33,764	5,733	22,389
Valuation allowance	—	—	(162)	—
Total deferred income taxes	$17,993	$33,764	$5,571	$22,389

HARMON INDUSTRIES, INC. (DEC)

(Dollars in thousands)	1997	1996
Current assets:		
Cash and cash equivalents	$ 6,748	$ —
Trade receivables, less allowance for doubtful accounts of $318 in 1997 and $307 in 1996	45,001	39,656
Costs and estimated earnings in excess of billings on uncompleted contracts	2,850	1,665
Inventories:		
Work in process	6,171	4,145
Raw materials and supplies	32,894	23,076
	39,065	27,221
Deferred tax asset (note 4)	2,215	1,637
Prepaid expenses and other current assets	473	2,851
Total current assets	96,352	73,030
• • • • • •		
Net property, plant and equipment	24,029	17,932
Deferred tax asset (note 4)	414	738
Cost in excess of fair value of net assets acquired, net of accumulated amortization of $3,180 in 1997 and $2,483 in 1996	8,766	7,606
Deferred compensation asset	5,807	4,998
Other assets	401	373
	$135,769	$104,677

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1997 and 1996 are presented below:

(Dollars in thousands)	1997	1996
Deferred tax assets:		
Deferred compensation	$1,805	$1,531
Compensated absences	425	353
Inventories	481	490
Allowance for doubtful accounts	117	120
Various other accruals	1,561	1,043
Total gross deferred tax assets	4,389	3,537
Less valuation allowance	369	369
	4,020	3,168
Deferred tax liabilities:		
Plant and equipment	(1,391)	(793)
Net deferred tax assets	$2,629	$2,375

There were no net changes in the total valuation allowance for the years ended December 31, 1997 and 1996. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets as reduced by the valuation allowance.

SEARS, ROEBUCK AND CO. (DEC)

Millions	1997	1996
Current Assets		
Cash and cash equivalents	$ 358	$ 660
Retained interest in transferred credit card receivables	3,316	2,260
Credit card receivables	20,956	20,104
Less: Allowance for uncollectible accounts	1,113	801
	19,843	19,303
Other receivables	335	335
Merchandise inventories	5,044	4,646
Prepaid expenses and deferred charges	956	348
Deferred income taxes	830	895
Total current assets	30,682	28,447
• • • • • •		
Property and equipment, net	6,414	5,878
Deferred income taxes	666	905
Other assets	938	937
Total Assets	$38,700	$36,167

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Income Taxes

Deferred taxes based upon differences between the financial statement and tax bases of assets and liabilities and available tax carryforwards consists of:

Millions	1997	1996
Deferred tax assets:		
Unearned maintenance income	$435	$445
Allowance for uncollectible accounts	493	437
Self insurance	35	169
Postretirement benefit liability	1,059	1,143
Minimum pension liability	120	155
Other deferred tax assets	713	670
Gross deferred tax assets	2,855	3,019
Less valuation allowance	—	—
Total deferred tax assets	2,855	3,019
Deferred tax liabilities:		
Property and equipment	394	336
Prepaid pension	96	153
LIFO	132	131
Deferred swap termination loss	193	—
Other deferred tax liabilities	544	599
Total deferred tax liabilities	1,359	1,219
Net deferred taxes	$1,496	$1,800

Management believes that the realization of the deferred tax assets is more likely than not, based on the expectation that the Company will generate the necessary taxable income in future periods.

Property Held For Sale

L. B. FOSTER COMPANY (DEC)

(In thousands)	1997	1996
Current Assets:		
Cash and cash equivalents	$ 1,156	$ 1,201
Accounts receivable	47,586	49,918
Inventories	43,365	42,925
Current deferred tax assets	123	362
Other current assets	557	398
Property held for resale	3,461	
Total Current Assets	96,248	94,804

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Property Held for Resale

Property held for resale at December 31, 1997 and 1996, consists of the following:

(In thousands)	1997	1996
Location:		
Parkersburg, WV	$3,200	$3,003
Marrero, LA	615	615
Houston, TX	261	261
Other		143
Property held for resale	4,076	4,022
Less current portion	3,461	
	$615	$4,022

The Parkersburg, West Virginia, location produces Fosterweld spiralweld pipe used for water transmission and other applications. During 1995, the Company decided that this product did not meet the Company's long-term strategic goals. The assets of this operation include machinery and equipment, buildings and leasehold improvements. During 1997 and 1996, the location generated net sales and operating profit of approximately $12,200,000 and $1,600,000 and $13,300,000 and $2,000,000, respectively, which are included in the Company's tubular segment. The Company has entered into a letter of intent to sell this facility. Completion of the transaction is subject to due diligence and the execution of a definitive purchase agreement.

The Marrero, Louisiana, location was formerly used for yard storage. Assets of the location consist of land no longer used in the Company's business. The land is currently being leased to a third party. The Company is currently negotiating the sale of this land.

The Houston, Texas, location was formerly a pipe coal tar coating facility. Assets of the location consist of land no longer used in the Company's business.

All negotiations for property held for resale are in excess of recorded values.

INGERSOLL-RAND COMPANY (DEC)

In millions	1997	1996
Current assets:		
Cash and cash equivalents	$ 104.9	$ 184.1
Marketable securities	6.9	8.0
Accounts and notes receivable, less allowance for doubtful accounts of $33.9 in 1997 and $34.3 in 1996	1,281.5	1,066.2
Inventories	854.8	775.1
Prepaid expenses	89.5	74.1
Assets held for sale	46.5	265.7
Deferred income taxes	160.8	162.4
	2,544.9	2,535.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Dispositions and Restructure of Operations

On February 14, 1997, the company sold the Clark-Hurth Components Group (Clark-Hurth) to Dana Corporation for approximately $241.5 million of net cash. At December 31, 1996, the net assets held for sale totaled $265.7 million and were classified as current assets on the Consolidated Balance Sheet. Clark-Hurth results were reported as part of the Engineered Equipment Segment. This group's 1997 results, inclusive of the sale transaction, produced operating income for the first quarter of approximately $2.7 million, but on an after-tax basis, reduced net earnings by approximately $3.6 million.

The company has classified $46.5 million of assets held for sale as current assets at December 31, 1997. The majority of this amount includes certain assets of Newman Tonks that have been classified as assets held for sale since its acquisition. The remainder relates to certain drilling assets of the Construction and Mining Group. All amounts are expected to be sold prior to the end of 1998.

SONOCO PRODUCTS COMPANY (DEC)

(Dollars in thousands)	1997	1996
Current Assets		
Cash and cash equivalents	$53,600	$71,260
Trade accounts receivable, net of allowances of $5,299 in 1997 and $7,630 in 1996	289,991	329,963
Other receivables	12,463	38,240
Inventories		
Finished and in process	94,785	123,224
Materials and supplies	115,313	137,236
Prepaid expenses	25,265	26,121
Deferred income taxes	63,041	11,605
Net assets held for sale	218,582	
	873,040	737,649

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

3. Assets Held For Sale

In December 1997, the Company signed a letter of intent to sell its industrial container operations, part of the Company's Industrial Packaging segment, for approximately $225,000 in cash. The transaction, which is expected to be completed in the first quarter of 1998, will result in the an after-tax gain of approximately $55,000. The net assets of these operations, which totaled approximately $97,800, consist primarily of property, plant and equipment, accounts receivable, and inventories, net of liabilities, and are included in net assets held for sale as of December 31, 1997.

In January 1998, the Company signed a letter of intent to sell its North American labels operations, part of the Company's Consumer Packaging segment, for approximately $100,000. In addition, it is investigating the possible sale of several other smaller businesses acquired as part of the 1993 acquisition of Engraph, Inc. The Company expects to complete the sale of the North American labels operations in the first quarter of 1998. In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", the Company recorded a pre-tax charge of $226,358 (or $174,500 after-tax) in the fourth quarter of 1997 to reduce cost in excess of fair value to reflect the difference between carrying value and estimated proceeds from the sales of these businesses. Accordingly, the realizable value of the net assets of approximately $120,800, consisting primarily of property, plant and equipment, accounts receivable, and inventories, net of liabilities are included in net assets held for sale as of December 31, 1997.

The combined net sales of the above operations were $437,500 in 1997, $438,200 in 1996, and $431,100 in 1995. Combined operating profits were $13,600, $22,700, and $29,600 in 1997,1996 and 1995, respectively.

The decision to sell Sonoco's industrial containers and labels businesses was based on management's conclusion that neither of these businesses fit the Company's long-term strategic objectives.

Unbilled Costs

WASTE MANAGEMENT, INC. (DEC)

($000's omitted)	1996	1997
Current Assets		
Cash and cash equivalents	$ 323,288	$ 132,811
Short-term investments	319,338	59,296
Accounts receivable, less allowance of $52,847 in 1996 and $51,805 in 1997	1,650,719	1,539,413
Employee receivables	10,084	7,817
Parts and supplies	135,417	119,039
Costs and estimated earnings in excess of billings on uncompleted contracts	240,531	158,610
Prepaid expenses	119,273	128,520
Total Current Assets	$2,798,650	$2,145,506

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Summary of Accounting Policies

Contracts in Process. Information with respect to contracts in process (which relate primarily to contracts involving a substantial construction component) at December 31, 1995, 1996 and 1997, is as follows:

	1995	1996	1997
Costs and estimated earnings on uncompleted contracts	$1,176.6	$1,192.2	$1,511.7
Less: Billing on uncompleted contracts	(952.8)	(979.9)	(1,374.1)
Total contracts in process	$ 223.8	$ 212.3	$ 137.6

Contracts in process are included in the Consolidated Balance Sheets under the following captions:

	1995	1996	1997
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 242.7	$ 240.5	$ 158.6
Billings in excess of costs and estimated earnings on uncompleted contracts (included in unearned revenue)	(18.9)	(28.2)	(21.0)
Total contracts in process	$ 223.8	$ 212.3	$ 137.6

All contracts in process are expected to be billed and collected within five years.

Accounts receivable includes retainage which has been billed, but which is not due pursuant to contract provisions until completion. Such retainage at December 31, 1997, is $5.3 million, including $1.1 million that is expected to be collected after one year. Retainage was $8.0 million at December 31, 1996, and $12.8 million at December 31, 1995.

Program Rights

CBS CORPORATION (DEC)

(In millions)	1997	1996
Assets:		
Cash and cash equivalents	$ 8	$ 129
Customer receivables (net of allowance for doubtful accounts of $35 million and $27 million)	936	783
Program rights	502	431
Deferred income taxes	394	377
Prepaid and other current assets	135	182
Total current assets	1,975	1,902

NOTES TO FINANCIAL STATEMENTS

NOTE 2 (In Part): Summary of Significant Accounting Policies

Program Rights. Costs incurred in connection with the production of, or the purchase of, rights to programs to be broadcast within one year are classified as current assets while costs of those programs to be broadcast after one year are considered noncurrent. Program costs are amortized as the respective programs are broadcast. Program rights are carried at the lower of unamortized cost or estimated net realizable value.

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. Table 2-14 summarizes the descriptive captions used to describe the accumulated allowance for depreciation.

Examples of Property, Plant, and Equipment disclosures follow.

TABLE 2-12: LAND CAPTIONS

	1997	**1996**	**1995**	**1994**
Land	368	373	370	372
Land and improvements	131	126	134	126
Land and buildings	46	42	41	38
Land combined with other identified assets	10	13	5	5
No caption with term land	18	20	23	28
	573	574	573	569
Lines of business classification	27	26	27	31
Total Companies	**600**	**600**	**600**	**600**

TABLE 2-13: DEPRECIABLE ASSET CAPTIONS

	1997	**1996**	**1995**	**1994**
Buildings				
Buildings	239	244	254	259
Buildings and improvement	224	225	212	209
Buildings and land or equipment	81	68	74	69
Buildings combined with other identified assets	9	11	11	6
No caption with term buildings	18	21	17	24
	571	569	568	567
Line of business classification	29	31	32	33
Total Companies	**600**	**600**	**600**	**600**
Other Depreciable Asset Captions	**Number of Companies**			
Machinery and/or equipment	450	454	453	451
Machinery and/or equipment combined with other assets	95	91	100	98
Construction in progress	269	266	262	253
Leasehold improvements	102	104	104	107
Leased assets	65	63	69	57
Automobiles, marine equipment, etc.	74	67	66	65
Furniture and fixtures	58	58	43	44
Assets leased to others	14	19	16	15

TABLE 2-14: ACCUMULATED DEPRECIATION

	1997	**1996**	**1995**	**1994**
Accumulated depreciation	321	320	325	320
Accumulated depreciation and amortization	185	177	171	170
Accumulated depreciation, amortization and depletion	28	31	33	32
Accumulated depreciation and depletion	10	9	8	10
Allowance for depreciation	33	34	35	40
Allowance for depreciation and amortization	11	14	14	15
Other captions	12	15	14	13
Total Companies	**600**	**600**	**600**	**600**

AMP INCORPORATED (DEC)

(Dollars in thousands)	1997	1996
Total current assets	$2,649,800	$2,356,180
Property, Plant and Equipment	4,627,419	4,690,819
Less—Accumulated depreciation	2,711,434	2,663,211
Property, plant and equipment, net	1,915,985	2,027,608
Investments and Other Assets	282,318	301,917
Total Assets	$4,848,103	$4,685,705

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Principles

Property, Plant and Equipment and Depreciation—Property, plant and equipment is stated at cost, adjusted to current exchange rates where applicable. Depreciation is computed by applying principally the straight-line method to individual items. Depreciation rate ranges are substantially as follows:

Buildings	5%
Leasehold improvements	Life of lease
Machinery and equipment	10% to 33-1/3%
Machines and tools with customers	20% to 33-1/3%
Information systems assets	20% to 33-1/3%

Where different depreciation methods or lives are used for tax purposes, deferred income taxes are recorded. Maintenance and repairs are charged to expense as incurred. Major repairs and improvements which extend the lives of the related assets are capitalized and depreciated at applicable straight-line rates.

The cost and accumulated depreciation of items of plant and equipment retired or otherwise disposed of are removed from the related accounts, and any residual values are charged or credited to operating income.

4. Property, Plant and Equipment

At December 31, property, plant and equipment was comprised of the following:

(Dollars in thousands)	1997	1996
Land	$ 73,236	$ 78,318
Buildings and leasehold improvements	976,188	976,701
Machinery and equipment	3,243,597	3,275,696
Machines and tools with customers	334,398	360,104
	$4,627,419	$4,690,819

Depreciation expense was $424,919,000, $410,340,000, and $348,216,000 in 1997, 1996, and 1995, respectively.

HALLIBURTON COMPANY (DEC)

Millions of dollars	1997	1996
Total current assets	$2,971.6	$2,398.0
Property, plant and equipment:		
At cost	3,988.0	3,560.8
Less accumulated depreciation	2,325.3	2,269.2
Net property, plant and equipment	1,662.7	1,291.6
Equity in and advances to related companies	338.7	234.9
Excess of cost over net assets acquired (net of accumulated amortization of $56.2 and $42.7)	323.1	233.9
Deferred income taxes, noncurrent	91.3	98.6
Other assets	215.6	179.6
Total assets	$5,603.0	$4,436.6

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Property, Plant and Equipment. Property, plant and equipment is reported at cost less accumulated depreciation, which is generally provided on the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are expensed; expenditures for renewals and improvements are generally capitalized. Upon sale or retirement of an asset, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is recognized. When events or changes in circumstances indicate that assets may be impaired, an evaluation is performed comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value is required. The Company follows the successful efforts method of accounting for oil and gas properties. At December 31, 1997, there were no significant oil and gas properties in the production stage of development. The Company is implementing an enterprise-wide information system. External direct costs of materials and services and payroll-related costs of employees working solely on development of the software system portion of the project are capitalized. Capitalized costs of the project will be amortized over periods of three to ten years beginning when the system is placed in service. Training costs and costs to reengineer business processes are expensed as incurred.

Note 3 Property, Plant And Equipment

Property, plant and equipment at December 31, 1997 and 1996 is comprised of the following:

Millions of dollars	1997	1996
Land	$ 62.7	$ 63.9
Buildings and property improvements	624.0	568.2
Machinery and equipment	2,768.0	2,653.8
Other	533.3	274.9
Total	$3,988.0	$3,560.8

At December 31, 1997 and 1996, other property includes oil and gas investments of approximately $101.7 million and $5.9 million and software developed for internal use of $59.5 million and $10.0 million, respectively.

HORMEL FOODS CORPORATION (OCT)

(In Thousands)	1997	1996
Total current assets	$ 671,352	$ 723,259
Deferred Income Taxes	68,629	68,686
Intangibles	131,710	124,193
Investment In Affiliates	113,372	43,667
Other Assets	54,734	54,847
Property, Plant And Equipment		
Land	11,467	8,517
Buildings	242,124	210,450
Equipment	594,159	538,562
Construction in progress	72,179	71,085
	919,929	828,614
Less allowance for depreciation	(431,191)	(407,128)
	488,738	421,486
	$1,528,535	$1,436,138

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant and Equipment: Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the related assets, primarily on a straight-line basis. The carrying value of property, plant and equipment is assessed annually and/or when factors indicating an impairment are present. The company determines such impairment by measuring undiscounted future cash flows. If an impairment is present, the assets are reported at the lower of carrying value or fair value.

Beginning in 1996, the company capitalized certain software development and implementation costs. Prior to 1996, such costs were not significant. Development and implementation costs are expensed until the company has determined that the software will result in probable future economic benefits and management has committed to funding the project. Thereafter, all direct external implementation costs and purchase software costs are capitalized and amortized using the straight-line method over the remaining estimated useful lives, not exceeding five years.

IMC GLOBAL INC. (DEC)

(In millions)	1997	1996
Total current assets	$1,062.2	$933.6
Property, plant and equipment, net	2,506.0	2,381.4
Other assets	1,105.7	170.2
Total assets	$4,673.9	$3,485.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary Of Significant Accounting Policies

Property, Plant and Equipment

Property (including mineral deposits), plant and equipment are carried at cost. Cost of significant assets includes capitalized interest incurred during the construction and development period. Expenditures for replacements and improvements are capitalized; maintenance and repair expenditures, except for repair and maintenance overhauls (Turnarounds), are charged to operations when incurred. Expenditures for Turnarounds are deferred when incurred and amortized into cost of goods sold on a straight-line basis, generally over an 18-month period. Turnarounds are large-scale maintenance projects that are performed regularly, usually every 18 to 24 months, on average. Turnarounds are necessary to maintain the operating capacity and efficiency rates of the production plants. The deferred portion of the Turnaround expenditures is classified in other assets in the Company's Consolidated Balance Sheet.

Depreciation and depletion expenses for mining operations, including mineral interests, are determined using the unit-of-production method based on estimates of recoverable reserves. Other asset classes or groups are depreciated or amortized on a straight-line basis over their estimated useful lives as follows: buildings, 17 to 45 years; machinery and equipment, three to 25 years; and leasehold improvements, over the lesser of the remaining useful life of the asset or the remaining term of the lease.

In 1997, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The statement requires the recognition of an impairment loss on a long-lived asset held for use when events and circumstances indicate that the estimate of undiscounted future cash flows expected to be generated by the asset are less than its carrying amount.

10. Property, Plant And Equipment, Net

The Company's investment in property, plant and equipment as of December 31 is summarized as follows:

	1997	1996
Land	$121.3	$107.2
Mineral properties and rights	713.4	689.7
Buildings and leasehold improvements	481.2	470.1
Machinery and equipment	2,958.0	2,836.2
Construction in progress	188.2	139.0
	4,462.1	4,242.2
Accumulated depreciation and depletion	(1,956.1)	(1,860.8)
Property, plant and equipment, net	$2,506.0	$2,381.4

As of December 31, 1997, idle facilities of the Company included three phosphate rock mines, one concentrated phosphate plant and two uranium oxide extraction and processing facilities, all of which remain closed subject to improved market conditions. The net book value of these facilities totaled $26.7 million. In the opinion of manage-

ment, the net book value of its idle facilities is not in excess of net realizable value.

LONE STAR INDUSTRIES, INC. (DEC)

(Dollars in thousands)	1997	1996
Total current assets	$232,976	$165,214
Joint ventures	20,326	19,505
Property, plant and equipment, net	299,255	322,982
Deferred tax asset	37,661	47,365
Other assets and deferred charges	8,759	7,085
Total assets	$598,977	$562,151

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Description of Operations and Significant Accounting Policies

Property, Plant and Equipment—Property, plant and equipment were stated at fair market value as of March 31, 1994. Additions subsequent to March 31, 1994 are stated at cost. Property, plant and equipment are depreciated over the estimated useful lives of the assets using the straight-line method. Useful lives for property, plant and equipment are as follows: buildings-10 to 40 years; machinery and equipment-3 to 30 years; automobile and trucks-3 to 10 years. Significant expenditures which extend the useful lives of existing assets are capitalized. Maintenance and repair costs are charged to current earnings. Cost depletion related to limestone reserves is calculated using the units of production method. The cost of assets and related accumulated depreciation is removed from the accounts when such assets are disposed of, and any related gains or losses are reflected in current earnings.

4. Property, Plant and Equipment

Property, plant and equipment consists of the following (in thousands):

	Dec. 31, 1997	Dec. 31, 1996
Land	$ 29,680	$ 39,182
Buildings and equipment	295,891	295,524
Construction in progress	15,028	16,753
Automobiles and trucks	27,649	32,515
	368,248	383,974
Less accumulated depreciation and depletion	(68,993)	(60,992)
	$299,255	$322,982

MINNESOTA MINING AND MANUFACTURING COMPANY (DEC)

(Dollars in millions)	1997	1996
Total current assets	$ 6,168	$ 6,486
Investments	613	585
Property, plant and equipment-net	5,034	4,844
Other assets	1,423	1,449
Total	$13,238	$13,364

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part):

Property, plant and equipment: Depreciation of property, plant and equipment generally is computed on a straight-line basis over its estimated useful life. Fully depreciated assets are retained in property and accumulated depreciation accounts until removed from service. Upon disposal, assets and related accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to income.

Supplemental Balance Sheet Information (In Part):

Property, plant and equipment-at cost	1997	1996
Land	$ 275	$ 299
Buildings and leasehold improvements	2,916	2,885
Machinery and equipment	8,178	8,449
Construction in progress	729	417
	$12,098	$12,050
Less accumulated depreciation	7,064	7,206
Property, plant and equipment-net	$ 5,034	$ 4,844

INVESTMENTS IN DEBT AND EQUITY SECURITIES

APB Opinion No. 18 stipulates that the equity method should be used to account for investments in corporate joint ventures and certain other 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. *FASB Interpretation No. 35,* issued to clarify the criteria for applying the equity method of accounting to 50% or less owned companies, lists circumstances under which, despite 20% ownership, an investor may not be able to exercise significant influence.

In addition to investments accounted for by the equity method, many survey companies disclosed investments in equity and debt securities subject to the requirements of *Statement of Financial Accounting Standards No. 115. SFAS No. 115* requires that investments in equity securi-

ties having a readily determinable fair value and all investments in debt securities, except those classified as held-to-maturity, be reported at fair value. Investments classified as held-to-maturity are to be reported at amortized cost. *SFAS No. 115* does not apply to investments accounted for by the equity method.

Statement of Financial Accounting Standards No. 107 requires that the bases for estimating the fair value of investments subject to the requirements of *SFAS No. 115* be disclosed. 135 survey companies made 173 fair value disclosures. 16 disclosures stated that it was not practicable to estimate fair value; 40 disclosures stated that fair value approximated the carrying amounts of investments; 90 disclosures stated that market or broker quotes were used to estimate fair value; 20 disclosures stated that discounted cash flows were used to estimate fair value; and 7 disclosures stated the amount of fair value but not the basis for estimating fair value.

Table 2-15 lists the balance sheet carrying bases for investments presented as noncurrent assets. Examples of presentations and disclosures for such investments follow.

TABLE 2-15: INVESTMENTS—CARRYING BASES

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Equity	269	260	253	252
Cost	87	80	101	86
Fair value	59	74	67	53
Lower of cost or market	1	2	4	9

Equity Method

AMOCO CORPORATION (DEC)

Consolidated Statement Of Financial Position

(millions of dollars)	1997	1996
Total Current Assets	$7,044	$7,063
Investments And Other Assets		
Investments and related advances	2,099	796
Long-term receivables and other assets	803	841
	2,902	1,637
Properties at cost, less accumulated depreciation, depletion and amortization of $26,814 on December 31, 1997, and $27,111 on December 31, 1996	22,543	23,400
	$32,489	$32,100

Consolidated Statement Of Income

(millions of dollars)	1997	1996	1995
Revenues			
Sales and other operating revenues	$31,910	$32,150	$27,066
Consumer excise taxes	3,451	3,386	3,339
Equity in income of affiliates and other income	926	576	599
Total revenues	36,287	36,112	31,004

NOTES TO FINANCIAL STATEMENTS

6. Equity Investments

Amoco conducts portions of its business through investments in companies accounted for using the equity method. The equity affiliates are primarily engaged in exploration and production in recently established ventures in Argentina and Bolivia, transportation of crude oil and petroleum products in the United States and chemical operations in Asia. Following is summarized financial information for Amoco's equity affiliates combined, as well as Amoco's proportionate interest in the affiliates

Millions of dollars	1997 Total	1997 Amoco Share	1996 Total	1996 Amoco Share	1995 Total	1995 Amoco Share
Current assets	$1,319	$536	$856	$310	$1,002	$380
Other assets	8,348	3,455	4,032	1,363	3,905	1,080
Current liabilities	1,154	454	783	246	940	311
Other liabilities	3,725	1,518	2,291	685	2,275	545
Net assets	$4,788	$2,019	$1,814	$742	$1,692	$604
Total revenues	$2,754	$989	$2,658	$950	$2,973	$1,110
Income before income taxes	$378	$79	$512	$130	$712	$232
Net income	$152	$24	$463	$144	$491	$170

Dividends received from these investments amounted to $70 million in 1997, $136 million in 1996 and $101 million in 1995. Amoco's share of undistributed earnings of the equity affiliates totaled $208 million at December 31, 1997.

Accounts and notes receivable in the Consolidated Statement of Financial Position included $44 million and $26 million at December 31, 1997 and 1996, respectively, of amounts due from affiliated companies. Accounts payable included $6 million and $4 million at December 31, 1997 and 1996, respectively, of amounts due to affiliated companies.

ARVIN INDUSTRIES, INC. (DEC)

Consolidated Statement Of Financial Condition

(Dollars in millions)	1997	1996
Total current assets	$669.4	$538.9
Non-Current Assets:		
Property, plant and equipment:		
Land and buildings	203.0	179.5
Machinery and equipment	876.6	799.6
Construction in progress	53.9	31.9
	1,133.5	1,011.0
Less accumulated depreciation	632.1	547.1
	501.4	463.9
Goodwill, net of amortization of $36.5 in 1997 and $32.3 in 1996	165.9	158.0
Investment in affiliates	53.9	85.7
Other assets	56.5	61.3
Total non-current assets	777.7	768.9
	$1,447.1	$1,307.8

Consolidated Statement Of Operations

(Dollars in millions)	1997	1996	1995
Net Sales	$2,349.0	$2,212.7	$1,966.4
Cost and Expenses:			
Cost of goods sold	2,014.9	1,940.2	1,707.7
Selling, operating general and administrative	165.6	151.1	152.3
Corporate general and administrative	19.0	17.6	12.2
Special charges and credits, net	6.2	5.0	10.5
Net gain on capital transactions	(2.2)	(10.8)	—
Interest expenses	39.5	38.8	42.5
Other expense, net	8.1	6.7	11.8
	2,251.1	2,148.6	1,937.0
Earnings from Continuing Operations Before Income taxes	97.9	64.1	29.4
Income taxes	(34.2)	(19.7)	(11.2)
Minority interest in net income of consolidated subsidiaries	(3.8)	(2.5)	(2.2)
Equity in earnings of affiliates	5.1	5.2	1.9
Earnings from Continuing Operations	65.0	47.1	17.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in millions)

Note 1 (In Part): Significant Accounting Policies:

Principles of Consolidation: The consolidated financial statements include the accounts of Arvin Industries, Inc. and its majority-owned subsidiaries. Affiliated companies (20 to 50 percent owned) are accounted for on the equity method.

Note 3 - Investments In Affiliates:

The Company has investments in a number of affiliates which are accounted for on the equity method. The affiliates are engaged in the production and distribution of automotive exhaust and ride control products. Equity affiliates include Arvin Sango Inc. (50%), Schmitz & Brill GmbH (50%), Gabriel Mexico S.A. (40%), Gabriel de Venezuela (42%), Kayaba Arvin, S.A. (40%) and Cofap-Arvin (40%). The Company's share of earnings of these

affiliates is included in income as earned. Equity earnings from affiliates for 1997 includes an intangible asset write-off and the elimination of a tax valuation allowance in the amounts of $3.2 and $4.7 million, respectively. In 1997 and 1996, the Company received dividends from affiliates of $2.2 and $3.4 million, respectively. The Company's total investment in affiliates at December 28, 1997 was $53.9 million.

Summarized financial information of affiliates follows.

Condensed Statement of Operations:	1997	1996	1995
Net sales	$360.5	$408.7	$557.1
Gross profit	57.8	82.8	95.3
Net earnings	14.3	10.9	9.1

Condensed Statement of Financial Condition:	1997	1996	1995
Current assets	$137.1	$107.5	$247.3
Non-current assets	114.0	180.6	177.6
	$251.1	$288.1	$424.9
Current liabilities	$ 76.0	$ 71.9	$162.0
Non-current liabilities	53.1	107.1	137.3
Shareholders' equity	122.0	109.1	125.6
	$251.1	$288.1	$424.9

CUMMINS ENGINE COMPANY, INC. (DEC)

Consolidated Statement of Financial Position

(Millions)	1997	1996
Total Current Assets	$1,710	$1,553
Investments and other assets:		
Investments in joint ventures and alliances	204	207
Other assets	142	119
	346	326
Property, plant and equipment:		
Land and buildings	495	460
Machinery, equipment and fixtures	2,079	1,931
Construction in process	392	270
	2,966	2,661
Less accumulated depreciation	1,434	1,375
	1,532	1,286
Intangibles, deferred taxes and deferred charges	177	204
Total assets	$3,765	$3,369

Consolidated Statement of Earnings

(Millions)	1997	1996	1995
Net sales	$5,625	$5,257	$5,245
Cost of good sold	4,345	4,072	3,974
Gross profit	1,280	1,185	1,271
Selling and administrative expenses	744	725	692
Research and engineering expenses	260	252	263
(Income) expense from joint ventures and alliances	(10)	—	2
Interest expense	26	18	13
Other (income) expense, net	(26)	(24)	6
Restructuring charges	—	—	118
Earnings before income taxes	286	214	177

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Accounting Policies:

Principles of Consolidation: The consolidated financial statements include all significant majority-owned subsidiaries. Affiliated companies in which Cummins does not have a controlling interest, or for which control is expected to be temporary, are accounted for using the equity method. Use of estimates and assumptions as determined by management is required in the preparation of consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates and assumptions.

Note 4. Investments in Joint Ventures and Alliances:

Investments in joint ventures and alliances at December 31 were as follows:

$ Millions	1997	1996
Cummins Wartsila	$ 88	$ 59
Consolidated Diesel	32	38
Kirloskar Cummins	—	36
Chongquing Cummins	16	16
Tata Cummins	16	13
Behr America, Inc.	14	12
Other	38	33
	$204	$207

In the fourth quarter of 1997, the company increased its ownership interest in Kirloskar Cummins to 51 percent and began consolidating the subsidiary, which was renamed Cummins India Limited.

Net sales of the joint ventures and alliances were $1.3 billion in 1997 and 1996 and $1.1 billion in 1995. Summary balance sheet information for the joint ventures and alliances was as follows:

$ Millions	December 31, 1997	1996
Current assets	$ 447	$ 458
Noncurrent assets	533	478
Current liabilities	(258)	(305)
Noncurrent liabilities	(305)	(248)
Net assets	$ 417	$ 383
Cummins' share	$ 204	$ 207

In connection with various joint venture agreements, Cummins is required to purchase products from the joint ventures in amounts to provide for the recovery of specified costs of the ventures. Under the agreement with Consolidated Diesel, Cummins' purchases were $538 million in 1997 and $540 million in 1996.

ENGELHARD CORPORATION (DEC)

Consolidated Balance Sheets

(In thousands)	1997	1996
Total current assets	$1,255,172	$1,188,329
Investments	160,082	221,364
Property, plant and equipment, net	788,178	744,655
Intangible assets, net	214,929	195,353
Other noncurrent assets	167,962	140,803
Total assets	$2,586,323	$2,490,504

Consolidated Statements Of Earnings

(In thousands)	1997	1996	1995
Net sales	$ 3,630,653	$ 3,184,431	$ 2,840,077
Cost of sales	3,030,717	2,671,377	2,379,474
Gross profit	599,936	513,054	460,603
Selling, administrative and other expenses	327,820	255,460	244,660
Special charge	86,000	—	—
Earnings from operations	186,116	257,594	215,943
Equity in earnings (losses) of affiliates	(47,833)	(5,008)	695
Gain on sale of investment	305	2,378	—
Interest expense, net of capitalized amounts	(54,862)	(45,860)	(35,066)
Less contango on futures and forward contracts	2,086	851	3,740
Net interest expense	(52,776)	(45,009)	(31,326)
Earnings before income taxes	85,812	209,955	185,312

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note nine. Investments

The Company has investments in affiliates that are accounted for on the equity method. The more significant of these investments are Engelhard-CLAL and N.E. Chemcat Corporation (N.E. Chemcat). Engelhard-CLAL, a 50/50 joint venture, manufactures and markets certain precious-metal containing products. N.E. Chemcat is a 38.8% owned, publicly-traded Japanese corporation and a leading producer of automotive and chemical catalysts, electronic chemicals and other precious-metals based products.

At December 31, 1997 and 1996, the quoted market value of the Company's investment in N.E. Chemcat was in excess of $55 million and $104 million, respectively. The valuation represents a mathematical calculation based on the closing quotation published by the Tokyo over-the-counter market and is not necessarily indicative of the amounts that could be realized upon sale. Due to the recent weakness of the Japanese equity markets, the Company's investment in N.E. Chemcat exceeded the quoted market value as of December 31, 1997. Management believes this situation to be temporary.

In the fourth quarter of 1996, the Company sold its investment in Heraeus Engelhard Electrochemistry Corp. to its partner for cash, with the buyer assuming all assets and liabilities. The Company realized an after-tax gain of $1.5 million on the sale.

The summarized unaudited financial information below represents an aggregation of the Company's nonsubsidiary affiliates:

FINANCIAL INFORMATION (unaudited)(in millions)	1997	1996	1995
Earnings data			
Revenue	$1,788.6	$1,739.7	$1,207.9
Gross profit	165.0	327.9	130.8
Net earnings/(losses)	(69.6)	(5.3)	6.2
Company's equity in net earnings/(losses)	(47.8)	(5.0)	0.7
Balance sheet data			
Current assets	$ 420.1	$ 555.1	
Noncurrent assets	216.5	199.6	
Current liabilities	117.4	212.7	
Noncurrent liabilities	185.8	104.1	
Net assets	333.4	437.9	
Company's equity in net assets	156.1	217.4	

The decrease in the Company's equity in net assets was primarily a result of the 1997 special and other charges (see pages 58 and 59 for detail).

The Company's share of undistributed earnings/losses of affiliated companies included in consolidated retained earnings was a loss of $14.2 million at December 31, 1997 and gains of $36.0 million and $39.2 million at December 31, 1996 and 1995, respectively. Dividends from affiliated companies were $3.8 million in 1997, $2.5 million in 1996 and $3.4 million in 1995.

Fair Value

ASARCO INCORPORATED (DEC)

(Dollars in thousands)	1997	1996
Total current assets	$1,299,928	$1,185,144
Investments:		
Available-for-sale and other cost	126,843	442,707
Equity	61,337	59,787
Total investments	188,180	502,494
Property, net	2,418,810	2,274,088
Other assets including intangibles, net	203,484	158,623
Total Assets	$4,110,402	$4,120,349

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) Investments

During 1997 the Company sold 106.3 million shares of Grupo Mexico for proceeds of $322.5 million, resulting in a pre-tax gain of $73.3 million ($47.6 million after-tax). At December 31, 1997, the value of the Company's remaining interest in Grupo Mexico is $78.9 million representing the exercise price of shares subject to an option granted as part of the restructuring of the Company's investment in 1994. These shares are carried on the books of the Company at $50.2 million. The Company's results for the year ended 1996 include a $60.1 million pre-tax gain ($39.0 million after-tax) on the sale of its 15% interest in MIM Holdings Limited (MIM) and an $11.1 million pre-tax gain ($7.2 million after-tax) on the sale of a 25% interest in its Silver Bell copper mine to Mitsui & Co.

In accordance with the provisions of SFAS No. 115, available-for-sale securities are carried at fair value. Unrealized gains at December 31, 1997 of $11.6 million (net of deferred taxes of $6.3 million), compared with unrealized gains of $56.3 million(net of deferred taxes of $30.3 million) at December 31, 1996, were included as a component of stockholders' equity.

Available-for-sale and other cost investments:

At December 31,				
		Unrealized Holding		
(in millions)	Cost	Gains	(Losses)	Total
1997				
Available-for-sale:				
Equity securities	$ 25.3	$17.5	$ —	$ 42.8
Debt securities	30.3	0.4	—	30.7
Cost investments:				
Grupo Mexico	50.2	—	—	50.2
Other	3.1	—	—	3.1
Total	$ 108.9	$17.9	$ —	$126.8
1996				
Available-for-sale:				
Grupo Mexico	$ 249.1	$79.6	$ —	$328.7
Equity securities	23.9	7.1	—	31.0
Debt securities	28.3	—	(0.1)	28.2
Cost investments:				
Grupo Mexico	50.2	—	—	50.2
Other	4.6	—	—	4.6
Total	$ 356.1	$86.7	$(0.1)	$442.7

Gross realized gains on available-for-sale securities in 1997 were $76.0 million, compared with gross realized gains of $60.1 million and losses of $1.1 million in 1996, and gross realized losses of $0.3 million in 1995. The debt securities have maturity dates ranging from 1999 to 2027. The unrealized holding gains and losses, excluding realized gains and losses, included as a component of stockholders' equity increased $7.3 million in 1997 and decreased $56.9 million in 1996. The average cost method has been used to determine the realized gain or loss on securities sold.

14 (In Part): Financial Instruments

The estimated fair values of the Company's financial instruments are:

At December 31,	1997		1996	
(In millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	$210.6	$210.6	$192.4	$192.4
Marketable securities-held to maturity	$205.3	$205.3	$ 1.0	$ 1.0
Put options	$ 1.3	$ 14.3	—	—
Call options	$ 0.4	$ 0.4	$ 4.0	$ 4.0
Investments:				
Available-for-sale securities	$ 73.5	$ 73.5	$387.9	$387.9
Restricted investment in Grupo Mexico[(a)]	50.2	78.9	50.2	78.9
Other	3.1	[(b)]	4.6	[(b)]
Total investments	$126.8	$152.4	$442.7	$466.8
Liabilities:				
Long-term debt (excluding capital lease obligations)	$816.9	$848.3	$723.6	$736.9
Interest rate swaps	—	$ (0.6)	—	$ (0.8)

(a) At December 31, 1997 and 1996, 56.3 million shares of Grupo Mexico were subject to a fixed price option which limits the sale of the shares for a period of more than one year. The fair value shown is equal to the exercise price of the option.

(b) No fair value was available for these investments as they represent an interest in companies whose stock is not publicly traded. Accordingly, it is not practicable to determine the fair value of such securities.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash And Cash Equivalents – The carrying amount approximates fair value because of the short maturity of these instruments.

Marketable Securities – The carrying amount and fair value are reported at amortized cost, which approximates market, since these securities are to be held to maturity.

Put And Call Options – Fair value is an estimate based on relevant market information such as: volatility of similar options, futures prices and the contracted strike price. Call options held at December 31, 1997, which represent trading securities had an average fair value of $1.3 million during the year ended December 31, 1997.

Available-For-Sale Securities And Interest Rate Swaps – Fair value is based on quoted market prices.

NATIONAL SEMICONDUCTOR CORPORATION (MAY)

In Millions	1997	1996
Total current assets	$1,552.6	$1,256.0
Property, plant and equipment, net	1,263.4	1,308.1
Long-term marketable investments	6.4	11.7
Other assets	91.7	82.2
Total assets	$2,914.1	$2,658.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Marketable Investments. The Company classifies its debt and marketable equity securities into held-to-maturity or available-for-sale categories in accordance with the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are recorded as either short-term or long-term on the balance sheet based upon contractual maturity date and are stated at amortized cost. Debt and marketable equity securities not classified as held-to-maturity are classified as available-for-sale and are carried at fair market value, with the unrealized gains and losses, net of tax, reported in shareholders' equity. Gains or losses on securities sold are based on the specific identification method.

Note 2 (In Part): Financial Instruments Marketable Investments

The Company's policy is to diversify its investment portfolio to reduce risk to principal that could arise from credit, geographic and investment sector risk. At May 25, 1997, investments were placed with a variety of different financial institutions or other issuers, and no individual security, financial institution or obligation from a direct issuer exceeded ten percent of total investments. Investments with a maturity of less than one year have a rating of A1/P1 or better. Investments with a maturity of more than one year have a minimum rating of AA/A2. The Company's investment portfolio generally matures within one year or less. Gross realized gains on available-for-sale securities approximated $4.1 million, $7.2 million and $6.9 million for the years ended May 25, 1997, May 26, 1996 and May 28, 1995, respectively. Gross realized losses were not material for fiscal years 1997, 1996 or 1995.

Investments at fiscal year end comprise:

(In Millions)	Gross Amortized Cost	Unrealized Gains	Estimated Fair Value
1997			
Short-Term Investments			
Available-for-sale securities:			
Certificates of deposit	$5.0	$—	$5.0
Corporate bonds	2.1	—	2.1
Auction rate preferred stock	29.0	—	29.0
Governmental agencies	7.0	—	7.0
Held-to-maturity securities:			
Auction rate preferred stock	14.5	—	14.5
Total short-term investments	$57.6	$—	$57.6
Long-Term Investments			
Available-for-sale securities:			
Equity securities	$2.1	$4.3	$6.4
Total long-term investments	$2.1	$4.3	$6.4
1996			
Short-Term Investments			
Available-for-sale securities:			
Certificates of deposit	$11.0	$—	$11.0
Corporate bonds	1.0	—	1.0
Commercial paper	9.5	—	9.5
Governmental agencies	13.0	—	13.0
U.S. Treasury bills	2.4	—	2.4
Held-to-maturity securities:			
Auction rate preferred stock	25.0	—	25.0
Total short-term investments	$61.9	$—	$61.9
Long-Term Investments			
Available-for-sale securities:			
Equity securities	$3.5	$8.2	$11.7
Total long-term investments	$3.5	$8.2	$11.7

Gross unrealized losses were not material for either fiscal year 1997 or 1996.

At May 25, 1997, the Company held $81.7 million and $714.9 million of available-for-sale and held-to-maturity securities, respectively, that are classified as cash equivalent on the consolidated balance sheet. These cash equivalents consist of the following (in millions): bank time deposits ($466.8), institutional money market funds ($129.2), certificates of deposit ($15.0), commercial paper ($135.6), bankers acceptances ($5.0) and demand notes ($45.0).

At May 26, 1996, the Company held $20.9 million and $410.1 million of available-for-sale and held-to-maturity securities, respectively, that are classified as cash equivalents on the consolidated balance sheet. These cash equivalents consist of the following (in millions): bank time deposits ($154.8), institutional money market funds ($45.6), certificates of deposit ($2.0), commercial paper ($219.1) and government securities ($9.5).

The net unrealized gain on available-for-sale securities of $4.3 million and $8.2 million is included in retained earnings at May 25, 1997 and May 26, 1996, respectively.

Fair Value Of Financial Instruments–
A summary table of estimated fair values of financial instruments at fiscal year end follows:

	1997		1996	
(In Millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term investments	$6.4	$6.4	$11.7	$11.7
Long-term debt	(324.3)	(331.2)	(350.5)	(327.1)
Currency forward contracts:				
To buy dollars	0.7	—	2.0	1.6
To sell dollars	(0.5)	—	—	0.9
Currency options	0.3	0.2	0.3	0.8

PENNZOIL COMPANY (DEC)

(Expressed in thousands)	1997	1996
Total Current Assets	$ 594,714	$ 537,592
Property, Plant And Equipment, at cost		
Oil and Gas, successful efforts method of accounting	4,604,674	4,387,277
Motor Oil & Refined Products	1,182,930	1,170,259
Franchise Operations	228,048	206,100
Other	104,054	100,679
Total Property, Plant And Equipment	6,119,706	5,864,315
Less accumulated depreciation, depletion and amortization	3,621,109	3,546,231
Net Property, Plant And Equipment	2,498,597	2,318,084
Other Assets		
Marketable securities and other investments (Note 1)	945,995	955,182
Other	366,581	313,396
Total Other Assets	1,312,576	1,268,578
Total Assets	$4,405,887	$4,124,254

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Principles of Consolidation
Pennzoil's investment in Chevron Corporation ("Chevron") common stock is included in marketable securities and other investments at fair value. For accounting purposes, Pennzoil limits its fair value estimation of Chevron common stock to its net realizable value. Reference is made to Notes 3 and 5 for additional information. Investments in all other marketable securities are included in other assets at cost, which approximates fair value. Dividends from these companies are included in other income as received.

Marketable Securities and Other Investments–
Pennzoil accounts for certain investments in debt and equity securities by following the requirements of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This standard requires that, except for

debt securities classified as "held-to-maturity," investments in debt and equity securities must be reported at fair value. As a result, Pennzoil's investment in Chevron common stock, which shares are classified as "available for sale," is reported at fair value, determined as described above under "Principles of Consolidation," with the unrealized gain excluded from earnings and reported as a separate component of shareholders' equity. As of December 31, 1997, Pennzoil beneficially owned approximately 17.8 million shares of Chevron common stock, acquired at an average cost of approximately $33.68 per share.

Unrealized gains on Pennzoil's investment in Chevron common stock are subject to the exchange rights of holders of Pennzoil's $397.2 million outstanding principal amount of 6½% Exchangeable Senior Debentures due January 15, 2003 (the "6½% Debentures") and $491.8 million outstanding principal amount of 4¾% Exchangeable Senior Debentures due October 1, 2003 (the "4¾% Debentures"), all of which are exchangeable at the option of the holders thereof for shares of Chevron common stock owned by Pennzoil. Reference is made to Note 3 for additional information. The fair value of the shares of Chevron common stock held by Pennzoil, determined as described above under "Principles of Consolidation," as of December 31, 1997 and 1996 was $49.93 and $50.00, respectively, per share, based on the closing transaction price for Chevron common stock reported on the New York Stock Exchange on December 31, 1997 and December 31, 1996 of $77.00 and $65.00 per share, reduced by an allowance for certain exchange rights relating to Pennzoil's outstanding 6½% Debentures and 4¾% Debentures. As of December 31, 1997 and December 31, 1996, the net unrealized after-tax gain included in shareholders' equity related to Pennzoil's investment in Chevron common stock was $188.1 million and $191.8 million, respectively.

The cost, fair value (which, in the case of Chevron common stock, is determined as described above under "Principles of Consolidation") and unrealized gains related to Pennzoil's marketable securities are as follows:

At December 31 (Expressed in thousands)	Cost	Estimated Fair Value	Unrealized Gains
1997			
Non-current marketable securities and other investments:			
Chevron common stock	$599,652	$889,027	$289,375
Other marketable securities and investments	56,968	56,968	—
Total non-current marketable securities and other investments	$656,620	$945,995	$289,375
1996			
Non-current marketable securities and other investments:			
Chevron common stock	$608,565	$903,647	$295,082
Other marketable securities and investments	51,535	51,535	—
Total non-current marketable securities and other investments	$660,100	$955,182	$295,082

Pennzoil's investments in debt securities are classified as "held-to-maturity" based on Pennzoil's ability and intent to hold those securities to maturity. Such securities are carried at cost, net of unamortized premium or discount, if any, and consist primarily of domestic commercial paper. All of Pennzoil's "held-to-maturity" securities approximate their fair values based on the relatively short maturities of those investments.

SCOPE INDUSTRIES (JUN)

	1997	1996
Total Current Assets	$32,763,110	$12,932,037
Notes Receivable	232,276	1,154,378
Property and Equipment:		
Machinery and equipment	22,551,992	22,160,240
Land, buildings and improvements	9,652,554	9,743,940
	32,204,546	31,904,180
Less accumulated depreciation and amortization	22,016,611	20,867,899
	10,187,935	11,036,281
Other Assets:		
Deferred charges and other assets	256,006	130,930
Investments available for sale at fair value (Cost $5,417,222 in 1997 and $11,749,436 in 1996) (Note 4)	15,539,706	29,647,443
Investments held to maturity at cost (Fair value $603,600 in 1996) (Note 4)		633,426
Other equity investments at cost (Note 4)	2,505,000	
	18,300,712	30,411,799
	$61,484,033	$55,534,495

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note (In Part): Summary of Significant Accounting Policies

Investments:

Investments in debt securities and equity securities with readily determinable market values are classified into categories based on the Company's intent. Investments held to maturity, which the Company has the positive intent and ability to hold to maturity, are carried at cost. Investments available for sale are carried at estimated fair value. Unrealized holding gains and losses are excluded from earnings and reported, net of income taxes, as a separate component of shareowners' equity until realized. For all investment securities, unrealized losses that are other than temporary are recognized in net income. Realized gains and losses are determined on the specific identification method and are reflected in net income.

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities", on July 1, 1994. The cumulative effect as of July 1, 1994 of adopting SFAS No. 115 increased shareholders' equity by $5,730,365. There was no effect on net income.

Note 4: Investments

Included in Investment and Other Income are recognized gains and losses on investment securities. Net gains of $17,313,454 and $132,698 were recognized in 1997 and 1995, respectively. A net loss of $87,802 was recognized in 1996. Gross recognized gains and gross recognized losses were $17,558,454 and $245,000, respectively, for 1997, $697,589 and $785,391, respectively, for 1996 and $178,710 and $46,012. respectively, for 1995. Recognized gains and losses are from sales of investments and from recognized losses of $245,000 and $749,900 in 1997 and 1996, respectively, on securities whose decline in value was deemed to be other than temporary.

At June 30, 1997 investments were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
Corporate debt securities (1) (2)				
Due after three but within eight years	$ 633,426	$	$(25,631)	$ 607,795
Equity securities	4,783,796	10,148,115		14,931,911
	$5,417,222	$10,148,115	$(25,631)	$15,539,706
Other equity securities	$2,505,000			$ 2,505,000

At June 30, 1996 investments were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity securities				
Corporate debt securities (1)				
Due after four but within nine years	$ 633,426		$(29,826)	$ 603,600
Available-for-sale securities				
Corporate debt securities				
Due after one but within four years	$ 573,000	$ 27,000	$	$ 600,000
Equity securities	11,176,436	17,871,607	(600)	29,047,443
	$11,749,436	$17,898,607	$ (600)	$29,647,443

(1) Fixed maturity investments having an aggregate cost of $250,316 at June 30, 1997 and $633,426 at June 30, 1996 are held in trust by the State Treasurer of California as security for the Company's potential obligations as a self-insurer of its California Workers' Compensation liabilities.

(2) A portion of the fixed maturity investments previously held in trust by the State Treasurer of California were released to the Company in June 1997. As a result, the Company has reclassified the fixed maturity investments to available-for-sale securities at June 30, 1997.

Fair values for investments available-for-sale are based on quoted market prices, where available, at the reporting date. Other equity securities are carried at cost. No quoted market prices are available for these securities.

Cost

QUALCOMM INCORPORATED (SEP)

(in thousands)	1997	1996
Total current assets	$1,549,595	$ 751,190
Property, plant and equipment, net	425,090	352,699
Investments	111,786	8,009
Other assets	188,209	73,432
Total assets	$2,274,680	$1,185,330

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): The Company And Its Significant Accounting Policies

Investments. Management determines the appropriate classification of debt and equity securities at the time of purchase and re-evaluates such designation as of each balance sheet date. At September 30, 1997 and 1996, the Company's investment portfolio consisted of debt securities classified as held-to-maturity and is presented at its amortized cost.

Note 2. Investments

At September 30, 1997 and 1996, all marketable debt securities were classified as held-to-maturity and carried at amortized cost. Investments consisted of the following (in thousands):

	Current	Long-term
1997		
U.S. government securities	$ 7,998	$ 64,863
Commercial paper	209,828	—
Certificates of deposit	211,604	—
Corporate medium-term notes	18,805	46,923
	$448,235	$111,786
1996		
U.S. government securities	$ —	$5,000
Commercial paper	157,070	—
Certificates of deposit	70,064	—
Corporate medium-term notes	8,995	3,009
	$236,129	$8,009

At September 30, 1997, maturities for long-term securities were between one and two years. At September 30, 1997 and 1996, the estimated fair value of each investment approximated its amortized cost and, therefore, there were no significant unrealized gains or losses.

UNITED HEALTHCARE CORPORATION (DEC)

(In millions)	1997	1996
Current Assets		
Cash and Cash Equivalents	$ 750	$1,037
Short-Term Investments	506	611
Accounts Receivable, net of allowances of $45 and $46	768	606
Assets Under Management	28	155
Other Current Assets	141	331
Total Current Assets	2,193	2,740
Long-Term Investments	2,785	1,805
Property and Equipment, net of accumulated depreciation of $350 and $275	364	313
Goodwill and Other Intangible Assets, net of accumulated amortization of $205 and $136	2,281	2,139
Total Assets	$7,623	$6,997

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary Of Significant Accounting Policies

Cash And Cash Equivalents And Investments

Investments held by trustees or agencies according to state regulatory requirements are classified as held to maturity based on our ability and intent to hold these investments to maturity. Such investments are reported at amortized cost. All other investments are classified as available for sale and are reported at fair value based on quoted market prices. Unrealized gains and losses on investments available for sale are excluded from earnings and reported as a separate component of shareholders' equity, net of income tax effects.

(6) Cash And Investments

As of December 31, 1997 and 1996, the amortized cost, gross unrealized holding gains and losses, and fair value of cash and investments were as follows (in millions):

1997	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Gains	Fair Value
Cash and Cash Equivalents	$ 750	$—	$—	$750
Investments Available for Sale				
U.S. Government and Agencies	685	9	(3)	691
State and State Agencies	775	17	—	792
Municipalities and Local Agencies	845	18	—	863
Corporate	439	6	—	445
Other	435	—	—	435
Total Investments Available for Sale	3,179	50	(3)	3,226
Investments Held to Maturity				
U.S. Government and Agencies	38	—	—	38
State and State Agencies	2	—	—	2
Municipalities and Local Agencies	1	—	—	1
Corporate	18	—	—	18
Other	6	—	—	6
Total Investments held to Maturity	65	—	—	65
Total Cash and Investments	$3,994	$50	$(3)	$4,041
1996				
Cash and Cash Equivalents	$1,037	$—	$—	$1,037
Investments Available for Sale				
U.S. Government and Agencies	825	1	(14)	812
State and State Agencies	471	2	—	473
Municipalities and Local Agencies	474	3	(1)	476
Corporate	416	1	(3)	414
Other	179	—	—	179
Total Investments Available for Sale	2,365	7	(18)	2,354
Investments Held to Maturity				
U.S. Government and Agencies	36	—	—	36
State and State Agencies	5	—	—	5
Municipalities and Local Agencies	1	—	—	1
Corporate	17	—	—	17
Other	3	—	—	3
Total Investments Held to Maturity	62	—	—	62
Total Cash and Investments	$3,464	$7	$(18)	$3,453

As of December 31, 1997, the contractual maturities of cash and cash equivalents and investments were as follows (in millions):

Years To Maturity	Less Than One Year	One to Five Years	Over Five to Ten Years	Over Ten Years
At Amortized Cost:				
Cash and Cash Equivalents	$ 750	$ —	$ —	$ —
Investments Available for Sale	506	1,191	678	804
Investments Held to Maturity	36	29	—	—
Total Cash and Investments	$1,292	$1,220	$678	$804
At Fair Value:				
Cash and Cash Equivalents	$ 750	$ —	$ —	$ —
Investments Available for Sale	506	1,202	695	823
Investments Held to Maturity	36	29	—	—
Total Cash and Investments	$1,292	$1,231	$695	$823

Mortgage-backed securities that do not have a single maturity date have been presented in the above tables based on their estimated maturity dates.

Under applicable government regulations, several United HealthCare subsidiaries are required to maintain specific capital levels to support their operations. In addition, at December 31, 1997, trustees or state regulatory agencies held investments of $65 million to ensure adequate financial reserves exist as required by state regulatory agencies. After taking these regulations and certain business considerations into account, the company had $960 million in cash and investments available for general corporate use at December 31, 1997. Investment income earned on all investments accrues to United HealthCare.

NONCURRENT RECEIVABLES

Chapter 3A of *Accounting Research Bulletin 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."

When a noncurrent receivable is a financial instrument, as defined by *Statement of Financial Accounting Standards No. 105, Statement of Financial Accounting Standards No. 107* requires that the fair value of the noncurrent receivable and the basis for estimating fair value be disclosed. 62 survey companies made 74 fair value disclosures. 23 disclosures stated that fair value approximated the carrying amounts of the receivables; 41 disclosures stated that discounted cash flows were used to estimate fair value; and 10 disclosures stated that market quotes were used to estimate fair value.

Table 2-16 summarizes the balance sheet captions used to describe noncurrent receivables. Examples of noncurrent receivable presentations and disclosures follow.

TABLE 2-16: NONCURRENT RECEIVABLES

	1997	1996	1995	1994
Caption Title				
Notes Receivable	38	26	26	29
Long-Term Receivables	31	31	33	30
Other	28	29	40	39
Receivables combined with other investments, deposits, etc.	23	31	28	28
Total Presentations	**120**	**117**	**127**	**126**
Number of Companies				
Presenting noncurrent receivables	116	110	120	123
Not presenting noncurrent receivables	484	490	480	477
Total Companies	**600**	**600**	**600**	**600**

AUTOMATIC DATA PROCESSING, INC. (JUN)

(In thousands)	1997	1996
Total current assets	$1,805,322	$1,454,283
Long-term marketable securities	470,164	462,461
Long-term receivables	176,771	188,184

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Receivables

The Company finances the sale of computer systems to certain of its clients. These finance receivables, substantially all of which are due from automobile and truck dealerships, are reflected in the consolidated balance sheets as follows:

	1997		1996	
(In thousands)	Current	Long-Term	Current	Long-Term
June 30, Receivables	$134,506	$221,783	$126,415	$243,522
Less:				
Allowance for doubtful accounts	(13,401)	(20,370)	(14,715)	(25,727)
Unearned income	(24,048)	(24,642)	(25,144)	(29,611)
	$97,057	$176,771	$86,556	$188,184

Unearned income from finance receivables represents the excess of gross receivables over the sales price of the computer systems financed. Unearned income is amortized using the interest method to maintain a constant rate of return on the net investment over the term of each contract.

Long-term receivables at June 30, 1997 mature as follows:

(In thousands)	
1999	$99,989
2000	68,958
2001	37,739
2002	12,203
Thereafter	2,894
	$221,783

CMI CORPORATION (DEC)

(Dollars in thousands)	1997	1996
Total current assets	$108,598	$90,601
Property, plant, and equipment:		
Land	2,086	1,757
Buildings	14,995	11,239
Machinery and equipment	37,697	33,390
Other	1,961	1,209
	56,739	47,595
Less accumulated depreciation and amortization	37,288	35,248
Net property, plant, and equipment	19,451	12,347
Long-term receivables	2,509	352
Deferred tax asset	6,900	9,100
Other assets, principally goodwill	6,970	1,054
Total Assets	$144,428	113,454

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Leases

The Company leases equipment to customers under short-term and long-term contracts. Short-term contracts generally range from three to six months. Rental income from short-term leases was approximately $1,961,000, $2,935,000, and $2,096,000, for the years ended December 31, 1997, 1996, and 1995, respectively.

The Company's long-term leases generally qualify as sales-type leases. The net investment in such leases is included in receivables. Future minimum lease payments to be received for long-term leases are as follows (dollars in thousands):

1998	$5,874
1999	1,127
2000	74
2001	305
2002	187
Thereafter	816
	$8,383

HONEYWELL INC. (DEC)

(Dollars in Millions)	1997	1996
Total Current Assets	$3,258.2	$2,981.2
Investments and Advances	243.8	247.6
Property, Plant and Equipment		
Property, plant and equipment	3,045.0	2,973.6
Less accumulated depreciation	1,916.3	1,839.4
Total Property, Plant and Equipment	1,128.7	1,134.2
Other Assets		
Long-term receivable	39.2	25.7
Goodwill	786.0	507.7
Intangibles	376.0	183.2
Deferred income taxes	41.7	33.0
Other	537.8	380.7
Total Assets	$6,411.4	$5,493.3

NOTES TO FINANCIAL STATEMENTS

8 (In Part): Receivables

Receivables have been reduced by an allowance for doubtful accounts as follows:

	1997	1996
Receivables, current	$38.5	$33.5
Long-term receivables	2.7	0.7

Receivables include approximately $16.5 in 1997 and $19.8 in 1996 billed to customers but not paid pursuant to contract retainage provisions. These balances are due upon completion of the contracts, generally within one year.

Unbilled receivables related to long-term contracts amount to $331.0 and $360.5 at December 31, 1997, and 1996, respectively, and are generally billable and collectible within one year.

Long-term, interest-bearing notes receivable from the sale of assets have been reduced by valuation allowances of $1.5 in 1997 and $1.7 in 1996 to an amount that approximates realizable value.

HERMAN MILLER, INC. (MAY)

(In Thousands)	1997	1996
Net Property and Equipment	$265,227	$268,765
Notes Receivable, less allowances of $8,489 in 1997 and $4,415 in 1996	47,431	39,212
Other Assets	57,065	52,029

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant Accounting and Reporting Policies (in part)

Notes Receivable. The notes receivable are primarily from certain independent contract office furniture dealers. The notes are collateralized by the assets of the dealers and bear interest based on the prevailing prime rate. Interest income relating to these notes was $4.8, $3.9, and $3.9 million in 1997, 1996, and 1995, respectively.

Fair Value of Financial Instruments

The carrying amount of the company's financial instruments included in current assets and current liabilities approximates their fair value due to their short-term nature. The fair value of the notes receivable is estimated by discounting expected future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities. As of May 31, 1997, and June 1, 1996, the fair value of the notes receivable approximated the carrying value. The Company intends to hold these notes to maturity and has recorded allowances to reflect the terms negotiated for carrying value purposes. As of May 31, 1997, and June 1, 1996, the carrying value approximated the fair value of the company's long-term debt.

SUPERVALU INC. (FEB)

(In Thousands)	1997	1996
Total Current Assets	$1,600,799	$1,553,709
Long-Term Notes Receivable	45,588	36,731
Long-Term Investment in Direct Financing Leases	84,350	74,185

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary Of Significant Accounting Policies (In Part)

Fair value disclosures of financial instruments:
The estimated fair value of notes receivable approximates the net carrying value at February 22, 1997 and February 24, 1996. Notes receivable are valued based on comparisons to publicly traded debt instruments of similar credit quality.

At February 22, 1997 and February 24, 1996 the estimated fair market value of the company's long-term debt (including current maturities) exceeded the carrying value by approximately $33 and $57 million, respectively. The estimated fair value was based on market quotes where available, discounted cash flows and market yields for similar instruments. The estimated fair market value of the company's commercial paper outstanding as of February 22, 1997 and February 24, 1996 approximated the carrying value.

Notes Receivable

Notes receivable arise from fixture and other financing related to independently owned retail food operations. Loans to independent retailers, as well as trade accounts receivable, are primarily collateralized by the retailers' inventory, equipment and fixtures. The notes range in length from 1 to 10 years with the average being 6 years, and may be non-interest bearing or bear interest at rates ranging primarily from 5 to 12 percent.

Included in current receivables are notes receivable due within one year totaling $6.6 and $5.7 million at February 22, 1997 and February 24, 1996, respectively.

WINNEBAGO INDUSTRIES, INC. (AUG)

(In Thousands)	1997	1996
Property and equipment, net	$33,593	$39,929
Long-term notes receivable, less allowances ($1,465 and $797, respectively)	5,692	3,918
Investment in life insurance	17,641	16,821
Deferred income taxes, net	14,900	14,548
Other assets	488	3,906
Long-term assets of discontinued operations	—	14,857

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Long-Term Notes Receivable

Long-term notes receivable of $5,692,000 and $3,918,000 at August 30, 1997 and August 31, 1996, respectively, are primarily collateralized by dealer inventories and real estate. The notes had weighted average interest rates of 8.7 percent per annum and 8.5 percent per annum at August 30, 1997 and August 31, 1996, respectively, and have various maturity dates ranging through August 2002.

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 lists those intangible assets being amortized which are most frequently disclosed by the survey companies. Table 2-17 does not reflect intangible assets not being amortized because such assets were acquired prior to the effective date of *Opinion No. 17.* Table 2-17 also does not include intangible pension assets recognized when an entity records a minimum pension liability in accordance with *Statement of Financial Accounting Standards No. 87.* In 1997, 20 survey companies disclosed an amount for intangible assets acquired prior to the effective date of *Opinion No. 17* and 56 survey companies disclosed an amount for intangible pension assets.

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 presentations and disclosures follow.

TABLE 2-17: INTANGIBLE ASSETS

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Goodwill recognized in a business combination	439	421	402	395
Trademarks, brand names, copyrights	83	67	57	52
Patents, patent rights	74	70	72	62
Licenses, franchises, memberships	28	23	24	19
Noncompete covenants	25	20	24	27
Technology	23	21	14	15
Customer lists	17	15	15	13
Other-described	29	28	42	40

TABLE 2-18: AMORTIZATION PERIOD-1997

	Number of Companies						
	Goodwill	Trademarks	Patents	Licenses	Noncompete	Technology	Lists
Period							
40	157	23	1	4	—	1	—
"Not exceeding 40"	106	12	3	3	—	2	1
25-30	30	2	1	2	—	—	—
20	18	1	1	—	—	1	—
10-15	29	2	1	—	1	—	1
Legal/estimated life	38	24	42	9	14	13	8
Other	116	19	25	10	10	6	7

Goodwill

ARMCO INC. (DEC)

Dollars in millions	1997	1996
Total current assets	$ 637.4	$ 571.8
Investments		
Investment in Armco Financial Services Group	85.6	85.6
Other (less allowance for impairment of $8.1 in 1997 and $12.7 in 1996)	30.3	52.4
Property, plant and equipment (net of accumulated depreciation of $653.0 in 1997 and $597.6 in 1996)	652.5	670.1
Deferred tax asset	319.3	325.8
Goodwill and other intangible assets (Note 1)	137.4	144.8
Other assets	18.8	17.3
Total assets	$1,881.3	$1,867.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Dollars in millions

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

Goodwill And Other Intangible Assets
Goodwill and other intangible assets primarily include goodwill recorded in connection with the acquisition of Cyclops Industries, Inc. on April 24, 1992. This goodwill is being amortized using the straight-line method over 40 years. Also included are goodwill and intangible assets acquired in the purchase of Douglas Dynamics, LLC on July 2, 1991. These assets are being amortized over their estimated useful lives, the majority of which do not exceed 17 years. Annual amortization expense for 1997,1996 and 1995 was $6.5, $6.9 and $6.9, respectively. At December 31, 1997 and 1996, accumulated amortization of goodwill and other intangible assets was $36.5 and $35.3, respectively.

Armco assesses whether its goodwill and other intangible assets are impaired as required by SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of,* based on an evaluation of undiscounted projected cash flows through the remaining amortization period. If an impairment exists, the amount of such impairment is calculated based on the estimated fair value of the asset.

BOISE CASCADE CORPORATION (DEC)

(expressed in thousands)	1997	1996
Property		
Land and land improvements	$ 57,260	$ 40,393
Buildings and improvements	554,712	452,578
Machinery and equipment	4,055,065	3,859,124
	4,667,037	4,352,095
Accumulated depreciation	(2,037,352)	(1,798,349)
	2,629,685	2,553,746
Timber, timberlands, and timber deposits	273,001	293,028
	2,902,686	2,846,774
Goodwill, net of amortization of $24,020,000 and $13,139,000	445,722	262,533

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Goodwill. Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible assets of businesses acquired. Goodwill is amortized on a straight-line basis over 40 years. Periodically, the company reviews the recoverability of goodwill. The measurement of possible impairment is based primarily on the ability to recover the balance of the goodwill from expected future operating cash flows on an undiscounted basis. In management's opinion, no material impairment exists at December 31, 1997. Amortization expense was $11,037,000 in 1997, $6,830,000 in 1996, and $2,299,000 in 1995.

CINCINNATI MILACRON INC.

In millions	1997	1996
Total current assets	$751.1	$727.9
Property, plant and equipment-net	343.1	319.1
Goodwill	231.1	229.9
Other noncurrent assets	67.2	59.4
Total assets	$1,392.5	$1,336.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part):

Goodwill

Goodwill, which represents the excess of acquisition cost over the net assets acquired in business combinations, is amortized on the straight-line method over periods ranging from 25 to 40 years. The carrying amount of goodwill is reviewed annually using estimated undiscounted cash flows for the businesses acquired over the remaining amortization periods. Amortization expense charged to earnings amounted to $6.1 million, $5.8 million and $1.5 million in 1997, 1996 and 1995, respectively.

ETHYL CORPORATION (DEC)

In Thousands of Dollars	1997	1996
Total current assets	$399,114	$427,165
Property, plant and equipment, at cost	766,413	764,145
Less accumulated depreciation and amortization	357,316	333,268
Net property, plant and equipment	409,097	430,877
Other assets and deferred charges	179,918	159,470
Goodwill and other intangibles - net of amortization	79,148	77,657
Total assets	$1,067,277	$1,095,169

NOTES TO FINANCIAL STATEMENTS

1 (in part): Summary of Significant Accounting Policies

Goodwill & Other Intangibles - Goodwill acquired prior to November 1, 1970 ($1,652,000) is not being amortized. Goodwill acquired subsequently ($4,991,000 and $6,559,000 at December 31, 1997 and 1996, respectively, net of accumulated amortization) is being amortized on a straight-line basis, over a period of ten years. Other intangibles ($72,505,000 and $69,446,000 at December 31, 1997 and 1996, respectively, net of accumulated amortization) are being amortized on a straight-line basis primarily over periods from four to twenty years. Amortization of goodwill and other intangibles amounted to $9,416,000 for 1997, $8,676,000 for 1996 and $4,504,000 for 1995. Accumulated amortization of goodwill and other intangibles was $35,852,000 and $26,436,000 at the end of 1997 and 1996, respectively.

The Company re-evaluates goodwill and other intangibles based on undiscounted operating cash flows whenever significant events or changes occur which might impair recovery of recorded costs, and it writes down recorded costs of the assets to fair value (based on discounted cash flows or market values) when recorded costs, prior to impairment, are higher.

GTI CORPORATION (DEC)

In thousands	1997	1996
Total current assets	$46,824	$51,711
Property, plant and equipment, net	14,800	15,974
Goodwill, less accumulated amortization of $4,907 and $4,211, respectively, and other assets	21,330	23,839
Total Assets	$82,954	$91,524

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
dollars in thousands

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

Excess of Cost over Net Assets of Acquired Companies - The excess of acquisition cost over the fair value of net assets (goodwill) of Valor Electronics, Inc. ("Valor," the Company's primary operating subsidiary) is being amortized using the straight-line method over 35 years. The Company periodically re-evaluates the original assumptions and rationale utilized in the establishment of the carrying value and estimated life of this asset. Management believes that there has been no impairment of the goodwill as reflected in the Company's consolidated financial statements as of December 31, 1997. The Company is subject to technological changes, which could cause management to reassess its estimate of the realizability of goodwill and/or its amortization period. The determinants used for this evaluation include management's estimate of the asset's continuing ability to generate positive income from operations and positive cash flow in future periods as well as the strategic significance of the intangible asset to the Company's business objectives. Cost in excess of net assets of Valor, net of amortization, was $19,149 and $19,845 as of December 31, 1997 and 1996, respectively.

Trademarks/Brands

FURNITURE BRANDS INTERNATIONAL, INC. (DEC)

(Dollars in thousands)	1997	1996
Total current assets	$ 618,509	$ 607,267
Property, plant and equipment:		
Land	16,758	16,292
Buildings and improvements	178,245	172,783
Machinery and equipment	264,689	236,654
	459,692	425,729
Less accumulated depreciation	165,631	123,767
Net property, plant and equipment	294,061	301,962
Intangible assets (Note 5)	330,549	344,101
Other assets	14,117	15,874
	$1,257,236	$1,269,204

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Dollars in thousands

2 (in part): Significant Accounting Policies

Intangible Assets
The excess of cost over net assets acquired in connection with the acquisition of Thomasville totaled $93,110. This intangible asset is being amortized on a straight-line basis over a 40-year period.

The Company emerged from Chapter 11 reorganization effective with the beginning of business on August 3, 1992. In accordance with generally accepted accounting principles, the Company was required to adopt "fresh-start" reporting which included adjusting all assets and liabilities to their fair values as of the effective date. The ongoing impact of the adoption of fresh-start reporting is reflected in the financial statements for all years presented.

As a result of adopting fresh-start reporting, the Company recorded reorganization value in excess of amounts allocable to identifiable assets of approximately $146,000. This intangible asset is being amortized on a straight-line basis over a 20-year period.

Also in connection with the adoption of fresh-start reporting, the Company recorded approximately $156,800 in fair value of trademarks and trade names based upon an independent appraisal. Such trademarks and trade names are being amortized on a straight-line basis over a 40-year period.

Long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. Impairment losses are recognized if expected future cash flows of the related assets are less than their carrying values.

5. Intangible Assets

Intangible assets include the following:

	Dec. 31, 1997	Dec. 31, 1996
Intangible assets, at cost:		
Reorganization value in excess of amounts allocable to identifiable assets	$146,063	$146,063
Trademarks and trade names	156,828	156,828
Excess of cost over net assets acquired	93,110	93,110
	396,001	396,001
Less accumulated amortization	65,452	51,900
	$330,549	$344,101

QUAKER STATE CORPORATION (DEC)

In thousands	1997	1996
Total current assets	$ 317,748	$ 334,056
Property, plant and equipment, at cost	247,073	210,465
Goodwill, brands and other assets (Note 8)	604,894	468,711
Net assets of discontinued operations	—	15,777
Total assets	$1,169,715	$1,029,009

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

d. Depreciation, amortization and valuation of intangibles: Depreciation is recorded on a straight-line basis. Goodwill, brands and other intangible assets are amortized on a straight-line basis. When factors indicate an intangible asset may not be recoverable, the Company evaluates the related undiscounted future cash flows compared to the carrying value of the intangible asset to determine if an impairment exists. The following table summarizes the years over which significant assets are generally depreciated or amortized:

Fast lube, office and other equipment	3 to 10 years
Software and other intangible assets	3 to 10 years
Fast lube rental properties and improvements	5 to 20 years
Buildings and improvements	20 to 40 years
Goodwill and brands	20 to 40 years

8. Goodwill, Brands and Other Assets:

Goodwill, brands and other assets consist of:

(in thousands)	1997	1996
Goodwill, net of accumulated amortization of $18,237 and $11,003	$346,968	$251,155
Brands, net of accumulated amortization of $5,989 and $2,885	141,865	113,715
Other intangible assets, net of accumulated amortization of $19,357 and $12,544	22,903	21,510
Net deferred tax asset	62,725	50,259
Notes receivable	21,521	18,228
Other	8,912	13,844
Total	$604,894	$468,711

Patents

GENERAL INSTRUMENT CORPORATION (DEC)

In thousands	1997	1996
Total current assets	$ 824,718	$ 755,696
Property, plant and equipment, net	236,821	251,748
Intangibles, less accumulated amortization of $86,333 and $76,077, respectively	82,546	92,802
Excess of cost over fair value of net assets acquired, less accumulated amortization of $108,123 and $93,552, respectively	471,186	478,783
Deferred income taxes	5,634	32,499
Investments and other assets	54,448	18,208
Total Assets	$1,675,353	$1,629,736

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Dollars in thousands

3 (In Part): Summary of Significant Accounting Policies

Intangible Assets. Intangible assets consist primarily of patents, which are being amortized on a straight-line basis over 5 to 17 years.

Licenses

JONES APPAREL GROUP, INC. (DEC)

(Amounts In Thousands)	1997	1996
Total Current Assets	$440,771	$389,830
Property, Plant and Equipment, at cost, less accumulated depreciation and amortization	81,934	61,696
Cash restricted for capital additions	11,193	—
Intangibles, at cost less accumulated amortization	30,604	26,288
Other Assets	16,265	10,295
	$580,767	$488,109

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Intangibles
Intangibles, which include trademarks and license agreements, are amortized on a straight-line basis over the estimated useful lives of the assets.

Note 4. Intangible Assets

Intangible assets consist of the following:

December 31,	1997	1996	Useful lives (years)
(In thousands)			
Trademarks	$32,972	$26,865	15 to 20
License agreements	5,319	5,319	5½ to 19
	38,291	32,184	
Less: accumulated amortization	7,687	5,896	
	$30,604	$26,288	

Covenants Not To Compete

B/E AEROSPACE, INC. (FEB)

Dollars in thousands	1997	1996
Total current assets	$213,319	$149,808
Property and equipment, net	87,888	86,357
Intangibles and other assets, net	189,882	197,421
	$491,089	$433,586

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Dollars in thousands

6. Intangibles and Other Assets

Intangibles and other assets consist of the following:

	Straight-Line Amortization Period (Years)	1997	1996
Covenants not-to-compete	14	$10,198	$10,198
Product technology, production plans and drawings	7-20	59,484	60,201
Replacement parts annuity	20	29,778	29,416
Product approvals and technical manuals	20	18,331	18,529
Goodwill	30	78,913	77,256
Debt issue costs	10	13,431	12,592
Trademarks and patents	20	10,820	10,470
Other		14,271	11,761
		235,226	230,423
Less accumulated amortization		(45,344)	(33,002)
		$189,882	$197,421

Technology

REEBOK INTERNATIONAL LTD. (DEC)

Amounts in Thousands	1997	1996
Total current assets	$1,464,820	$1,463,088
Property and equipment, net	156,959	185,292
Non-Current Assets:		
Intangibles, net of amortization	65,784	69,700
Deferred income taxes	19,371	7,850
Other	49,163	60,254
	134,318	137,804
Total Assets	$1,756,097	$1,786,184

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Dollar Amounts in Thousands

1 (in part): Summary of Significant Accounting Policies

Intangibles
Excess purchase price over the fair value of assets acquired is amortized using the straight line method over periods ranging from 5 to 40 years. Other intangibles are amortized using the straight line method over periods ranging from 3 to 40 years.

5. Intangibles

Intangibles consist of the following:

December 31	1997	1996
Excess of purchase price over fair value of assets acquired (net of accumulated amortization of $8,098 in 1997 and $6,326 in 1996)	$25,481	$27,696
Other intangible assets:		
Purchased technology	52,827	52,827
Company tradename and trademarks	47,254	49,092
Other	13,699	13,693
	113,780	115,612
Less accumulated amortization	73,477	73,608
	40,303	42,004
	$65,784	$69,700

Customer Lists

EQUIFAX (DEC)

(In thousands)	1997	1996
Total current assets	$400,932	$345,108
Property and Equipment:		
Land, buildings and improvements	24,870	18,739
Data processing equipment and furniture	194,553	191,302
	219,423	210,041
Less accumulated depreciation	124,689	123,177
	94,734	86,864
Goodwill	365,427	313,760
Purchased Data Files	103,282	84,025
Other Assets	212,729	181,347
Net Assets of Discontinued Operations	—	196,414
	$1,177,104	$1,207,518

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting And Reporting Policies.

Purchased Data Files – Purchased data files are amortized on a straight-line basis primarily over 15 years. Amortization expense was $11,506,000 in 1997, $9,961,000 in 1996, and $11,029,000 in 1995. As of December 31, 1997 and 1996, accumulated amortization was $77,587,000 and $72,546,000, respectively.

MERCK & CO., INC. (DEC)

($ in millions)	1997	1996
Total current assets	$ 8,213.0	$ 7,726.6
Investments	2,533.4	2,499.4
Property, Plant and Equipment (at cost)		
Land	216.4	206.9
Buildings	3,257.8	2,949.8
Machinery, equipment and office furnishings	5,388.6	4,765.0
Construction in progress	1,169.8	804.7
	10,032.6	8,726.4
Less allowance for depreciation	3,423.2	2,799.7
	6,609.4	5,926.7
Goodwill and Other Intangibles (net of accumulated amortization of $815.8 million in 1997 and $606.5 million in 1996)	6,780.5	6,736.6
Other Assets	1,675.6	1,403.8
	$25,811.9	$24,293.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
$ in millions

2 (in part): Summary of Accounting Policies

Goodwill and Other Intangibles – Goodwill of $3.6 billion in 1997 and $3.8 billion in 1996 (net of accumulated amortization) represents the excess of acquisition costs over the fair value of net assets of businesses purchased and is amortized on a straight-line basis over periods up to 40 years. Other acquired intangibles principally include customer relationships of $2.8 billion in 1997 and $2.9 billion in 1996 (net of accumulated amortization) that arose in connection with the acquisition of Medco Containment Services, Inc. (renamed Merck-Medco Managed Care). Other acquired intangibles are recorded at cost and are amortized on a straight-line basis over their estimated useful lives ranging from predominantly 28 to 40 years. The Company reviews goodwill and other intangibles to assess recoverability from future operations using undiscounted cash flows. Impairments are recognized in operating results to the extent that carrying value exceeds fair value.

Reorganization Value In Excess Of Amounts Allocable To Identifiable Assets

CVS CORPORATION (DEC)

In millions	1997	1996
Total current assets	$3,685.0	$3,528.9
Property and equipment, net	958.2	965.5
Goodwill, net	711.3	721.7
Deferred charges and other assets	174.5	282.8
Reorganization value in excess of amounts allocated to identifiable assets, net	107.9	194.8
Total assets	$5,636.9	$5,693.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Significant Accounting Policies

Reorganization value in excess of amounts allocable to identifiable assets—In June 1992, Revco and certain of its subsidiaries which filed petitions for relief, emerged from Chapter 11 of the United States Bankruptcy Code ("Chapter 11") pursuant to a confirmed plan of reorganization. At that time, the Company implemented the recommended accounting principles for entities emerging from Chapter 11 ("Fresh Start Reporting") set forth in the American Institute of Certified Public Accountants ("AICPA") Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code." Revco's reorganization value in excess of amounts allocable to identifiable assets ("Reorganization Goodwill") is being amortized on a straight-line basis over 20 years. This amortization is a non-deductible expense for tax purposes.

Revco has net operating loss carryforwards ("NOLs") available to offset future federal and state taxable income. Substantially all of the NOLs are attributable to the time period prior to Revco's emergence from Chapter 11. Under Fresh Start Reporting, any benefits realized from the utilization of these NOLs should reduce Reorganization Goodwill.

Following is a reconciliation of the original Reorganization Goodwill recorded by Revco upon emergence from Chapter 11 to the net amount reflected in the consolidated balance sheets at December 31:

In millions	1997	1996
Original balance recorded	$352.1	$352.1
Accumulated amortization	(98.1)	(80.6)
Cumulative NOLs utilized	(146.1)	(76.7)
	$107.9	$194.8

Production And Supply Contracts

DIMON INCORPORATED (JUN)

(in thousands)	1997	1996
Total current assets	$1,371,479	$668,775
Investments and other assets		
Equity in net assets of investee companies	9,326	8,268
Other investments	12,293	2,987
Notes receivable	12,738	4,078
Other	15,803	19,151
	50,160	34,484
Intangible assets		
Excess of cost over related net assets of businesses acquired	180,435	23,121
Production and supply contracts	26,681	33,325
Pension asset	3,348	4,130
	210,464	60,576

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

Note A (In Part): Significant Accounting Policies

Supply contracts include the cost allocated to two ten-year tobacco supply agreements with R.J. Reynolds Tobacco Company (RJR) pursuant to which the Company will supply RJR and its affiliates with specified quantities of its required tobaccos. Each contract is being amortized over the quantities shipped or the contract period, whichever is sooner. The accumulated amortization at June 30, 1997, is $22,700 ($18,900 at June 30, 1996).

Production contracts include the cost allocated to contracts associated with farmers for the future supply of their annual tobacco production. The production contracts are being amortized primarily on a straight-line basis over ten years. The accumulated amortization at June 30, 1997, is $16,155 ($13,311 at June 30, 1996).

Present Value Of Future Profits

GENERAL ELECTRIC COMPANY (DEC)

(In millions)	1997	1996
Property, plant and equipment (including equipment leased to others)-net	$32,316	$28,795
Intangible assets (note 16)	19,121	16,007
All other assets	39,820	34,835

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Intangible assets. Goodwill is amortized over its estimated period of benefit on a straight-line basis; other intangible assets are amortized on appropriate bases over their estimated lives. No amortization period exceeds 40 years. Goodwill in excess of associated expected operating cash flows is considered to be impaired and is written down to fair value, which is determined based on either discounted future cash flows or appraised values, depending on the nature of the asset.

Present value of future profits. The actuarially determined present value of anticipated net cash flows to be realized from insurance, annuity and investment contracts in force at the date of acquisition of life insurance enterprises is recorded as the present value of future profits (PVFP). PVFP is amortized over the respective policy terms in a manner similar to deferred policy acquisition costs; unamortized balances are adjusted to reflect experience and impairment, if any.

16. Intangible Assets

December 31 (in millions)	1997	1996
GE		
Goodwill	$8,046	$6,676
Other intangibles	709	691
	8,755	7,367
GECS		
Goodwill	8,090	5,847
Present value of future profits (PVFP)	1,824	2,438
Other intangibles	452	355
	10,366	8,640
	$19,121	$16,007

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. 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			
	1997	**1996**	**1995**	**1994**
Deferred income taxes	177	172	185	167
Prepaid pension costs	101	101	97	95
Software	53	47	35	41
Debt issue costs	48	48	48	47
Property held for sale	43	36	63	55
Segregated cash or securities	34	33	35	38
Cash surrender value of life insurance	29	25	22	24
Assets leased to others	20	14	16	23
Estimated insurance recoveries	13	—	—	—
Start-up costs	12	12	13	20
Assets of nonhomogeneous operations	9	15	16	25
Other identified noncurrent assets	40	45	50	50

Deferred Income Taxes

BMC INDUSTRIES, INC. (DEC)

(In thousands)	1997	1996
Current Assets		
Cash and cash equivalents	$ 2,383	$ 2,544
Trade accounts receivable, less allowances of $2,118 and $2,330	29,824	24,979
Inventories	70,111	50,451
Deferred income taxes	5,881	5,372
Other current assets	13,595	8,354
Total Current Assets	121,794	91,700
Property, Plant and Equipment, Net	182,382	123,845
Deferred Income Taxes	1,429	5,797
Other Assets, Net	13,802	11,627
Total Assets	$319,407	$232,969
Current Liabilities		
Short-term borrowings	$ 1,139	$ 1,355
Accounts payable	25,623	19,434
Accrued compensation and benefits	11,614	14,919
Income taxes payable	2,830	7,657
Other current liabilities	5,674	6,981
Total Current Liabilities	46,880	50,346
Long-Term Debt	73,426	16,634
Other Liabilities	17,718	19,421
Deferred Income Taxes	2,631	2,460

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
in thousands

9 (In Part): Income Taxes

Significant components of deferred income tax assets and liabilities were as follows at December 31:

	1997	1996
Federal and state net deferred income taxes		
Deferred tax asset		
Compensation and benefit-related accruals	$ 4,574	$ 5,555
Accruals	3,583	4,043
Depreciation	—	3,412
Other temporary differences	2,180	2,341
Total	10,337	15,351
Deferred tax liability		
Depreciation	(2,031)	—
Capitalized molds	(996)	(1,659)
Total	(3,027)	(1,659)
Net deferred tax asset before valuation allowance	7,310	13,692
Valuation allowance	—	(3,670)
Net deferred tax asset	$ 7,310	$ 10,022
Foreign net deferred income taxes		
Deferred tax liability		
Depreciation	$(3,264)	$(3,020)
Other temporary differences	(203)	(3)
Total	(3,467)	(3,023)
Deferred tax asset		
Accruals	—	936
Retirement benefits	586	560
Other temporary differences	161	214
Total	747	1,710
Net deferred tax liability	$(2,720)	$(1,313)

The federal and state net deferred tax asset included a current portion of $5,881 and $4,225 at December 31, 1997 and 1996, respectively, and a long-term portion of $1,429 and $5,797 at December 31, 1997 and 1996, respectively. The foreign net deferred tax liability included a current liability of $89 at December 31, 1997, a current asset of $1,147 at December 31, 1996 and a long-term liability of $2,631 and $2,460 at December 31, 1997 and 1996, respectively.

At December 31, 1996, net future tax deductions from the reversal of temporary differences comprised the federal and state net deferred tax asset, which had been reduce by valuation allowance. This valuation allowance reduced the deferred tax asset to a net amount which the Company believed more likely than not that it would realize, based on the Company's estimates of its future earnings and the expected timing of temporary difference reversals. During 1997, the Company concluded a valuation allowance was no longer necessary given its estimates of future earnings and the expected timing of temporary difference reversals. Accordingly, the allowance of $3,670 was reversed during 1997, eliminating the balance.

INLAND STEEL INDUSTRIES, INC. (DEC)

Dollars in Millions	1997	1996
Current assets:		
Cash and cash equivalents	$ 97.0	$ 238.0
Receivables less provision for allowances, claims and doubtful accounts of $23.5 and $22.5, respectively	523.3	464.7
Inventories	624.1	494.6
Deferred income taxes (Note 13)	30.7	30.5
Total current assets	1,275.1	1,227.8
Investments and advances	271.6	252.1
Property, plant and equipment, at cost, less accumulated depreciation	1,641.8	1,637.0
Deferred income taxes (Note 13)	231.4	287.5
Prepaid pension cost	77.4	—
Intangible pension asset	—	76.3
Excess of cost over net assets acquired	82.3	22.3
Deferred charges and other assets	66.9	38.6
Total assets	$3,646.5	$3,541.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Income taxes

The components of the deferred income tax assets and liabilities arising under FASB Statement No. 109 were as follows:

	December 31	
Dollars in Millions	1997	1996
Deferred tax assets (excluding postretirement benefits other than pensions):		
Net operating loss and tax credit carryforwards	$315	$314
Restructuring and termination accruals	28	28
Other deductible temporary differences	52	105
Less valuation allowances	(3)	(3)
	392	444
Deferred tax liabilities:		
Fixed asset basis difference	499	482
Other taxable temporary differences	82	86
	581	568
Net deferred liability (excluding postretirement benefits other than pensions)	(189)	(124)
FASB Statement No. 106 impact (postretirement benefits other than pensions)	451	442
Net deferred assets	$262	$318

For tax purposes, the Company had available, at December 31, 1997, net operating loss ("NOL") carryforwards for regular federal income tax purposes of approximately $745 million which will expire as follows: $232 million in the year 2006, $287 million in the year

2007, $132 million in the year 2008, $14 million in the year 2009, and $80 million in the year 2011. The Company also had investment tax credit and other general business credit carryforwards for tax purposes of approximately $6 million, which expire during the years 1998 through 2006. A valuation allowance has been established for those tax credits which are not expected to be realized. Additionally, in conjunction with the Alternative Minimum Tax ("AMT") rules, the Company had available AMT credit carryforwards for tax purposes of approximately $48 million, which may be used indefinitely to reduce regular federal income taxes.

The Company believes that it is more likely than not that all of the NOL carryforwards will be utilized prior to their expiration. This belief is based upon the factors discussed below.

The NOL carryforwards and existing deductible temporary differences (excluding those relating to FASB Statement No. 106) are substantially offset by existing taxable temporary differences reversing within the carryforward period. Furthermore, any such recorded tax benefits which would not be so offset are expected to be realized by continuing to achieve future profitable operations.

Subsequent to the adoption of FASB Statement No. 109, the Company adopted FASB Statement No. 106 and recognized the entire transition obligation at January 1, 1992, as a cumulative effect charge in 1992. At December 31, 1997, the deferred tax asset related to the Company's FASB Statement No. 106 obligation was $451 million. To the extent that future annual charges under FASB Statement No. 106 continue to exceed deductible amounts, this deferred tax asset will continue to grow. Thereafter, even if the Company should have a tax loss in any year in which the deductible amount would exceed the financial statement expense, the tax law provides for a 20-year carryforward period of that loss. Because of the extremely long period that is available to realize these future tax benefits, a valuation allowance for this deferred tax asset is not necessary.

The Company operates in a highly cyclical industry and consequently has had a history of generating and then fully utilizing significant amounts of NOL carryforwards. During the years 1986 through 1989, the Company utilized approximately $600 million of NOL carryforwards and for the years 1995 and 1997 in total utilized approximately $283 million of NOL carryforwards.

JOSTENS INC. (DEC)

Dollars in thousands	1997	1996
Current Assets		
Short-term investments	$ 6,068	$ 2,639
Accounts receivable, net of allowance of $7,446 and $6,884, respectively	108,697	107,314
Inventories:		
Finished products	38,122	40,174
Work-in-process	29,388	28,176
Materials and supplies	24,552	30,143
	92,062	98,493
Deferred income taxes	15,543	14,928
Other receivables, net of allowance of $8,322 and $7,344, respectively	25,495	24,893
Prepaid expenses and other current assets	4,679	9,233
Total Current Assets	252,544	257,500
Other Assets		
Intangibles, net	30,749	27,264
Note receivable, net of $35,044 discount and $13,181 deferred gain	12,925	12,925
Noncurrent deferred income taxes	7,743	4,349
Other	12,631	14,166
Total Other Assets	64,048	58,704
Property and Equipment		
Land	4,928	5,104
Buildings	35,500	36,868
Machinery and equipment	191,319	168,953
	231,747	210,925
Accumulated depreciation and amortization	(157,609)	(143,282)
Total property and equipment	74,138	67,643
Total Assets	$ 390,730	$ 383,847

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes (In Part):

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred income tax liabilities and assets as of January 3, 1998, and December 28, 1996, are as follows:

Dollars in thousands	January 3 1998	December 28 1996
Deferred Tax Liabilities		
Tax over book depreciation	$(3,763)	$(4,507)
Discount on note receivable	—	(1,920)
Other, net	(5,085)	(4,381)
Deferred Tax Liabilities	(8,848)	(10,808)
Deferred Tax Assets		
Accruals not recognized for tax purposes	12,489	14,287
Net operating loss and tax credit carryforwards of acquired companies	1,844	3,905
Foreign tax credit carryforwards	2,915	2,464
Deferred gain on sale of Jostens Learning	5,908	5,908
Other, net	11,893	8,015
	35,049	34,579
Valuation Allowance	(2,915)	(4,494)
Deferred Tax Assets	32,134	30,085
Net Deferred Tax Asset	$23,286	$19,277

At January 3, 1998, the company had net operating loss carryforwards (NOLs) from business acquisitions of $3.5 million for federal income tax purposes that expire in the years 1998 through 2002. In calendar 1997, the company reduced the valuation allowance for certain of these NOLs related to the Photography business. The company has initiated plans to consolidate two of its legal entities, which management believes will allow the company to utilize the previously reserved NOLs. The Company also has research and experimentation and foreign tax credit carryforwards of $3.5 million that expire in 1998 through 2002.

LONE STAR INDUSTRIES, INC. (DEC)

(Dollars in thousands)	1997	1996
Current Assets		
Cash, including cash equivalents of $152,775 in 1997 and $69,768 in 1996	$154,080	$71,215
Accounts and notes receivable, net	28,217	33,336
Inventories	43,103	53,869
Deferred tax asset	3,825	3,611
Other current assets	3,751	3,183
Total current assets	232,976	165,214
Joint ventures	20,326	19,505
Property, plant and equipment, net	299,255	322,982
Deferred tax asset	37,661	47,365
Other assets and deferred charges	8,759	7,085
Total assets	$598,977	$562,151

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Description of Operations and Significant Accounting Policies

Income Taxes— Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. In accordance with SOP No. 90-7, income tax benefits recognized from preconfirmation net operating loss carryforwards were used first to reduce reorganization value in excess of amounts allocable to identifiable assets and then to increase additional paid-in capital (See Notes 7 and 20).

7. Deferred Tax Asset

As of December 31, 1995, the Company had various net deferred tax assets made up primarily of the expected future tax benefit of net operating loss carryforwards, various credit carryforwards and accruals not yet deductible for tax purposes. A valuation allowance was provided in full against these net deferred tax assets upon the Company's emergence from bankruptcy when "fresh-start" reporting was adopted.

During 1997 and 1996, the Company reduced the valuation allowance related to the remaining net tax assets by $12,893,000 and $81,889,000, respectively. The reduction reflects the Company's expectation that it is more likely than not that it will generate future taxable income to utilize this amount of net deferred tax assets. The benefit from this reduction was recorded as an increase in additional paid-in capital in accordance with SOP No. 90-7.

During 1997 and 1996, approximately $25,000,000 of net deferred tax assets were utilized in each year.

20 (In Part): Income Taxes

Components of net deferred tax assets as of December 31, 1997 and 1996 are as follows (in thousands):

	1997	1996
Current tax assets related to:		
Accruals not yet deducted	$ 3,825	$ 4,524
Valuation allowance	—	(913)
Net current deferred tax assets	3,825	3,611
Non-current tax assets related to:		
Accruals not yet deducted	2,744	4,134
Accrual for retiree benefits	42,893	46,277
Loss carryforwards	40,252	62,953
Investment tax credits	2,125	4,559
Alternative minimum tax credits	16,724	6,817
Net state	3,888	6,698
	108,626	131,438
Non-current tax liabilities related to:		
Fixed assets	(53,320)	(54,194)
Other	(14,490)	(14,932)
Domestic joint ventures	(3,155)	(2,967)
	(70,965)	(72,093)
Valuation allowance	—	(11,980)
Total long-term net deferred tax assets	37,661	47,365
Total net deferred tax assets	$41,486	$50,976

In accordance with AICPA Statement of Position No. 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code", income tax benefits recognized from preconfirmation net operating loss carryforwards and other tax assets were used first to reduce the reorganization value in excess of amounts allocable to identifiable assets and then to increase additional paid-in capital.

OWENS CORNING (DEC)

In millions of dollars	1997	1996
Current Assets		
Cash and cash equivalents	$58	$45
Receivables, less allowances of $20 million in 1997 and $17 million in 1996 (Note 13)	432	314
Inventories	503	340
Insurance for asbestos litigation claims-current portion	100	100
Deferred income taxes (Note 11)	160	106
Assets held for sale	41	—
Income tax receivable	96	4
Other current assets	38	49
Total current assets	1,428	958
Other assets		
Insurance for asbestos litigation claims	357	454
Asbestos costs to be reimbursed-Fibreboard	116	—
Deferred income taxes (Note 11)	328	474
Goodwill, less accumulated amortization of $45 million in 1997 and $26 million in 1996	778	286
Investments in affiliates	52	64
Other noncurrent assets	184	155
Total other assets	1,815	1,433
Plant and Equipment, at cost		
Land	66	58
Buildings and leasehold improvements	676	614
Machinery and equipment	2,629	2,384
Construction in progress	214	285
	3,585	3,341
Less: Accumulated depreciation	(1,832)	(1,819)
Net plant and equipment	1,753	1,522
Total Assets	$4,996	$3,913

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Income Taxes

The cumulative temporary differences giving rise to the deferred tax assets and liabilities at December 31, 1997 and 1996 are as follows:

(In millions of dollars)	1997		1996	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Asbestos litigation claims	$455	$ —	$525	$ —
Other employee benefits	152	—	157	—
Pension plans	24	14	22	11
Depreciation	—	233	—	200
Operating loss carry-forwards	101	—	63	—
State and local taxes	—	43	—	38
Other	190	110	140	56
Subtotal	922	400	907	305
Valuation allowances	(34)	—	(22)	—
Total deferred taxes	$888	$400	$885	$305

Management fully expects to realize its net deferred tax assets through income from future operations.

Prepaid Pension Costs

THE EASTERN COMPANY (DEC)

	1997	1996
Total Current Assets	$26,097,879	$22,472,974
Property, Plant and Equipment		
Land	227,622	228,064
Buildings	3,936,441	3,761,466
Machinery and equipment	21,270,361	21,971,513
Accumulated depreciation	(11,997,894)	(12,074,420)
	13,436,530	13,886,623
Other Assets		
Goodwill, less accumulated amortization of $51,411 in 1997 and $43,583 in 1996	13,701	21,530
Patents, technology, licenses and trademarks, less accumulated amortization of $1,034,253 in 1997 and $682,773 in 1996	1,989,410	2,023,034
Prepaid pension cost	4,217,604	4,017,397
Other Assets	43,037	70,676
	6,263,752	6,132,637
	$45,798,161	$42,492,234

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Employee Retirement Benefits

The Company has noncontributory defined benefit pension plans covering most U.S. employees. Plan benefits are generally based upon age at retirement, years of service and, for its salaried plan, the level of compensation. The Company funds the annual contributions required by applicable regulations. The Company also sponsors an unfunded nonqualified supplemental retirement plan that provides a former officer with benefits in excess of limits imposed by federal tax law. U.S. salaried employees and most employees of the Company's Canadian subsidiary are covered by defined contribution plans.

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Based on the latest actuarial information available, the following table sets forth the funded status of the Company's defined benefit plans at September 30:

	1997	1996
Actuarial present value of benefit obligations:		
Vested benefit obligation	$24,173,695	$23,273,991
Accumulated benefit obligation	$24,329,083	$23,516,362
Projected benefit obligation	$25,004,296	$24,072,918
Plan assets at fair value	$32,528,335	$29,333,576
Excess of plan assets over projected benefit obligation	$7,524,039	$5,260,658
Unrecognized prior service cost	252,363	100,044
Unrecognized net (gain) loss	(1,668,875)	700,920
Unrecognized transition asset	(1,889,923)	(2,042,974)
Adjustment required to recognize intangible pension asset	—	(1,251)
Prepaid pension cost	$4,217,604	$4,017,397

All of the plans' assets at January 3, 1998 are invested in listed stocks and bonds and pooled investment funds, including Common Stock of the Company having a market value of $5,673,188 at that date.

Software Development Costs

BRIGGS & STRATTON CORPORATION (JUN)

(In thousands)	1997	1996
Total Current Assets	$418,416	$452,702
Prepaid Pension Cost	—	4,682
Deferred Income Tax Assets	16,975	2,883
Capitalized Software	10,532	3,685

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Capitalized Software: This new balance sheet caption represents costs of software used in the Company's business. Amortization of Capitalized Software is computed on an item-by-item basis over a period of three to ten years, depending on the estimated useful life of the software. Accumulated amortization amounted to $4,442,000 and $3,367,000 as of June 29, 1997 and June 30, 1996, respectively. Capitalized Software on prior period balance sheets was reclassified from Prepaid Expense to the current caption.

HANNAFORD BROS. CO. (DEC)

In thousands	1997	1996
Total current assets	$276,061	$261,970
Property, plant and equipment, net	777,909	723,176
Leased property under capital leases, net	58,516	59,918
Other assets:		
Goodwill, net	67,552	95,654
Deferred charges, net	28,724	26,332
Computer software costs, net (note 1H)	16,551	13,658
Miscellaneous assets	1,877	3,019
Total other assets	114,704	138,663

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary Of Significant Accounting Policies

H. Capitalized Computer Software Costs
Capitalized computer software costs consist of costs to purchase and develop software. The Company capitalizes internally developed software costs based on a project-by-project analysis of each project's significance to the Company and its estimated useful life. All capitalized software costs are amortized on a straight line method over a period of five years. Amortization expense charged to operations was $3,312,000 in 1997, $2,338,000 in 1996 and $2,448,000 in 1995.

Property Held For Sale

AT&T CORP. (DEC)

Dollars in Millions	1997	1996
Total current assets	$16,179	$17,073
Property, plant and equipment-net	22,710	19,736
Licensing costs, net of accumulated amortization of $1,076 and $913	8,329	8,071
Investments	3,857	3,875
Long-term receivables	1,794	872
Prepaid pension costs	2,156	1,933
Other assets	2,509	2,312
Net assets of discontinued operations	1,101	1,510
Total assets	$58,635	$55,382

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Millions unless otherwise noted, except per share amounts)

2 (In Part): Discontinued Operations

On September 20, 1995, AT&T announced a plan, subject to certain conditions, to separate into three independent, publicly held, global companies: communications services (AT&T), communications systems and technologies (Lucent Technologies Inc., "Lucent") and transaction-intensive computing (NCR Corporation, "NCR"). In April 1996 Lucent sold 112 million shares of common stock in an initial public offering (IPO), representing 17.6% of the Lucent common stock outstanding. Because of AT&T's plan to spin off its remaining 82.4% interest in Lucent, the sale of the Lucent stock was recorded as an equity transaction, resulting in an increase in AT&T's additional paid-in capital at the time of the IPO. In addition, in connection with the restructuring, Lucent assumed $3.7 billion of AT&T debt in 1996. On September 30, 1996, AT&T distributed to AT&T shareowners of record as of September 17,1996, the remaining Lucent common stock held by AT&T. The shares were distributed on the basis of .324084 of a share of Lucent for each AT&T share outstanding.

On October 1, 1996, AT&T sold its remaining interest in AT&T Capital for approximately $1.8 billion, resulting in a gain of $162 or $.10 per share, after taxes.

On December 31, 1996, AT&T also distributed all of the outstanding common stock of NCR to AT&T shareowners of record as of December 13, 1996. The shares were distributed on the basis of .0625 of a share of NCR for each AT&T share outstanding on the record date. As a result of the Lucent and NCR distributions, AT&T's shareowners' equity was reduced by $2.2 billion. The distributions of the Lucent and NCR common stock to AT&T shareowners were noncash transactions totaling $4.8 billion which did not affect AT&T's results of operations.

On July 1, 1997, AT&T sold its submarine systems business (SSI) to Tyco International Ltd. for approximately $850, resulting in an after-tax gain of $66, or $.04 per share.

On October 20, 1997, AT&T announced its plans to sell AT&T Universal Card Services, Inc. (UCS). On December 17, 1997, AT&T entered into an agreement with Citicorp to sell UCS for approximately $3.5 billion. In addition, the two companies signed a 10-year co-branding and joint-marketing agreement. The sale is subject to regulatory approval and is expected to be completed by the second quarter of 1998.

The consolidated financial statements of AT&T have been restated to reflect the dispositions of Lucent, NCR, AT&T Capital, SSI and other businesses as well as the pending sale of UCS as discontinued operations. Accordingly, the revenues, costs and expenses, assets and liabilities, and cash flows of these discontinued operations have been excluded from the respective captions in the Consolidated Statements of Income, Consolidated Balance Sheets and Consolidated Statements of Cash Flows, and have been reported through the dates of disposition as "Income (loss) from discontinued operations," net of applicable income taxes; as "Net assets of discontinued operations," and as "Net cash used in discontinued operations" for all periods presented.

ARDEN GROUP, INC. (DEC)

In Thousands	1997	1996
Total current assets	$42,210	$47,288
Property for resale or sublease	4,051	1,440
Property, plant and equipment, net	39,163	39,875
Other assets	2,702	2,645
Total assets	$88,126	$91,248

NOTES TO CONSOLIDATED 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.

BASSETT FURNITURE INDUSTRIES, INCORPORATED (NOV)

Dollars in thousands	1997	1996
Current Assets	$200,484	$194,719
Property and Equipment		
Buildings	50,021	74,597
Equipment	114,495	139,557
	164,516	214,154
Allowances for depreciation	(124,547)	(162,150)
	39,969	52,004
Land	3,510	4,375
	43,479	56,379
Other Assets		
Investment securities	29,922	29,625
Investment in affiliated companies	30,502	45,821
Deferred income taxes	1,866	—
Assets held for sale	3,506	—
Other	10,566	8,622
	76,362	84,068
	$320,325	$335,166

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Assets Held for Sale

Several manufacturing facilities, with their related equipment, were closed during 1997 and are being held for sale. Those facilities were written down to their estimated fair market value, and depreciation of the facilities was terminated at the time of closure.

NASHUA CORPORATION (DEC)

In thousands	1997	1996
Current assets		
Cash and cash equivalents	$ 3,736	$ 20,018
Accounts receivable	14,915	20,112
Inventories		
Materials and supplies	6,196	6,676
Work in process	3,650	2,498
Finished goods	4,791	7,494
	14,637	16,668
Other current assets	12,362	15,367
Net current assets of discontinued operations	120	—
	45,770	72,165
Plant and equipment		
Land	789	1,137
Buildings and improvements	27,371	35,754
Machinery and equipment	50,654	77,063
Construction in progress	2,206	4,623
	81,020	118,577
Accumulated depreciation	(40,605)	(58,459)
	40,415	60,118
Investment in unconsolidated affiliate	7,524	7,218
Other assets	11,859	37,188
Net non-current assets of discontinued operations	41,194	—
Total assets	$146,762	$176,689

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Business Changes (In Part):

Discontinued Operations: On March 10, 1998, the Company reached an agreement to sell the photofinishing businesses in the United States, the United Kingdom and Canada for consideration of approximately $52.5 million in cash and the assumption of certain liabilities. Management anticipates that the sale will be consummated in the first half of 1998. The Company is in discussions for the sale of its photofinishing business in Northern Ireland. The photofinishing businesses' results of operations are reported as discontinued operations for all periods presented. During the second quarter of 1996, the Company sold its Tape Products Division for approximately $28 million and, as a result, recorded an after tax gain of $8.4 million. The Tape Products Division results for 1996 and 1995, as well as the Photo Group's results for 1997, 1996 and 1995 are summarized as follows:

(In millions)	1997	1996	1995
Net sales	$143.5	$195.0	$237.6
Income (loss) before income taxes	(3.1)	(3.4)	10.0
Income taxes (benefit)	(.3)	(.8)	3.9
Income (loss) from discontinued operations	$ (2.8)	$ (2.6)	$ 6.1

The net assets of the discontinued operations in the December 31, 1997 consolidated balance sheet include:

(In thousands)	
Accounts receivable	$ 2,874
Inventories	2,846
Accounts payable	(6,028)
Accrued payroll and other expenses	(5,449)
Other, net	5,877
Net current assets of discontinued operations	$ 120
Plant and equipment, net	$13,420
Long-term liabilities	(863)
Other, net	28,637
Net non-current assets of discontinued operations	$41,194

Segregated Funds

AMPCO-PITTSBURGH CORPORATION (DEC)

	1997	1996
Net property, plant and equipment	$72,534,842	$57,328,402
Unexpended industrial revenue bond proceeds	2,218,317	9,766,938
Prepaid pension cost	13,679,592	13,989,592
Other noncurrent assets	11,709,131	7,842,345

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Borrowing Arrangements

In 1996, the Corporation issued two series of tax-exempt Industrial Revenue Bonds totaling $11,236,000; due to anticipated capital expenditures exceeding limitations prescribed for tax-exempt financings, one of the series for $7,116,000 was refinanced in 1997 with a taxable issue. The presently unexpended proceeds of the remaining tax-exempt series are presented as a noncurrent asset on the balance sheet. As required by the Trust Indenture Agreement, these funds have been invested in liquid, highly rated securities, and are carried at cost which approximates market. Principal on the tax-exempt and taxable bonds matures in 2020 and 2027, respectively. Interest on the tax-exempt bonds, including a 1987 tax-exempt issue for $1,350,000 which is due in 2002, are at floating rates which averaged 3.9% during the year. Interest on the taxable bonds from their issuance in November 1997 averaged 5.8%.

CONSOLIDATED PAPERS, INC. (DEC)

(Dollars in thousands)	1997	1996
Total current assets	$405,595	$323,897
Investments and Other Assets		
Investments in affiliates, at cost plus equity in undistributed earnings	37,188	34,784
Restricted cash related to leases	427,026	423,618
Other assets	23,877	42,553
Goodwill	148,049	59,034
	636,140	559,989

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Leases

The company sold certain assets for $253 million and $169 million in May 1996 and September 1996, respectively. The assets were leased back from the purchaser over a period of 15 years. Under the agreements, the company will maintain deposits, initially in the amount of $393 million, which together with interest earned are expected to be sufficient to fund the company's lease obligations, including the repurchase of the assets. These lease agreements contain restrictions on net worth and other matters. These transactions are being accounted for as financing arrangements and the resulting gains are amortized over a 15-year period. At December 31, 1997, the company recorded assets for the deposits from the sale proceeds of $440 million and liabilities for the lease obligations of $469 million. $12.6 million of both the deposits and lease obligations are recorded as current. The net amount of capital lease assets at December 31, 1997, is $283 million.

JONES APPAREL GROUP, INC. (DEC)

(In thousands)	1997	1996
Property, Plant And Equipment, at cost, less accumulated depreciation and amortization	$81,934	$61,696
Cash Restricted For Capital Additions	11,193	—
Intangibles, at cost less accumulated amortization	30,604	26,288
Other Assets	16,265	10,295

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 (In Part): Property, Plant and Equipment

At December 31, 1997, the Company had commitments to construct additional warehouse facilities. These facilities, which will be completed during 1998, will cost an estimated $28,000,000 in the aggregate. As of December 31, 1997, a total of $9,937,000 had been expended on these projects and the Company had $11,193,000 in cash on hand restricted for use in their completion.

Cash Value of Life Insurance

ROWE FURNITURE CORPORATION (NOV)

(In thousands)	1997	1996
Net property and equipment	$14,853	$14,390
Cash value of life insurance (Note 3)	3,638	3,518
Investment property (net of accumulated depreciation of $1,902 in 1997 and $1,895 in 1996)	8,209	8,402
Miscellaneous	223	188
	12,070	12,108

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Deferred Compensation Plans

The Company also 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 were $107,000 in 1997, $174,000 in 1996 and $150,000 in 1995.

Assets Of Nonhomogeneous Operations

PACCAR INC. (DEC)

(Millions of dollars)	1997	1996
Total Manufacturing and Parts Assets	$2,605.5	$2,477.1
Financial Services:		
Cash and cash equivalents	19.3	19.9
Finance and other receivables, net of allowance for losses (1997-$57.5 and 1996-$54.0)	3,131.0	2,972.4
Less unearned interest	(237.1)	(235.5)
	2,893.9	2,736.9
Equipment on operating leases, net	55.8	44.9
Other assets	24.9	20.0
Total Financial Services Assets	2,993.9	2,821.7
	$5,599.4	$5,298.8

Timberlands

JEFFERSON SMURFIT CORPORATION (DEC)

In millions	1997	1996
Net property, plant and equipment	$1,523	$1,466
Timberland, less timber depletion	265	254
Goodwill, less accumulated amortization of $58 in 1997 and $50 in 1996	237	246
Other assets	144	163

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Significant Accounting Policies

Timberland: The portion of the costs of timberland 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 timberland are capitalized.

Debt Issue Costs

THE FAIRCHILD CORPORATION (JUN)

In Thousands	1997	1996
Property, Plant and Equipment, Net	$128,712	$87,956
Net Assets held for sale	26,147	45,405
Cost in excess of net assets acquired (Goodwill) less accumulated amortization of $36,672 and $31,912	154,808	140,201
Investments and advances, affiliated companies	55,678	53,471
Deferred Loan Costs	9,252	7,825
Prepaid Pension Assets	59,742	57,660
Long-Term Investments	4,120	585
Notes Receivable and Other Assets	39,277	7,192

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
In Thousands

Summary Of Significant Accounting Policies (In Part):

Deferred Loan Costs: Deferred loan costs associated with various debt issues are being amortized over the terms of the related debt, based on the amount of outstanding debt, using the effective interest method. Amortization expense for these loan costs for 1997,1996 and 1995 was $2,847, $3,827, and $3,794, respectively.

Deferred Turnaround Costs

TOSCO CORPORATION (DEC)

Thousands of Dollars	1997	1996
Property, plant, and equipment, net	$3,170,955	$1,681,877
Deferred turnarounds, net	123,330	63,160
Intangible assets (primarily tradenames), less accumulated amortization of $34,546 (1997) and $12,696 (1996)	699,559	621,226
Other deferred charges and assets	168,746	146,067

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Summary of Significant Accounting Policies

Deferred Turnarounds
Refinery processing units are periodically shut down for major scheduled maintenance (turnarounds). Turnaround costs are deferred and amortized on a straight-line basis over the expected period of benefit, which generally ranges from 24 to 48 months.

CURRENT LIABILITIES

Paragraphs 7 and 8 of Chapter 3A of *Accounting Research Bulletin No. 43,* as amended by *Statement of Financial Accounting Standards No. 6* and *Statement of Financial Accounting Standards No. 78,* discuss the nature of current liabilities. Examples of the various types of current liabilities follow.

SHORT-TERM DEBT

Table 2-20 lists the captions used by the survey companies to describe short-term notes payable, loans payable and commercial paper. Such short-term obligations are financial instruments as defined in *Statement of Financial Accounting Standards No. 105.*

Statement of Financial Accounting Standards No. 107 requires that the fair value of short-term notes payable, loans payable, and commercial paper be disclosed if it is practicable to estimate fair value. 244 survey companies made 260 fair value disclosures for short-term debt. 197 disclosures stated that fair value approximated carrying amount; 31 disclosures stated that market quotes were used to estimate fair value; and 32 disclosures stated that discounted cash flows were used to estimate fair value.

Examples of short-term debt presentations and disclosures follow.

TABLE 2-20: SHORT-TERM DEBT

	1997	1996	1995	1994
Description				
Notes or loans				
Payee indicated	68	65	66	69
Payee not indicated	149	152	146	150
Short-term debt or borrowings	115	115	114	119
Commercial paper	60	69	60	57
Other	23	26	32	32
Total Presentations	**415**	**427**	**418**	**427**
Number of Companies				
Showing short-term debt	376	371	377	378
Not showing short-term debt	224	229	223	222
Total Companies	**600**	**600**	**600**	**600**

THE BLACK & DECKER CORPORATION (DEC)

(Millions of dollars)	1997	1996
Short-term borrowings	$ 178.3	$ 235.9
Current maturities of long-term debt	60.5	54.1
Trade accounts payable	372.0	380.7
Other accrued liabilities	761.8	835.9
Total Current Liabilities	1,372.6	1,506.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Short-Term Borrowings

Short-term borrowings in the amounts of $113.5 million and $120.9 million at December 31, 1997 and 1996, respectively, primarily consisted of borrowings by subsidiaries located outside of the United States under the terms of uncommitted lines of credit or other short-term borrowing arrangements. Short-term borrowings also included $64.8 million and $115.0 million of borrowings under the Corporation's unsecured revolving credit facility, as more fully described in Note 8, at December 31, 1997 and 1996, respectively. The weighted-average interest rate on short-term borrowings outstanding at December 31, 1997, was 5.5%.

Under the terms of uncommitted lines of credit at December 31, 1997, certain subsidiaries outside of the United States may borrow up to an additional $447.4 million on such terms as may be mutually agreed. These arrangements do not have termination dates and are reviewed periodically. No material compensating balances are required or maintained.

Note 10. (In Part): Fair Value of Financial Instruments

The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Significant differences can arise between the fair value and carrying amount of financial instruments that are recognized at historical cost amounts.

The following methods and assumptions were used by the Corporation in estimating fair value disclosures for financial instruments:

- Cash and cash equivalents, trade receivables, certain other current assets, short-term borrowings, and current maturities of long-term debt: The amounts reported in the Consolidated Balance Sheet approximate fair value.

BOSTON SCIENTIFIC CORPORATION (DEC)

(In thousands)	1997	1996
Current liabilities:		
Commercial paper	$423,250	$212,500
Bank obligations	23,958	28,056
Accounts payable	98,878	66,877
Accrued expenses	161,236	96,907
Accrual for merger-related charges	68,358	48,144
Income taxes payable	26,039	27,403
Other current liabilities	6,292	1,929
Total Current Liabilities	808,011	481,816

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note E. Credit Arrangements

The Company's borrowings at December 31 consisted of:

(In thousands)	1997	1996
Commercial paper	$423,250	$212,500
Bank obligations—short-term	23,958	28,056
Long-term debt	46,325	

At December 31, 1997, the Company had a $500 million revolving line of credit with a syndicate of U.S. and international banks (the Credit Agreement). Under the Credit Agreement, the Company has the option to borrow amounts at various interest rates, payable quarterly in arrears. The terms of the Credit Agreement extend to 2002. Use of the borrowings is unrestricted and the borrowings are unsecured. The Credit Agreement requires the Company to maintain a specific ratio of consolidated funded debt (as defined) to consolidated tangible net worth (as defined) plus consolidated funded debt. At December 31, 1997, the Company had no outstanding borrowings under the Credit Agreement.

The Company maintains a commercial paper program that is supported by the Company's Credit Agreement. Outstanding commercial paper reduces available borrowings under the Credit Agreement. At December 31, 1997, the Company had approximately $423 million in commercial paper outstanding with interest rates ranging from 5.84% to 7.35%, compared to $213 million outstanding with interest rates ranging from 5.55% to 6.03% at December 31, 1996.

In October 1997, the Company filed a Public Debt Registration Statement with the U.S. Securities and Exchange Commission. During the first quarter of 1998, the Company plans to issue up to $500 million in debt securities under this Registration Statement. A significant portion of the proceeds from the public offering will be used to repay the company's borrowings under its commercial paper program.

The Company has uncommitted credit facilities with several Japanese banks that provide for borrowings and promissory notes discounting of up to 10.5 billion yen, or approximately $81 million. At December 31, 1997 and 1996, borrowings outstanding under these credit facilities were 2.7 billion yen (approximately $21 million at December 31, 1997) and were borrowed at rates of approximately 1%. During 1997, approximately $194 million of receivables were discounted through promissory notes compared to $130 million during 1996. At December 31, 1997, approximately $50 million of receivables were discounted at average interest rates of approximately 1.6%; thus, the net availability under these credit lines was $10 million.

During July 1997, the Company borrowed 6 billion yen (approximately $46 million at December 31, 1997) under a fixed interest rate (2.22%) financing arrangement with a syndicate of Japanese banks. The borrowings are payable in 2002.

Interest paid, including interest paid under capital leases and mortgage loans, but excluding interest paid on a patent litigation judgment (in 1995), amounted to $19 million in 1997, $13 million in 1996, and $6 million in 1995.

Note G (In Part): Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Commercial Paper And Bank Obligations: The carrying amounts of the Company's borrowings under its commercial paper program and its financing agreements approximate their fair value.

HONEYWELL INC. (DEC)

(Dollars in millions)	1997	1996
Current Liabilities		
Short-term debt	$ 146.4	$ 252.4
Accounts payable	572.9	584.8
Customer advances	269.7	202.0
Accrued compensation and benefit costs	301.6	287.8
Accrued income taxes	344.2	316.9
Deferred income taxes	11.3	21.9
Other accrued liabilities	672.8	401.1
Total Current Liabilities	2,318.9	2,066.9

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

Note 14 (In Part): Debt

Short-Term Debt. Honeywell had general purpose lines of credit available totaling $1,683.1 at December 31, 1997. Committed revolving credit lines with 17 banks total $1,325.0, which management believes is adequate to meet its financing requirements, including support of commercial paper and bank note borrowings. These lines have commitment fee requirements. There were no borrowings on these lines at December 31, 1997. The remaining credit facilities of $358.1 have been arranged by non-U.S. subsidiaries in accordance with customary lending practices in their respective countries of operation. Borrowings against these lines amounted to $11.3 at December 31, 1997. The weighted-average interest rate on short-term borrowings outstanding at December 31, 1997, and 1996, respectively, was as follows: commercial paper, 6.8 percent and 4.2 percent; and notes payable, 5.2 percent and 3.9 percent.

Short-term debt consists of the following:

	1997	1996
Commercial paper	$ 43.0	$ 86.5
Notes payable	38.9	67.2
Current maturities of long-term debt	64.5	98.7
	$146.4	$252.4

15 (In Part): Fair Value of Financial Instruments

All financial instruments are held for purposes other than trading. The estimated fair values of all nonderivative financial instruments approximate their carrying amounts in the statement of financial position with the exception of long-term debt. The estimated fair value of long-term debt is based on quoted market prices for the same or similar issues or on current rates available to Honeywell for debt of the same remaining maturities. The carrying amount of long-term debt was $1,241.3 and $814.0 at December 31, 1997, and 1996, respectively; and the fair value was $1,291.3 and $833.4 at December 31, 1997, and 1996, respectively.

TENNECO INC. (DEC)

(Dollars in millions)	1997	1996
Current liabilities:		
Short-term debt (including current maturities on long-term debt)	$ 278	$ 236
Trade payables	687	651
Taxes accrued	96	91
Accrued liabilities	344	308
Other	256	335
	1,661	1,621

NOTES TO FINANCIAL STATEMENTS

4 (In Part): Long-Term Debt, Short-Term Debt, and Financing Arrangements

Short-Term Debt

Tenneco uses commercial paper, lines of credit, and overnight borrowings to finance its short-term capital requirements. Information regarding short-term debt as of and for the years ended December 31, 1997 and 1996, are as follows:

	1997		1996	
(Dollars in millions)	Commercial Paper	Credit Agreements*	Commercial Paper	Credit Agreements*
Outstanding borrowings at end of year	$203	$ 69	$219	$ 9
Weighted average interest rate on outstanding borrowings at end of year	5.9%	6.7%	5.6%	6.5%
Approximate maximum month-end outstanding borrowings during year	$613	$123	$336	$2,580
Approximate average month-end outstanding borrowings during year	$372	$ 52	$108	$ 800
Weighted average interest rate on approximate average month-end outstanding borrowings during year	5.7%	8.4%	5.7%	6.5%

*Includes borrowings under both committed credit facilities and uncommitted lines of credit and similar arrangements.

5 (In Part): Financial Instruments

The carrying and estimated fair values of Tenneco's financial instruments by class at December 31, 1997 and 1996, were as follows:

	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(Millions) Assets (Liabilities)		
Long-term debt (including current maturities)	$(2,639)	$(2,606)	$(2,075)	$(2,069)
Instruments With Off-Balance-Sheet Risk				
Foreign currency contracts	2	2	1	1
Financial guarantees	—	(15)	—	(15)

Asset and Liability Instruments

The fair value of cash and temporary cash investments, short and long-term receivables, accounts payable, and short-term debt was considered to be the same as or was not determined to be materially different from the carrying amount. At December 31, 1997 and 1996, respectively, Tenneco's aggregate customer and long-term receivable balance was concentrated by industry segment as follows: Tenneco Automotive, 63% and 69%, respectively and Tenneco Packaging, 37% and 31%, respectively.

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*.

Fair value information disclosed by the survey companies consisted of 147 companies stating that the carrying amount of trade payables approximated fair value. Such a disclosure is not required by *Statement of Financial Accounting Standard No. 107.*

Examples of trade accounts payable presentations follow.

TABLE 2-21: TRADE ACCOUNTS PAYABLE

	1997	1996	1995	1994
Accounts payable	445	442	435	438
Trade accounts payable	110	117	125	126
Accounts payable combined with accrued liabilities or accrued expenses	27	28	31	22
Other captions	18	13	9	14
Total Companies	**600**	**600**	**600**	**600**

PHILLIPS-VAN HEUSEN CORPORATION (JAN)

(In thousands)	1998	1997
Current Liabilities:		
Notes payable	$ 7,900	$ 20,000
Accounts payable	36,233	36,355
Accrued expenses	89,202	55,754
Current portion of long-term debt		10,157
Total Current Liabilities	133,335	122,266

ZURN INDUSTRIES, INC. (MAR)

(Thousands)	1997	1996
Current Liabilities		
Trade accounts payable	$ 49,243	$ 48,441
Litigation	57,471	
Debt obligations	34,548	838
Insurance	33,180	14,200
Salaries, wages, and payroll items	18,974	10,404
Income taxes	17,402	1,796
Advance billings on contracts in progress	4,151	13,787
Other liabilities	24,855	23,692
Total Current Liabilities	239,824	113,158

EMPLOYEE-RELATED LIABILITIES

Table 2-22 shows the nature of employee related liabilities disclosed by the survey companies as current liabilities. Example of employee related liability presentations and disclosures follow.

TABLE 2-22: EMPLOYEE RELATED LIABILITIES

	1997	1996	1995	1994
Description				
Salaries, wages, payrolls, commissions	295	295	292	290
Compensation	199	194	191	190
Pension or profit-sharing contributions	65	71	95	83
Benefits	64	63	64	72
Compensated absences	20	19	19	21
Other	41	35	33	31
Total Presentations	**684**	**677**	**694**	**687**
Number of Companies				
Disclosing employee related liabilities	506	500	509	510
Not disclosing	94	100	91	90
Total Companies	**600**	**600**	**600**	**600**

DETROIT DIESEL CORPORATION (DEC)

(In millions)	1997	1996
Current Liabilities:		
Notes payable	$ 44.7	$ 16.6
Accounts payable	297.0	279.9
Accrued expenses	175.0	179.8
Current portion of long-term debt and capital leases	6.9	9.8
Total Current Liabilities	523.6	486.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Accrued Expenses

At December 31, 1997 and 1996, accrued expenses consist of the following:

(In millions)	1997	1996
Policy and warranty	$ 61.5	$ 72.3
Accrued payroll and related taxes	32.5	31.8
Other	81.0	75.7
Total	$175.0	$179.8

LONE STAR INDUSTRIES, INC. (DEC)

(Dollars in thousands)	1997	1996
Current Liabilities		
Accounts payable	$13,400	$12,562
Accrued liabilities	46,417	44,238
Senior notes payable	—	28,000
Other current liabilities	3,565	3,436
Total Current Liabilities	63,382	88,236

NOTES TO FINANCIAL STATEMENTS

8. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	Dec. 31, 1997	Dec. 31, 1996
Postretirement benefits other than pensions	$ 7,563	$ 7,563
Insurance	3,726	3,862
Taxes other than income taxes	3,480	1,899
Payroll and vacation pay	2,863	3,123
Interest	1,005	3,270
Pensions	—	2,317
Other	27,780	22,204
	$46,417	$44,238

MERRIMAC INDUSTRIES, INC. (DEC)

	1997	1996
Current liabilities:		
Accounts payable	$1,141,779	$ 750,763
Accrued liabilities	1,193,669	952,880
Income taxes payable	45,825	
Total Current liabilities	2,381,273	1,703,643

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Accrued Liabilities

Accrued liabilities consist of the following:

	1997	1996
Commissions	$ 152,871	$140,656
Vacation	82,969	185,853
Savings Plan contribution	162,204	144,525
Employee compensation	278,382	164,820
Warranty	150,000	150,000
Deferred compensation	112,000	30,000
Other	255,243	137,026
	$1,193,669	$952,880

INCOME TAX LIABILITY

Table 2-23 summarizes the descriptive balance sheet captions used to describe the current liability for income taxes.

TABLE 2-23: CURRENT INCOME TAX LIABILITY

	1997	**1996**	**1995**	**1994**
Income taxes	315	316	323	337
Taxes—type not specified	48	44	40	38
Federal and state income taxes	18	15	14	18
Federal income taxes	6	5	9	10
Federal, state, and foreign income taxes	10	9	8	9
Federal and foreign income taxes	7	8	7	9
U.S. and foreign income taxes	7	9	9	7
Other captions	17	19	15	16
No current income tax liability	172	175	175	156
Total Companies	**600**	**600**	**600**	**600**

ADVO, INC. (SEP)

(In thousands)	1997	1996
Current liabilities:		
Current portion of long-term debt	$ 10,125	$ 7,225
Accounts payable	44,644	37,868
Accrued compensation and benefits	29,245	22,892
Customer advances	3,409	5,960
Federal and state income taxes payable	7,080	5,877
Accrued other expenses	21,080	20,257
Total Current Liabilities	115,583	100,079

SONOCO PRODUCTS COMPANY (DEC)

(Dollars in thousands)	1997	1996
Current Liabilities		
Payable to suppliers	$161,078	$205,741
Accrued expenses and other	106,839	111,804
Accrued wages and other compensation	22,689	29,428
Notes payable and current portion of long-term debt	99,690	102,062
Taxes on income	43,848	26,081
	434,144	475,116

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. 109 survey companies made 141 fair value disclosures for the current amount of long-term debt. 28 disclosures stated that fair value approximated carrying amount; 39 disclosures stated that market quotes were used to estimate fair value; and 74 disclosures stated that discounted cash flows were used to estimate fair value.

TABLE 2-24: CURRENT AMOUNT OF LONG-TERM DEBT

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Current portion of long-term debt	220	220	224	221
Current maturities of long-term debt	180	179	195	185
Long-term debt due or payable within one year	45	38	43	45
Current installment of long-term debt	24	22	25	27
Current amount of long-term leases	36	43	47	49
Other captions	14	15	9	15

DEAN FOODS COMPANY (MAY)

(In thousands)	1997	1996
Current Liabilities		
Notes payable to banks	$ 3,000	$ 92,000
Current installments of long-term obligations	13,369	11,855
Accounts payable and accrued expenses	313,374	287,305
Dividends payable	7,738	7,297
Federal and state income taxes	16,620	—
Total Current Liabilities	354,101	398,457

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC. (FEB)

(Dollars in thousands)	1997	1996
Current Liabilities:		
Current portion of long-term debt	$ 18,290	$ 13,040
Current portion of obligations under capital leases	12,708	13,125
Accounts payable	468,808	452,257
Book overdrafts	182,305	157,022
Accrued salaries, wages and benefits	146,737	127,133
Accrued taxes	52,269	59,407
Other accruals	134,888	161,984
Total Current Liabilities	1,016,005	983,968

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 costs related to discontinued operations.

TABLE 2-25: OTHER CURRENT LIABILITIES

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Taxes other than federal income taxes	116	123	122	139
Interest	110	119	124	124
Estimated costs related to discontinued operations	87	92	108	130
Dividends payable	69	71	75	78
Deferred revenue	69	67	58	54
Warranties	66	67	54	54
Insurance	63	71	78	78
Advertising	56	51	45	39
Customer advances, deposits	50	56	54	55
Environmental costs	49	49	51	53
Deferred taxes	39	47	46	53
Due to affiliated companies	21	15	24	22
Billings on uncompleted contracts	16	23	28	31
Litigation	16	14	20	N/C
Royalties	15	15	11	N/C
Other-described	91	85	118	115

N/C—Not compiled.

Taxes Other Than Federal Income Taxes

BINKS SAMES CORPORATION (NOV)

(In thousands)	1997	1996
Current liabilities:		
Bank overdrafts and notes payable to banks	$ 8,144	$ 8,708
Current maturities of long-term debt	484	676
Accounts payable	58,249	52,987
Accrued expenses:		
Payrolls, commissions, etc.	8,073	8,989
Taxes, other than income taxes	942	1,919
Other	14,280	17,371
Income taxes payable	—	2,794
Total Current Liabilities	90,172	93,444

BOWATER INCORPORATED (DEC)

(In thousands)	1997	1996
Current liabilities:		
Current installments of long-term debt	$ 1,800	$ 1,604
Accounts payable and accrued liabilities	168,327	216,328
Income taxes payable	15,861	6,057
Dividends payable	8,663	29,892
Total Current Liabilities	194,651	253,881

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Accounts Payable and Accrued Liabilities

(In thousands)	1997	1996
Trade accounts payable	$ 78,574	$ 95,300
Accrued interest	16,650	16,139
Property and franchise taxes payable	12,378	12,650
Payroll and bonuses	29,310	50,402
Employee benefits	23,818	29,482
Other	7,597	12,355
	$168,327	$216,328

MANPOWER INC. (DEC)

(In thousands)	1997	1996
Current Liabilities:		
Payable to banks	$ 69,848	$ 24,375
Accounts payable	271,064	235,466
Employee compensation payable	68,416	60,222
Accrued liabilities	108,615	87,444
Accrued payroll taxes and insurance	248,605	195,194
Value added taxes payable	223,538	174,624
Income taxes payable	13,303	30,945
Current maturities of long-term debt	1,288	2,986
Total Current Liabilities	1,004,677	811,256

Costs/Liabilities Related To Discontinued Operations

HASBRO, INC. (DEC)

(Thousands of dollars)	1997	1996
Current liabilities		
Short-term borrowings	$ 122,024	$120,736
Trade payables	179,156	174,337
Accrued liabilities	596,033	399,896
Income taxes	106,333	135,849
Total Current Liabilities	1,003,546	830,818

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of Dollars)

6. Accrued Liabilities

	1997	1996
Royalties	$ 95,418	81,053
Advertising	112,299	83,694
Payroll and management incentives	44,014	32,879
1997 restructuring accruals (note 13)	120,099	—
Other	224,203	202,270
	$596,033	399,896

13 (In Part): Restructuring Charge and Discontinued Development Project

On December 9, 1997, Hasbro announced a global integration and profit enhancement program. This program, which will be substantially completed by the end of 1998 and which anticipates the redundancy of approximately 2,500 employees, principally in manufacturing, provides for actions in three principal areas: a continued consolidation of the Company's manufacturing operations; the streamlining of marketing and sales, while exiting from certain underperforming markets and product lines; and the further leveraging of overheads. Of the $140,000 estimated costs related to these actions, $125,000 is reported as a nonrecurring charge and $15,000 is reflected in cost of sales. Of the nonrecurring amount, approximately $54,000 related to severance and people costs, $52,000 to property, plant and equipment and leases and $19,000 to product line related costs. Approximately $20,000 of the total charge, principally product line and property, plant and equipment related assets, has been credited to the respective items on the balance sheet and the remaining $120,000 is included in accrued liabilities.

H.J. HEINZ COMPANY

(Dollars in thousands)	1997	1996
Current Liabilities:		
Short-term debt	$ 589,893	$ 994,586
Portion of long-term debt due within one year	573,549	87,583
Accounts payable	865,154	870,337
Salaries and wages	64,836	72,678
Accrued marketing	164,354	146,055
Accrued restructuring costs	210,804	—
Other accrued liabilities	315,662	368,182
Income taxes	96,163	175,701
Total Current Liabilities	2,880,415	2,715,122

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Restructuring Charges

Charges related to the company's reorganization and restructuring program ("Project Millennia") were recorded in Fiscal 1997 and were recognized to reflect the closure or divestiture of approximately 25 facilities throughout the world, the net reduction of the global workforce by approximately 2,500 (excluding the businesses or facilities to be sold), and other initiatives involving the exit of certain underperforming businesses and product lines.

Restructuring and related costs recorded in Fiscal 1997 totaled $647.2 million pretax or $1.09 per share. Pretax charges of $477.8 million are classified as cost of products sold and $169.4 million as selling, general and administrative expenses.

The major components of the Fiscal 1997 charges and the remaining accrual balance as of April 30, 1997 were as follows:

(Dollars in millions)	Charge	Amounts Utilized	Accrued Restructuring Costs
Employee termination and severance costs	$164.5	$(32.1) *	$132.4
Exit costs	158.4	(80.0)	78.4
Non-cash asset write-downs	324.3	(324.3)	—
	$647.2	$(436.4)	$210.8

** Includes $18.9 million in non-cash charges resulting from termination benefit programs.*

VIACOM INC. (DEC)

(In millions)	1997	1996
Current Liabilities:		
Accounts payable	$ 699.7	$ 808.8
Accrued expenses	1,564.2	1,459.9
Deferred income	254.6	364.6
Accrued compensation	441.7	425.7
Participants' share, residuals and royalties payable	951.3	856.6
Program rights	197.7	290.5
Income tax payable	556.3	—
Current portion of long-term debt	376.5	62.6
Net liabilities of discontinued operations	10.5	—
Total Current Liabilities	5,052.5	4,268.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular dollars in millions)

3 (In Part): Discontinued Operations

In accordance with Accounting Principles Board Opinion ("APB") 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", the Company has presented the following lines of business as discontinued operations: its interactive game businesses including Virgin, Viacom Radio Stations, Viacom Cable and Madison Square Garden Corporation.

On February 19, 1997, the Company adopted a plan to dispose of its interactive game businesses, including Viacom New Media, the operations of which were terminated in 1997. On that same date, the Board of Directors of Spelling approved a formal plan to dispose of Virgin. Spelling expects to complete the transaction in 1998. For the year ended December 31, 1997, the revenues and operating losses of the interactive game businesses were $241.3 million and $43.5 million, respectively. These losses were provided for in the estimated loss on disposal of $159.3 million, net of minority interest, which included a provision for future operating losses of approximately $44.0 million, net of minority interest, as of December 31, 1996. In the fourth quarter of 1997, an estimated loss of $32.0 million, net of minority interest, was recorded, reflecting anticipated future operating losses and cash funding requirements through completion of the disposition.

On July 2, 1997, the Company completed the sale of Viacom Radio Stations to Chancellor Media Corp. for approximately $1.1 billion in cash. As a result of the sale, the Company realized a pre-tax gain on disposition of approximately $782.3 million, or $416.4 million net of tax, in the third quarter of 1997.

On July 31, 1996, the Company completed the split-off of its Cable segment pursuant to an exchange offer and related transactions. As a result, the Company realized a gain of approximately $1.3 billion, reduced its debt and retired approximately 4.1% of the Company's outstanding common shares.

On March 10, 1995, the Company sold Madison Square Garden Corporation, which included the Madison Square Garden Arena, The Paramount theater, the New York Knickerbockers, the New York Rangers and the Madison Square Garden Network (collectively "MSG") to a joint venture of ITT Corporation and Cablevision Systems Corporation for closing proceeds of approximately $1.0 billion, representing the sale price of approximately $1.075 billion, less approximately $66 million in working capital adjustments. The Company acquired MSG during 1994 as part of Paramount with its book value recorded at fair value and therefore no gain was recorded on its sale. Proceeds from the sale of MSG and other dispositions were used to repay notes payable to banks, of which approximately $600 million represented a permanent reduction of the Company's bank commitments.

Summarized financial data of discontinued operations are as follows:

	At December 31,	
	1997	1996
Financial position [4]:		
Current assets	$ 114.9	$217.8
Net property and equipment	14.5	30.6
Other assets	153.1	526.3
Total liabilities	(293.0)	(485.3)
Net assets (liabilities) of discontinued operations	$(10.5)	$289.4

[4] Financial position data reflects Interactive at December 31, 1997 and Radio and Interactive at December 31, 1996.

Deferred Revenue

LEE ENTERPRISES, INCORPORATED (SEP)

(Dollars in thousands)	1997	1996
Current Liabilities		
Notes payable and current maturities of long-term debt	$177,561	$43,213
Accounts payable	23,429	15,369
Compensation and other accruals	27,324	20,419
Income taxes payable	4,754	4,738
Unearned income	15,480	14,038
Total Current Liabilities	$248,908	$97,777

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Nature of Business and Significant Accounting Policies

Unearned Income:
Unearned income arises as a normal part of business from advance subscription payments for newspapers. Revenue is recognized in the period in which it is earned.

THE NEW YORK TIMES COMPANY (DEC)

(Dollars in thousands)	1997	1996
Current Liabilities		
Commercial paper outstanding	$ —	$ 45,500
Accounts payable	189,580	171,853
Accrued payroll and other related liabilities	103,511	84,458
Accrued expenses	217,742	247,657
Unexpired subscriptions	82,621	90,059
Current portion of long-term debt and capital lease obligations	104,033	3,359
Total Current Liabilities	697,487	642,886

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Subscription Revenues and Costs. Proceeds from subscriptions and related costs, principally agency commissions, are deferred at the time of sale and are included in the Consolidated Statements of Income on a pro rata basis over the terms of the subscriptions.

SNAP-ON INCORPORATED (DEC)

(Amounts in thousands)	1997	1996
Current liabilities		
Accounts payable	$ 91,553	$ 89,310
Notes payable and current maturities of long-term debt	23,951	23,274
Accrued compensation	43,712	36,467
Dealer deposits	43,848	51,036
Accrued income taxes	14,831	11,366
Deferred subscription revenue	29,265	—
Other accrued liabilities	105,370	129,918
Total Current Liabilities	352,530	341,371

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary of Accounting Policies

I. Revenue recognition: The Corporation recognizes revenues at the time that products are shipped or the time that services are performed. Franchise fee revenue is recognized as the fees are earned. Revenue from franchise fees was not material in any year. Subscription revenue is recognized over the life of the subscription. The total amount of subscription revenue was not material in any year.

Insurance

THE FAIRCHILD CORPORATION (JUN)

(In thousands)	1997	1996
Current Liabilities:		
Bank notes payable and current maturities of long-term debt	$ 47,422	$ 84,892
Accounts payable	84,953	65,478
Accrued salaries, wages and commissions	19,166	17,367
Accrued insurance	15,397	16,340
Accrued interest	16,011	10,748
Other	54,625	37,302
Income taxes	5,881	24,635
Total Current Liabilities	243,465	256,762

Product Warranties

BALDOR ELECTRIC COMPANY (DEC)

(In thousands)	1997	1996
Current Liabilities:		
Accounts payable	$19,935	$20,314
Employee compensation	5,684	5,932
Profit sharing	8,858	7,645
Anticipated warranty costs	5,200	4,500
Accrued insurance obligations	13,836	14,286
Other accrued expenses	22,003	16,626
Income taxes	1,586	766
Current maturities of long-term obligations	1,070	1,113
Total Current Liabilities	78,172	71,182

PENTAIR, INC. (DEC)

(In thousands)	1997	1996
Current Liabilities		
Accounts and notes payable	$152,592	$98,146
Compensation and other benefits accruals	70,758	61,713
Income taxes	15,158	24,919
Accrued product claims and warranties	35,114	25,167
Accrued rebates	21,658	15,172
Accrued expenses and other liabilities	62,194	43,593
Current maturities of long-term debt	34,703	32,928
Total Current Liabilities	392,177	301,638

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Advertising

INTEL CORPORATION (DEC)

(In millions)	1997	1996
Current liabilities:		
Short-term debt	$212	$389
Long-term debt redeemable within one year	110	—
Accounts payable	1,407	969
Accrued compensation and benefits	1,268	1,128
Deferred income on shipments to distributors	516	474
Accrued advertising	500	410
Other accrued liabilities	842	507
Income taxes payable	1,165	986
Total Current Liabilities	6,020	4,863

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part):

Advertising. Cooperative advertising obligations are accrued and the costs expensed at the same time the related revenue is recognized. All other advertising costs are expensed as incurred. The Company does not incur any direct-response advertising costs. Advertising expense was $1,203 million, $974 million and $654 million in 1997, 1996 and 1995, respectively.

Advances/Deposits

DIMON INCORPORATED (JUN)

(In thousands)	1997	1996
Current Liabilities		
Notes payable to banks and others	$350,263	$ —
Accounts payable:		
Trade	108,283	65,970
Officers and employees	13,441	24,074
Other	22,203	14,462
Advances from customers	69,787	74,153
Accrued expenses	66,141	51,797
Income taxes	25,146	5,359
Long-term debt current	16,222	10,618
Total Current Liabilities	671,486	246,433

HARRIS CORPORATION (JUN)

(In millions)	1997	1996
Current Liabilities		
Short-term debt	$ 288.5	$ 181.3
Accounts payable	196.8	209.0
Compensation and benefits	216.9	209.3
Other accrued items	191.7	190.8
Advance payments by customers	99.3	95.2
Unearned leasing and service income	191.6	192.6
Income taxes	96.0	102.7
Current portion of long-term debt	7.8	2.2
Total Current Liabilities	1,288.6	1,183.1

TERRA INDUSTRIES INC. (DEC)

(In thousands)	1997	1996
Debt due within one year	$ 9,538	$ 118,937
Accounts payable	203,554	198,273
Accrued and other liabilities	223,163	207,927
Total Current Liabilities	436,255	525,137

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Accrued and Other Liabilities

Accrued and other liabilities consisted of the following at

December 31: (In thousands)	1997	1996
Customer deposits	$ 99,582	$102,347
Payroll and benefit costs	35,684	26,382
Income taxes - federal	14,487	—
Income taxes - foreign	1,741	—
Income taxes - state	4,286	5,096
Other	67,383	74,102
Total	$223,163	$207,927

Environmental Costs

MALLINCKRODT, INC. (JUN)

(In millions)	1997	1996
Current Liabilities:		
Short-term debt	$ 11.7	$109.4
Accounts payable	169.3	147.0
Accrued liabilities	396.1	315.9
Income taxes payable	76.4	38.5
Net current liabilities of discontinued operations		282.4
Deferred income taxes	.2	.2
Total Current Liabilities	653.7	893.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

Note 10. Accrued Liabilities

At June 30,	1997	1996
Compensation and benefits	$ 98.8	$ 57.3
Environmental liabilities	73.5	56.0
Other	223.8	202.6
	$396.1	$315.9

Note 20. Contingencies

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. In addition, in connection with laws and regulations pertaining to the protection of the environment, the Company is a party to several environmental remediation investigations and cleanups and, along with other companies, has been named a "potentially responsible party" for certain waste disposal sites. Each of these matters is subject to various uncertainties, and it is possible that some of these matters will be decided unfavorably against the Company. The Company had accruals, included in current accrued liabilities and other noncurrent liabilities, of $115.7 million and $97.3 million at June 30, 1997 and June 30, 1996, respectively, for costs associated with the study and remediation of Superfund sites and the Company's current and former operating sites for matters that are in its view probable and reasonably estimable. After reviewing information currently available, management believes any amounts paid in excess of the accrued liabilities will not have a material effect on its financial position or results of operations.

Litigation

ALLIANT TECHSYSTEMS INC. (MAR)

(Amounts in thousands)	1997	1996
Current Liabilities:		
Current portion of long-term debt	$ 29,024	$ 45,000
Notes payable	2,302	2,756
Accounts payable	85,451	77,453
Contract advances and allowances	64,500	40,636
Accrued compensation	28,392	28,672
Accrued income taxes	9,156	9,310
Restructuring liability	5,876	26,782
Other accrued liabilities	106,496	82,582
Total Current Liabilities	331,197	313,191

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

6 (In Part): Other Accrued Liabilities

The major categories of other current and long-term accrued liabilities are as follows:

	Years Ended	
	Mar. 31, 1997	Mar. 31, 1996
Employee benefits and insurance	$ 46,950	$ 38,201
Legal accruals	25,041	27,657
Other accruals	34,505	16,724
Other accrued liabilities—current	$106,496	$ 82,582
Litigation settlement—long-term	$ 4,500	$ 8,500
Environmental remediation liability	19,169	7,289
Deferred tax liability	18,462	9,496
Other long-term	61	3,075
Other long-term liabilities	$ 42,192	$28,360

17. Litigation Settlement

The Company had been a defendant in a "qui tam" lawsuit by claimants, including present and former employees of Accudyne Corporation, alleging violations of the False Claims Act. The alleged violations occurred prior to the acquisition of Accudyne by the Company in October 1993.

To avoid the expense and disruption of protracted litigation, on June 23, 1995, the Company and claimants reached agreement to settle the lawsuit. Terms of the agreement include payment by the Company of $12,000, consisting of payments of $500 and $3,000 in 1995 and 1996, respectively, and payments to be made of $4,000 in April 1997 and $4,500 in June 1998, plus interest at the three-year Treasury Bill rate. Accordingly, the Company recorded an unusual charge of $15,000 as of the fourth quarter of fiscal 1995, which includes legal costs of approximately $3,000 which were agreed to be paid for by the Company.

Royalties

ATMEL CORPORATION (DEC)

(In thousands)	1997	1996
Current Liabilities		
Current portion of long-term debt	$ 67,522	$ 71,615
Trade accounts payable	197,070	137,535
Accrued liabilities and other	93,820	99,317
Deferred income on shipments to distributors	25,256	27,935
Total Current Liabilities	383,668	336,402

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

Note 6. Accrued Liabilities and Other

Accrued liabilities and other comprise the following:

December 31,	1997	1996
Accrued returns, royalties and licenses	$35,707	$49,170
Accrued salaries, benefits and other	21,549	23,499
Federal, state, local and foreign taxes	36,564	26,648
Total	$93,820	$99,317

The Company has entered into a number of technology license agreements with unrelated third parties. Generally, the agreements require a one-time or annual license fee. In addition, the Company may be required to pay a royalty on sales of certain products that are derived under these licensing arrangements. The royalty expense is accrued in the same period in which the revenues incorporating the technology are recognized.

Accrued Rent

WINN-DIXIE STORES, INC. (JUN)

(Amounts in thousands)	1997	1996
Current Liabilities:		
Accounts payable	$ 604,034	$ 599,297
Short-term borrowings	380,000	110,000
Insurance claims and self-insurance	60,219	61,760
Accrued wages and salaries	98,771	84,691
Accrued rent	76,528	62,237
Accrued expenses	137,115	148,715
Current obligations under capital leases	3,023	2,974
Income taxes	32,923	42,554
Total Current Liabilities	1,292,613	1,112,228

Gas Imbalances

NOBLE AFFILIATES, INC. (DEC)

(In thousands)	1997	1996
Current Liabilities:		
Accounts payable - trade	$163,563	$143,408
Other current liabilities	28,456	75,736
Current installments of long-term debt		50,000
Income taxes - current	25,001	10,662
Total Current Liabilities	217,020	279,806

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in tables, unless otherwise indicated, are in thousands)

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

Revenue Recognition and Gas Imbalances (In Part): The Company follows an entitlements method of accounting for its gas imbalances. Gas imbalances occur when the Company sells more or less gas than its entitled ownership percentage of total gas production. Any excess amount received above the Company's share is treated as a liability. If less than the Company's entitlement is received, the underproduction is recorded as a receivable. The Company records the noncurrent liability in Other Deferred Credits and Noncurrent Liabilities, and the current liability in Other Current Liabilities. The Company's gas imbalance liabilities were $21.6 million and $21.7 million for 1997 and 1996, respectively. The Company records the noncurrent receivable in Other Assets, and the current receivable in Other Current Assets. The Company's gas imbalance receivables were $18.5 million and $19.3 million for 1997 and 1996, respectively, and are valued at the amount which is expected to be received.

Note 8. (In Part): Additional Balance Sheet and Statement of Operations Information

Other current liabilities at December 31 include the following:

	1997	1996
Gas imbalance liabilities	$4,153	$3,583

Freight

DEP CORPORATION (JUL)

	1997	1996
Current Liabilities:		
Current portion of long-term debt	$ 1,853,000	$ 144,000
Accrued expenses	6,854,000	9,563,000
Accounts payable	8,529,000	3,211,000
Total Current Liabilities	17,236,000	12,918,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Accrued Expenses

Accrued expenses consisted of the following:

	1997	1996
Advertising and promotional expenses	$3,324,000	$3,928,000
Compensation related	952,000	1,002,000
Freight	517,000	716,000
Professional fees	124,000	1,987,000
Other	1,937,000	1,930,000
	$6,854,000	$9,563,000

Acquisition-Related Liabilities

TOSCO CORPORATION

(Thousands of dollars)	1997	1996
Current Liabilities:		
Accounts payable	$ 920,437	$ 553,122
Accrued expenses and other current liabilities	620,430	366,184
Current maturities of long-term debt	11,908	113,200
Total Current Liabilities	1,552,775	1,032,506

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Accrued Expenses and Other Current Liabilities

	December 31,	
(Thousands of dollars)	1997	1996
Accrued taxes, other than income taxes	$173,115	$106,852
Accrued compensation and related benefits	120,221	67,382
Acquisition-related liabilities	37,326	
Dividends payable	9,375	7,424
Other	280,393	184,526
	$620,430	$366,184

Contracts Payable

TRIBUNE COMPANY (DEC)

(In thousands of dollars)	1997	1996
Current Liabilities:		
Long-term debt due within one year	$ 33,348	$ 31,073
Accounts payable	138,897	119,605
Employee compensation and benefits	122,007	98,331
Contracts payable for broadcast rights	210,565	178,589
Deferred income	53,065	51,591
Income taxes	31,367	83,467
Accrued liabilities	116,971	110,445
Total Current Liabilities	706,220	673,101

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Broadcast Rights. Broadcast rights consist principally of rights to broadcast syndicated programs, sports and feature films 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 a liability when the program becomes available for broadcast. Broadcast rights that have limited showings are generally amortized using an accelerated method as programs are aired. The current portion of broadcast rights represents those rights available for broadcast that are expected to be amortized in the succeeding year.

Note 8. 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. Required payments under contractual agreements for broadcast rights recorded at December 28, 1997 are shown below.

(In thousands)	Amount
1998	$210,565
1999	139,993
2000	62,171
2001	17,072
2002	8,359
Thereafter	3,237
Total	$441,397

Note 9. Fair Value of Financial Instruments

Estimated fair values and carrying amounts of the Company's financial instruments were as follows:

	Dec. 28, 1997		Dec. 29, 1996	
(In thousands)	Fair Value	Carrying Amount	Fair Value	Carrying Amount
Cost method investments				
Practicable to estimate fair value	$ 282,081	$ 283,826	$ 340,011	$ 331,413
Not practicable	—	—	—	5,294
Debt securities	139,565	139,565	220,413	220,413
Debt	1,575,421	1,554,801	1,039,385	1,010,827
Contracts payable for broadcast rights	403,588	441,397	350,498	388,343

The following methods and assumptions were used to estimate the fair value of each category of financial instruments.

Cost Method Investments and Debt Securities. Cost method investments in public companies and debt securities were recorded at fair value in the consolidated balance sheets (see Notes 1 and 6). Cost method investments in private companies were recorded at cost, and fair value was generally estimated based on prices recently paid for shares in that company. For certain investments, it was not practicable to estimate fair value at December 29, 1996.

Debt. Fair value was determined based on quoted market prices for similar issues or on current rates available to the Company for debt of the same remaining maturities and similar terms.

Contracts Payable for Broadcast Rights. Fair value was estimated using the discounted cash flow method.

Discounts and Allowances

MICHAEL FOODS, INC. (DEC)

	1997	1996
Current Liabilities		
Current maturities of long-term debt	$ 8,509,000	$ 8,410,000
Accounts payable	46,910,000	28,412,000
Accrued liabilities		
Compensation	10,064,000	4,604,000
Insurance	4,782,000	6,471,000
Discounts and allowances	15,217,000	5,548,000
Other	17,868,000	5,809,000
Total Current Liabilities	103,350,000	59,254,000

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."

Statement of Financial Accounting Standards No. 107 requires that the fair value of long-term debt be disclosed if it is practicable to estimate fair value. The requirements of *SFAS No. 107* do not apply to leases.

501 survey companies made 695 fair value disclosures. 129 disclosures stated that fair value approximated the carrying amount of the long-term debt; 246 disclosures stated that market or broker quotes were used to estimate fair value; 305 disclosures stated that discounted cash flows were used to estimate fair value; and 15 disclosures stated the amount of fair value but not the basis for estimating fair value.

Examples of long-term debt disclosures and presentations follow. Examples of long-term lease disclosures and presentations are presented in connection with Table 2-28.

TABLE 2-26: LONG-TERM DEBT

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Unsecured				
Notes	428	422	430	425
Debentures	163	164	165	183
Commercial paper	86	86	76	73
Loans	78	78	89	71
ESOP Loans	55	55	59	73
Collateralized				
Capitalized leases	299	287	291	309
Notes or loans	81	92	84	92
Mortgages	64	73	88	88
Convertible				
Debentures	30	45	54	72
Notes	26	27	20	23

AEROQUIP-VICKERS, INC. (DEC)

(Dollars in thousands)	1997	1996
Total Current Liabilities	$440,997	$424,956
Long-term debt	256,707	257,727
Postretirement benefits other than pensions	122,272	121,793
Other liabilities	46,421	38,595

NOTES TO FINANCIAL STATEMENTS
(Dollars in thousands)

Note 7. Debt

	1997	1996
7.875% senior debentures, due June 1, 2026	$100,000	$100,000
Medium term notes—interest rates from 6.61% to 7.58%—due at various dates from 2002 to 2012	100,000	—
9.55% senior sinking fund debentures, due February 1, 2018	42,000	42,000
6% convertible subordinated debentures, due October 15, 2002	—	100,000
7.96% notes, due May 1, 1997	—	75,000
Industrial revenue bonds—interest rates from 5.8% to 7.625%—due at various dates to 2013	7,300	7,333
Other	9,264	10,203
	258,564	334,536
Less current maturities	1,857	76,809
	$256,707	$257,727

In June 1997, the Company called its 6% convertible subordinated debentures for redemption. The debentures, which were due to mature on October 15, 2002, were convertible into common shares of the Company at a conversion price of $52.50 per share. Prior to the redemption date, debentures in the amount of $3,726 were converted into 70,950 shares of common stock.

The 9.55% senior sinking fund debentures are subject to redemption prior to February 1, 2018, at the option of the Company, in whole or in part, at specified declining redemption prices plus accrued interest. In December 1997, the Company called these debentures for redemption on February 3, 1998. Proceeds from additional borrowings in 1998 under the Company's Medium Term Note program will be used to redeem the debentures. The pretax loss from redemption of the debentures amounting to approximately $2,500 will be recognized in the 1998 first quarter.

During 1996, the Company filed a shelf registration statement with the Securities and Exchange Commission and issued thereunder $100,000 of 30-year debentures due June 1, 2026. In 1997, the Company established a $150,000 Medium Term Note program, committing to this program the remaining debt capacity of $150,000 under the 1996 shelf registration. Upon issuance, each series of notes may mature nine months or more from date of issuance and may have either a fixed or floating rate of interest. Notes in the amount of $100,000 were issued under this program in 1997. Also in 1997, the Company filed another shelf registration statement with the Securities and Exchange Commission, committing an additional $200,000 to the Medium Term Note program. The remaining borrowing capacity under the Medium Term Note program at December 31, 1997, was $250,000.

Under terms of a revolving credit agreement, negotiated in 1996 and expiring August 31, 2001, with a consortium of U.S. and non-U.S. banks, the Company may borrow up to $175,000. Borrowings under the credit line bear interest at rates agreed to by the Company and lenders. This agreement is maintained to support the Company's commercial paper borrowings and, to the extent not so utilized, to provide domestic borrowings. The remaining borrowing capacity under this agreement at December 31, 1997, was $138,800. Covenants of the revolving credit agreement and certain other debt instruments require the Company to maintain certain financial ratios, including a limitation that the company's debt-to-capitalization ratio (exclusive of the effects of the change in accounting for postretirement benefit obligations) not exceed a specified amount. At December 31, 1997, retained earnings of $237,000 were available for the payment of cash dividends and purchase of common stock.

Maturities of long-term debt in 1998 and in the four succeeding years are $1,857, $1,143, $909, $261 and $170. Interest paid on all debt during 1997, 1996 and 1995 amounted to $27,664, $27,392 and $19,250, respectively. The weighted-average interest rate of outstanding notes payable at December 31, 1997 and 1996, was 6.5% and 5.7%, respectively.

Note 11. Financial Instruments

At December 31, 1997, long-term debt amounting to $258,564, including current maturities, had an estimated fair value of $269,000. Estimated fair value for long-term debt, including current maturities, at December 31, 1996, was $339,677. Fair value for notes payable at December 31, 1997 and 1996, was approximately equal to the carrying amounts at those dates.

At December 31, 1997, the Company had forward exchange contracts outstanding with notional amounts equivalent to $12,800. The carrying amounts of these outstanding forward exchange contracts were $227. Fair value was approximately equal to the carrying amounts. These forward exchange contracts will mature at various dates through April 1998.

At December 31, 1997, the Company held currency option contracts maturing at various dates through December 1998, with notional amounts equivalent to $61,600. Fair value of these currently option contracts was approximately $600.

The Company had no forward exchange or currently option contracts outstanding at December 31, 1996.

AMCAST INDUSTRIAL CORPORATION (AUG)

(Dollars in thousands)	1997	1996
Total Current Liabilities	$176,965	$51,447
Long-term debt—less current portion	145,304	58,783
Deferred income taxes	8,400	12,126
Deferred Liabilities	20,023	10,697

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

Long-Term Debt and Credit Arrangements

The following table summarizes the Company's long-term borrowings at August 31:

	1997	1996
Senior notes	$ 52,625	$53,500
Revolving credit notes	70,000	
Industrial revenue bonds	6,158	6,388
Other debt	11,710	
Capital leases	11,898	
	152,391	59,888
Less current portion	7,087	1,105
Long-Term Debt	$145,304	$58,783

Senior notes consist of two agreements with interest rates of 7.09% and 9.0%. The notes call for periodic principal payments and mature November 7, 2005, and September 15, 1999, respectively.

On August 14, 1997, the Company replaced its prior credit facility with a new Credit Agreement (the Agreement) that provides for up to $200,000 in borrowings through August 14, 2002. At August 31, 1997, $70,000 was outstanding under the Agreement with an interest rate of 6.26%. In addition, a commitment fee is payable on the unused portion of the credit line. The Company also has lines of credit totaling $20,000. These lines were unused at August 31, 1997, and require no compensating balances or commitment fees.

Debt covenants require the Company to maintain certain debt-to-equity, debt-to-earnings, and interest coverage ratios. Other provisions limit tangible net worth and subsidiary indebtedness. At August 31, 1997, all retained earnings were available for the payment of dividends.

Industrial revenue bonds consist of various issues at fixed and variable interest rates, ranging from 3.1% to 5%. These bonds call for periodic principal payments through 2004. These obligations are collateralized by property, plant, and equipment with a net book value of $1,193 at August 31, 1997.

The company has guaranteed debt totaling $22,380 at August 31, 1997, for Casting Technology Company.

Other debt consists of various mortgage loans and other loans at fixed and variable interest rates, ranging from 3% to 12.58%, and requires periodic principal payments through 2011. These obligations are secured by property, plant, and equipment with a net book value of $32,835 at August 31, 1997.

Capitalized lease obligations provide for aggregate payments, including interest, of approximately $3,000 annually, payable through 2002. At August 31, 1997, future minimum payments for the leases were $14,795, including $2,897 representing interest.

The carrying amounts of the company's debt instruments approximate fair value as defined under SFAS No. 107. Fair value is estimated based on discounted cash flows, as well as other valuation techniques.

Long-term debt maturities for each of the next five years are $7,087 in 1998, $7,632 in 1999, $5,353 in 2000, $3,217 in 2001, and $71,777 in 2002.

The company's foreign operations have short-term lines of credit totaling approximately $75,000, which are subject to annual review by the lending banks. At August 31, 1997, the average interest rate for the short-term lines of credit was 7.4%. Amounts outstanding under these lines of credit are payable on demand and total $48,493 as of August 31, 1997. Additionally, foreign operations have revolving lines of credit with various factoring companies totaling $6,283 for the factoring of accounts receivable on a with-resource basis, of which $5,545 was outstanding at August 31, 1997.

Capitalized interest was $145, $2,038, and $390 in 1997, 1996, and 1995, respectively. Interest paid was $5,057, $4,272, and $1,830 in 1997, 1996, and 1995, respectively.

AUTOMATIC DATA PROCESSING, INC. (JUN)

(In thousands)	1997	1996
Total Current Liabilities	$1,019,872	$835,613
Long-term debt	401,162	403,743
Other liabilities	91,685	78,508
Deferred income taxes	102,751	112,880
Deferred revenue	106,737	93,795

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Debt

A portion of the purchase price of certain international acquisitions has been funded by borrowing in local currency (equivalent to $129 million as of June 30, 1997 and $91 million as of June 30, 1996) on a short-term basis at an average interest of 5.8% in fiscal 1997 and 4.1% in fiscal 1996. These borrowings have been designated as hedges against the Company's net investment in the businesses acquired.

Components of long-term debt are as follows:

(In thousands) June 30,	1997	1996
Zero coupon convertible subordinated notes (5 1/4% yield)	$350,897	$356,561
Industrial revenue bonds (with fixed and variable interest rates from 3.6% to 8.3%)	38,690	39,200
Other	12,666	13,189
	402,253	408,950
Less current portion	(1,091)	(5,207)
	$401,162	$403,743

The zero coupon convertible subordinated notes have a face value of approximately $750 million at June 30, 1997, and mature February 20, 2012, unless converted or redeemed earlier. The notes are convertible into approximately 9.7 million shares of the Company's common stock. The notes are callable at the option of the Company, and the holders of the notes can convert into common stock at any time or require redemption in 1997, 2002, and 2007. During fiscal 1997 and 1996 approximately $52 million and $3 million face value of notes were converted or redeemed. As of June 30, 1997 and 1996, the quoted market prices for the zero coupon notes were approximately $443 million and $400 million, respectively. The fair value of the other debt included above, based on available market information, approximates its carrying value.

Long-term debt repayments are due as follows:

(In thousands)	
1999	$ 435
2000	435
2001	1,690
2002	—
Thereafter	398,602
	$401,162

Interest payments were approximately $10 million in fiscal 1997, $8 million in 1996 and $4 million in 1995.

BAKER HUGHES INCORPORATED (SEP)

(In millions)	1997	1996
Current Liabilities:		
Accounts payable	$499.7	$330.1
Short-term borrowings and current portion of long-term debt	9.6	1.9
Accrued employee compensation and benefits	223.2	155.3
Income taxes payable	48.6	32.9
Other accrued liabilities	155.2	115.1
Total Current Liabilities	936.3	635.3
Long-term debt	771.8	673.6
Deferred income taxes	275.9	150.5
Other long-term liabilities	167.7	148.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Indebtedness

Long-term debt consists of the following:

(Millions of Dollars)	1997	1996
Commercial Paper with an average interest rate of 5.5% at September 30, 1997	$ 74.0	$ 44.0
Revolving Credit Facilities due through 1999 with an average interest rate of 6.39% at September 30, 1997	90.8	33.0
Liquid Yield Option Notes ("LYONS") due May 2008 with a yield to maturity of 3.5% per annum, net of unamortized discount of $121.9 ($131.3 in 1996)	263.3	253.9
7.625% Notes due February 1999 with an effective interest rate of 7.73%, net of unamortized discount of $.4 ($.7 in 1996)	149.6	149.3
8% Notes due May 2004 with an effective interest rate of 8.08%, net of unamortized discount of $.9 ($1.1 in 1996)	99.1	98.9
Debentures with an effective interest rate of 8.59%, due January 2000	93.0	93.0
Other	2.1	1.7
Total debt	771.9	673.8
Less current maturities	0.1	0.2
Long-term debt	$771.8	$673.6

At September 30, 1997, the Company had $639.3 million of credit facilities with commercial banks, of which $300.0 million is committed. The committed facilities expire in 1999. The Company's policy is to classify commercial paper and borrowings under revolving credit facilities as long-term debt since the Company has the ability under certain credit agreements, and the intent, to maintain these obligations for longer than one year. These facilities are subject to normal banking terms and conditions and do not materially restrict the Company's activities.

The LYONS are convertible into the Company's common stock at a conversion price of $37.35 per share, calculated as of November 5, 1997, and increases at an annual rate of 3.5%. At the option of the Company, the LYONS may be redeemed for cash at any time on or after May 5, 1998, at a redemption price equal to the issue price plus accrued original issue discount through the date of redemption. At the option of the holder, the LYONS may be redeemed for cash on May 5, 1998, or on May 5, 2003, for a redemption price equal to the issue price plus accrued original issue discount through the date of redemption. The Company does not expect that the holders will redeem the LYONS for cash in May 1998 as long as the Company's common stock trades at levels above the conversion price.

Maturities of long-term debt for the next five years are as follows: 1998—$.1 million; 1999—$315.0 million; 2000—$93.5 million; 2001—$.9 million and 2002—$.1 million.

Note 7 (In Part): Financial Instruments

Except as described below, the estimated fair values of the Company's financial instruments at September 30, 1997 and 1996 approximate their carrying value as reflected in the consolidated statements of financial position. The Company's financial instruments include cash and short-term investments, receivables, investments, payables, debt and interest rate and foreign currency contracts. The fair value of such financial instruments has been estimated based on quoted market prices and the Black-Scholes option-pricing model.

The estimated fair value of the Company's debt, at September 30, 1997 and 1996 was $864.4 million and $704.8 million, respectively, which differs from the carrying amounts of $781.4 million and $675.5 million, respectively, included in the consolidated statements of financial position. The fair value of the Company's interest rate swap contracts at September 30, 1997 and 1996 was $2.7 million and $.1 million, respectively.

BAUSCH & LOMB INCORPORATED (DEC)

(Dollar amounts in millions)	1997	1996
Current Liabilities	$ 887.3	$ 929.1
Long-term debt, less current portion	510.8	236.3
Other long-term liabilities	119.4	124.0
Minority interest	437.0	432.1
Total Liabilities	1,954.5	1,721.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar Amounts In Millions)

9. Debt

Short-term debt at December 27, 1997 and December 28, 1996 consisted of $297.0 and $366.3 in U.S. commercial paper and promissory notes issued to banks and $42.4 and $27.8 in non-U.S. borrowings, respectively. To support its liquidity requirements, the company maintains U.S. revolving credit agreements with 364-day and 5-year credit terms totaling $900.0 and $300.0, respectively. No debt was outstanding under these agreements at December 27, 1997. Commitment fees on these revolving credit agreements fluctuate according to the long-term debt ratings of the company, and were 0.100% and 0.125% on the 364-day and 5-year agreements, respectively, as of December 27, 1997. The interest rate applicable to borrowings under the agreements is based on the LIBOR rate, or, at the company's option, the higher of several other common indices. The company also maintains unused U.S. bank lines of credit amounting to approximately $32.0. Compensating balance arrangements for these lines are not material.

The company has entered into two seven-year interest rate swap agreements, each in notional amounts of $100.0, which convert $200 of U.S. commercial paper into fixed-rate obligations with an effective interest rate of 6.48%. The swaps will terminate on January 1, 2002.

Average short-term interest rates, which include the effect of the interest rate swap agreements, were 6.0% and 5.8% at year end 1997 and 1996, respectively. The maximum amount of short-term debt at the end of any

month was $529.4 in 1997 and $472.0 in 1996. Average month-end borrowings were $476.3 in 1997 and $405.8 in 1996.

The components of long-term debt were:

	Dec. 27, 1997	Dec. 28, 1996
Fixed-rate notes payable:		
Notes due in 1997	$ —	$ 85.0
Notes due in 1999	23.3	26.3
Notes due in 2001 or 2026	100.0	100.0
Notes due in 2003	85.0	85.0
Notes due in 2004	200.0	—
Other	16.8	12.2
Securitized trade receivables expiring in 2002	75.0	—
Industrial Development Bonds due in 2015	8.5	8.5
Other	6.6	7.3
	515.2	324.3
Less current portion	4.4	88.0
	$510.8	$236.3

The notes maturing in 1999 relate to borrowings of 3 billion Japanese yen at interest rates ranging from 2.21% to 2.28%. The $100.0 notes were issued under the company's $300.0 medium-term note program at a fixed rate of 6.56%. The holders, at their option, may put these notes back to the company in 2001; otherwise the notes mature in 2026. An interest rate swap agreement on the $85.0 note due in 2003 effectively converts the note to a floating rate obligation with an interest rate based on the one-month U.S. composite commercial paper rate. At December 27, 1997 this rate was 5.9%. Under the $300.0 medium-term note program the company also issued $200.0 of underwritten notes due in 2004 at a fixed rate of 6.75%. The company, at its option, may call these notes at any time pursuant to a make-whole redemption provision, which would compensate holders for any changes in market value on early extinguishment of the notes. The interest rate on the Industrial Development Bonds, which was 4.5% at December 27, 1997, varies based on the prime rate and prevailing market conditions.

In 1997, the company entered into an agreement, expiring in 2002, to sell undivided fractional interests in specific pools of U.S. trade receivables of up to $75.0. Proceeds from the sales contemplated by the agreement, which totaled $75.0 at December 27, 1997, were reported as long-term borrowings in accordance with SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." The interest rate applicable to the proceeds from the agreement at December 27, 1997 was 5.82% and will vary based on the company's credit rating. Separate U.S. and non-U.S. agreements for the sale of receivables totaling $65.0 and 3 billion Japanese yen, respectively, were terminated during 1997. Prior to their termination, proceeds from these agreements were reported as reductions to trade receivables and totaled $86.8 at December 28, 1996. Fees and discounting expenses related to the terminated U.S. agreement were recorded as interest expense and totaled approximately $0.9 in 1997, $3.8 in 1996 and $4.5 in 1995.

Interest rate swap agreements on long-term debt issues resulted in a reduction in the long-term effective interest rate from 5.9% to 5.7% in 1997 and from 6.0% to 5.5% in 1996. Long-term borrowing maturities during the next five years are $4.4 in 1998; $28.9 in 1999; $2.2 in 2000; $108.3 in 2001 and $76.6 in 2002.

14. Fair Value of Financial Instruments

The carrying amount of cash, cash equivalents and short-term investments and notes payable approximates fair value because their maturity is generally less than one year in duration. The company places its cash, cash equivalents and short-term investments with multiple financial institutions in order to limit the amount of credit exposure with any one institution to between $25.0 and $50.0, based on its credit rating and asset base. The company's remaining financial instruments consisted of the following

	Dec. 1997		Dec. 1996	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nonderivatives				
Other investments	$ 546.4	$ 546.4	$ 560.3	$ 560.3
Long-term debt, including current portion	$(515.2)	$(516.4)	$(324.3)	$(320.9)
Derivatives held for purposes other than trading				
Foreign exchange instruments:				
Other current assets	$ 45.3		$ 28.3	
Accrued liabilities	(40.5)		(10.4)	
Net foreign exchange instruments	$4.8	$ 2.4	$ 17.9	$ 26.9
Interest rate instruments:				
Other current assets	$ 17.5		$ 14.9	
Accrued liabilities	(12.6)		(12.9)	
Net interest rate instruments	$ 4.9	$ 20.7	$ 2.0	$ 5.4

Fair value of other investments was determined based on contract terms and an evaluation of expected cash flows and investment risk. Fair value for long-term debt was estimated using either quoted market prices for the same or similar issues or the current rates offered to the company for debt with similar maturities. The fair value for foreign exchange and interest rate instruments was determined based upon a model which estimates the fair value of these items using market rates at year end or was based upon quoted market prices for similar instruments with similar maturities.

CINCINNATI MILACRON INC. (DEC)

(In millions)	1997	1996
Total Current Liabilities	$425.4	$409.6
Long-term accrued liabilities	191.0	178.6
Long-term debt	304.2	301.9
Total Liabilities	920.6	890.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long-Term Debt (In Part):

The components of long-term debt are shown in the following table.

Long-Term Debt		
(In millions)	1997	1996
7⅞% Notes due 2000	$100.0	$100.0
8⅜% Notes due 2004	115.0	115.0
Revolving credit facility	80.3	80.3
Other	10.5	11.8
	305.8	307.1
Less current maturities	(1.6)	(5.2)
	$304.2	$301.9

Except for the 7 7/8% Notes due 2000 and the 8 3/8% Notes due 2004, the carrying amount of the company's long-term debt approximates fair value, which is determined using discounted cash flow analysis based on the company's incremental borrowing rate for similar types of financing arrangements. At year-end 1997, the fair value of the 7 7/8% Notes due 2000 was $102.1 million and the fair value of the 8 3/8% Notes due 2004 was $121.6 million. Such amounts are based on recent trade prices through registered securities brokers.

Outstanding borrowings under the company's revolving credit facility of $10.0 million at December 27, 1997, and DM 125 million ($70.3 million at December 27, 1997, and $80.3 million at December 28, 1996) are included in long-term debt based on the expectation that these borrowings will remain outstanding for more than one year. These borrowings are at variable interest rates which had a weighted average of 4.3% at year end 1997.

Maturities of long-term debt for the five years after 1997 are:

1998:	$ 1.6 million
1999:	2.3 million
2000:	101.8 million
2001:	1.8 million
2002:	80.3 million

DSC COMMUNICATIONS CORPORATION (DEC)

(In thousands)	1997	1996
Total Current Liabilities	$472,317	$432,922
Long-term debt, net of current portion	629,206	274,602
Noncurrent income taxes and other liabilities	122,172	70,495

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long-Term Debt

Total long-term debt consisted of the following (in thousands):

	December 31, 1997	1996
Senior debt:		
Fixed rate:		
Unsecured 9.0% notes, due 1996-2003	$168,750	$196,875
Unsecured 8.75% note, due 1995-2000	8,254	11,988
Variable rate:		
Unsecured note, due 2000-2001	43,808	50,649
Unsecured note, due 1999-2011	36,507	42,208
Subordinated debt:		
Convertible 7.0% notes, due 2004	400,000	—
Other debt	4,489	5,954
Total	661,808	307,674
Less: current maturities	32,602	33,072
Total long-term debt	$629,206	$274,602

During 1997, the Company issued $400.0 million principal amount of 7.0% convertible subordinated notes (the "Convertible Notes") due August 1, 2004. Interest on the Convertible Notes is payable semi-annually on February 1 and August 1 of each year, commencing in February 1998. The Convertible Notes are convertible into approximately 8.0 million shares of the Company's common stock, at the option of the holder, at a conversion price of $49.73 per share. The Convertible Notes are redeemable at the Company's option, in whole or in part, at any time on or after August 1, 2000 at a premium of 104% of par value which declines annually to par value at the maturity date.

The variable rate notes are denominated in Danish Kroner and bear interest, at the Company's option, at either the lender's base rate or at current market rates in Denmark plus 0.56% to 0.69%. The interest rates are adjusted to market rates at the end of each interest period, as defined. At December 31, 1997, these rates ranged from 4.3% to 4.7%.

The aggregate maturities of long-term debt are as follows: 1998—$32.6 million; 1999—$33.2 million; 2000—$55.3 million; 2001—$53.2 million; 2002—$30.5 million; thereafter—$457.0 million.

The majority of the Company's senior debt agreements contains various financial covenants, including among other things, minimum net worth, maintenance of certain fixed charge ratios and maximum allowable indebtedness to net worth.

Fair Value of Financial Instruments (In Part):

Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments," requires disclosure of the fair value of certain financial instruments. Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are reflected in the financial statements at fair value. Investments in debt and equity securities classified as available for sale have been recorded in the financial statements at current market values. Current market values of investments in debt securities classified as held to maturity are disclosed in the "Investments in Debt and Equity Securities" note. The fair value of the Company's long-term debt, including current maturities, at December 31, 1997 and 1996 was approximately $649.8 million and $320.6 million, respectively. The fair values of the Company's off-balance-sheet financial instruments are based on current settlement values (forward foreign exchange contracts) and fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing (guarantees and letters of credit). There were no significant differences between the carrying amounts and fair values of any off-balance-sheet financial instruments at December 31, 1997 and 1996.

DOW JONES & COMPANY, INC. (DEC)

(Dollars in thousands)	1997	1996
Total Current Liabilities	$ 672,395	$ 601,205
Long-term debt (Notes 6 & 17)	228,806	332,300
Deferred compensation, principally postretirement benefit obligation (Note 11)	179,798	164,006
Other noncurrent liabilities	7,913	18,127
Total Liabilities	1,138,912	1,115,638

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt

Long-term debt at December 31 was as follows:

(In thousands)	1997	1996
Commercial paper, 5.95% to 6.15% at December 31, 1997	$ 63,015	$ 161,242
Notes payable, 5.75%, due December 1, 2000	149,836	149,785
Note payable, Associated Press, 7.75%	21,273	26,591
	234,124	337,618
Less: current portion	5,318	5,318
Total long-term debt	$228,806	$332,300

Payments on long-term debt are due as follows: $5,318,000 in 1998, $68,334,000 in 1999, $155,154,000 in 2000 and $5,318,000 in 2001. Interest payments were $18,386,000 in 1997, $18,916,000 in 1996 and $16,679,000 in 1995.

The company can borrow up to $400 million through November 16, 1999, under a revolving credit agreement with several banks. Borrowings may be made either in Eurodollars with interest that approximates the applicable Eurodollar rate or in U.S. dollars with interest that approximates the bank's prime rate, its C/D rate or the federal funds rate. An annual fee of 0.08% is payable on the commitment which the company may terminate or reduce at any time. Prepayment of borrowings may be made without penalty. Although there were no borrowings under the agreement as of December 31, 1997, the company intends to maintain the commitment at least through December 31, 1998. Accordingly, commercial paper was classified as long-term.

The company and the banks amended certain restrictive covenants contained in the revolving credit agreement, including restrictions on net worth. At December 31, 1997, with respect to restrictive covenants then in effect, consolidated indebtedness was approximately $900 million less than the maximum borrowing allowed and the company's cash flow, as defined in the agreement, far exceeded that required.

In December 1995, the company sold $150 million of 5.75% notes due December 1, 2000. The notes are general unsecured obligations of the company and may not be redeemed prior to maturity.

The note payable to the Associated Press is owed by the company in equal annual principal payments of $5,318,000 which commenced in 1991. The company purchased Guaranteed Investment Contract from an insurance company which is included in Other Investments. The contract provides for payments to the company of interest and principal that match the payments owed the Associated Press.

Note 17 (In Part): Financial Instruments

Fair Value of Financial Instruments: The carrying values of the company's cash and cash equivalents, accounts receivable and accounts payable approximate fair value. The fair value of the following financial instruments, as of December 31, 1997 and 1996, was determined primarily by reference to dealer markets and quoted market prices.

(In thousands)	Fair Value	Carrying Value
1997		
Other investments	$ 85,985	$ 85,290
Long-term debt	228,136	228,806
1996		
Other investments	$100,502	$ 99,587
Long-term debt	331,000	332,300

KELLOGG COMPANY (DEC)

(In millions)	1997	1996
Total Current Liabilities	$ 1,657.3	$ 2,199.0
Long-term debt	1,415.4	726.7
Other liabilities	807.4	841.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Debt

Notes payable consist principally of commercial paper borrowings in the United States at the highest credit rating available and, to a lesser extent, bank loans of foreign subsidiaries at competitive market rates. U.S. borrowings at December 31, 1997 (including $400 million classified in long-term debt, as discussed in (f) below), were $744.2 million with an effective interest rate of 5.7%. U.S. borrowings at December 31, 1996 (including $500 million classified in long-term debt, as discussed in (f) below), were $1.12 billion with an effective interest rate of 5.4%. Associated with these borrowings, during September 1997, the Company purchased a $225 million notional, four-year fixed interest rate cap. Under the terms of the cap, if the Federal Reserve AA composite rate on 30-day commercial paper increases to 6.33%, the Company will pay this fixed rate on $225 million of its commercial paper borrowings. If the rate increases to 7.83% or above, the cap will expire. As of year-end 1997, the rate was 5.65%. At December 31, 1997, the Company had $775.1 million of short-term lines of credit, of which $719.4 million were unused and available for borrowing on an unsecured basis.

Long-term debt at year-end consisted of:

(In millions)	1997	1996
[a] Seven-Year Notes due 2004	$ 500.0	$ —
[b] Four-Year Notes due 2001	500.0	—
[c] Five-Year Notes due 1998	200.0	200.0
[d] Three-Year Notes due 1997	—	200.0
[e] Five-Year Notes due 1997	—	299.9
[f] Commercial paper	400.0	500.0
Other	26.6	28.0
	1,626.6	1,227.9
Less current maturities	(211.2)	(501.2)
Balance, December 31	$1,415.4	$ 726.7

[a] In January 1997, the Company issued $500 of seven-year 6.625% fixed rate Euro Dollar Notes. In conjunction with this issuance, the Company settled $500 notional amount of interest rate forward swap agreements, which effectively fixed the interest rate on the debt at 6.354%. Associated with this debt, during September 1997, the Company entered into a $225 notional, 4 1/2-year fixed-to-floating interest rate swap, indexed to the three-month London Interbank Offered Rate (LIBOR). Under the terms of the swap, if three-month LIBOR decreases to 4.71% or below, the swap will expire. At year-end 1997, three-month LIBOR was 5.81%.

[b] In August 1997, the Company issued $500 of four-year 6.125% Euro Dollar Notes. In conjunction with this issuance, the Company settled $400 notional amount of interest rate forward swap agreements which effectively fixed the interest rate on the debt at 6.4%. Associated with this debt, during September 1997, the Company entered into a $200 notional, four-year fixed-to-floating interest rate swap, indexed to three-month LIBOR.

[c] In October 1993, the Company issued $200 of five-year 6.25% Euro Canadian Dollar Notes which were swapped into a 4.629% fixed rate U.S. dollar obligations for the duration of the five-year term.

[d] In September 1994, the Company issued $200 of three-year debt consisting of both 8.125% Euro Canadian Dollar Secured Notes and 5.25% Swiss Franc Secured Notes. These Notes were swapped into U.S. Dollar obligations, with a variable rate indexed to the Federal Reserve AA composite rate on 30-day commercial paper, for the duration of the three-year term.

[e] In July 1992, the Company issued $300 of five-year 5.9% U.S. Dollar obligations.

[f] At December 31, 1997, $400 of the Company's commercial paper was classified as long-term, based on the Company's intent and ability to refinance as evidenced by an issuance of $400 of three-year 5.75% fixed rate U.S. Dollar Notes on February 4, 1998. These Notes were issued under an existing "shelf registration" with the Securities and Exchange Commission, and provide an option to holders to extend the obligation for an additional four years at a predetermined interest rate of 5.63% plus the Company's then-current credit spread. Concurrent with this issuance, the Company entered into a $400 notional, three-year fixed-to-floating interest rate swap, indexed to the Federal Reserve AA composite rate on 30-day commercial paper.

At December 31, 1996, $500 of the Company's commercial paper was classified as long-term, based on the Company's intent and ability to refinance as evidenced by the issuance described in (a) above.

The $200 million of five-year notes will mature during the fourth quarter of 1998 and are classified in current maturities as of December 31, 1997. Management currently intends to replace these borrowings with new long-term debt issuances as of the maturity date and, as of year-end 1997, had entered into $25 million notional amount of interest rate forward swap agreements to pay fixed and receive variable interest effectively fixing the U.S. Treasury rate on which an equivalent amount of future issuances would be priced.

Scheduled principal repayments on long-term debt are (in millions): 1998-$211; 1999-$2; 2000-$1; 2001-$901; 2002-$5; 2003 and beyond-$507.

Interest paid was $85 million for 1997 and approximated interest expense for 1996 and 1995. Interest expense capitalized as part of the construction cost of fixed assets was (in millions): 1997-$9.6; 1996-$3.8; 1995-$7.2.

Note 11 (In Part): Financial Instruments and Credit Risk Concentration

The fair values of the Company's financial instruments are based on carrying value in the case of short-term items, quoted market prices for derivatives and investments, and, in the case of long-term debt, incremental borrowing rates currently available on loans with similar terms and maturities. The carrying amounts of the Company's cash, cash equivalents, receivables, notes payable, and long-term debt approximate fair value.

THE PERKIN-ELMER CORPORATION (JUN)

(Dollar amounts in thousands)	1997	1996
Current Liabilities		
Loans payable	$ 18,054	$ 51,075
Accounts payable	115,374	86,885
Accrued salaries and wages	46,470	39,607
Accrued taxes on income	97,307	57,097
Other accrued expenses	177,988	206,552
Total current liabilities	455,193	441,216
Long-term debt	33,599	890
Other long-term liabilities	179,134	175,776
Total Liabilities	667,926	617,882

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Debt and Lines of Credit

There were no domestic borrowings outstanding at June 30, 1997 or 1996. Foreign loans payable and long-term debt at June 30, 1997 and 1996 are summarized below:

(Dollar amounts in millions)	1997	1996
Loans Payable		
Notes payable, banks	$18.1	$25.4
Current maturity of Yen loan		25.7
Total loans payable	$18.1	$51.1
Long-Term Debt		
Yen loan	$33.6	$ —
Other		.9
Total long-term debt	$33.6	$ .9

The weighted average interest rates at June 30, 1997 and 1996 for notes payable to foreign banks were 2.4% and 3.7%, respectively.

During the third quarter of fiscal 1997, the Company replaced its Yen 2.8 billion ($25.7 million at June 30, 1996) loan, which matured in February 1997, with a Yen 3.8 billion ($33.6 million at June 30, 1997) variable rate long-term loan which matures in March 2002. Through an interest rate swap agreement (see Note 12), the effective interest rate for the new loan is 2.1% compared with 3.3% for the previous loan.

On June 1, 1994, the Company entered into a $100 million three year revolving credit agreement. The agreement was amended in fiscal 1996 to extend the maturity an additional three years to June 1, 2000. Commitment and facility fees are based on leverage and interest coverage ratios. Interest rates on amounts borrowed vary depending on whether borrowings are undertaken in the domestic or Eurdollar markets. There were no borrowings under the facility at June 30, 1997 or 1996.

At June 30, 1997, the Company had unused credit facilities for short-term borrowings from domestic and foreign banks in various currencies totaling $319 million.

Under various debt and credit agreements, the Company is required to maintain certain minimum net worth and interest coverage ratios.

There are no maturities of long-term debt scheduled for fiscal 1998, 1999, 2000, or 2001. The Yen 3.8 billion loan matures in fiscal 2002.

Note 12 (In Part): Financial Instruments

Fair Value

The following methods are used in estimating the fair value of other significant financial instruments held or owed by the Company. Cash and short-term investments approximate their carrying amount due to the duration of these instruments. Fair values of minority equity investments and notes receivable are estimated based on quoted market prices, if available, or quoted market prices of financial instruments with similar characteristics. The fair value of debt is based on the current rates offered to the Company for debt of similar remaining maturities. The following table presents the carrying amounts and fair values of the Company's other financial instruments:

(Dollar amounts in millions) At June 30,	Carrying Amount 1997	Fair Value 1997	Carrying Amount 1996	Fair Value 1996
Cash and short-term investments	$196.0	$196.0	$96.6	$96.6
Minority equity investments	$ 9.0	$ 9.0	$35.6	$35.6
Note receivable	$ 7.2	$ 7.2	$ 7.2	$ 7.2
Short-term debt	$ 18.1	$ 18.1	$51.1	$51.5
Long-term debt	$ 33.6	$ 33.4	$ .9	$ .9

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.

TABLE 2-27: CREDIT AGREEMENTS

	1997	1996	1995	1994
Disclosing credit agreements	552	546	547	541
Not disclosing credit agreements	48	54	53	59
Total Companies	**600**	**600**	**600**	**600**

ABM INDUSTRIES INCORPORATED (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Long-Term Debt and Credit Agreement

During the third quarter of 1997, the Company replaced its $125,000,000 syndicated line of credit expiring September 22, 1999 with a new $125,000,000 syndicated line of credit expiring July 1, 2002. Effective November 1, 1997, the agreement was amended to increase the amount available to $150,000,000. The unsecured revolving credit facility provides, at the Company's option, interest at the prime rate or LIBOR+.35%. The facility calls for a commitment fee payable quarterly, in arrears, of .12% based on the average, daily, unused portion. For purposes of this calculation, irrevocable standby letters of credit issued in conjunction with the Company's self-insurance program plus cash borrowings are considered to be outstanding amounts. As of October 31, 1997, the total outstanding amount under this facility was $104,610,000 comprised of $34 million in loans and $70,610,000 in standby letters of credit. The interest rate at October 31, 1997 on loans outstanding under this agreement ranged from 6.04% to 6.10%. The Company is required, under this agreement to maintain financial ratios and places certain limitations on dividend payments. The Company is prohibited from paying cash dividends exceeding 50% of its net income for any fiscal year.

ALLIEDSIGNAL INC. (DEC)

NOTES TO FINANCIAL STATEMENTS (Dollars in millions)

Note 15 (In Part): Long-Term Debt and Credit Agreement

The Company has a Five-Year Credit Agreement (Credit Agreement) with a group of 19 banks with commitments aggregating $750 million. The funds available under the Credit Agreement may be used for any corporate purpose. Loans under the Credit Agreement are required to be repaid no later than June 30, 2002. Annually, the Company may request that the maturity of the Credit Agreement be extended by another year. The Company intends to request an extension of this agreement in 1998. The company has agreed to pay a facility fee of 0.065% per annum on the aggregate commitment for the Credit Agreement, subject to increase or decrease in the event of changes in the Company's long-term debt ratings. The Credit Agreement does not restrict the Company's ability to pay dividends, however, it does require the Company to maintain a minimum net worth of $3.1 billion. The Credit Agreement also contains other customary conditions and events of default, the failure to comply with, or occurrence of, would prevent any further borrowings and would generally require the repayment of any outstanding borrowings under the Credit Agreement. Such events of default include (a) non-payment of Credit Agreement debt and interest thereon, (b) non-compliance with the terms of the Credit Agreement covenants, (c) cross-default with other debt in certain circumstances, (d) bankruptcy and (e) defaults upon obligations under the Employee Retirement Income Security Act. Additionally, each of the banks has the right to terminate its commitment to lend under the Credit Agreement if any person or group acquires beneficial ownership of 30% or more of the Company's voting stock or, during any 12-month period, individuals who were directors of the Company at the beginning of the period cease to constitute a majority of the Board of Directors (the Board).

Interest on borrowings under the Credit Agreement would be determined, at the Company's option, by (a) an auction bidding procedure; (b) the highest of the floating base rate of the agent bank, 0.5% above the average CD rate, or 0.5% above the Federal funds rate or (c) the average Eurocurrency rate of three reference banks plus 0.135% (applicable margin). The applicable margin over the Eurocurrency rate on the Credit Agreement is subject to increase or decrease if the Company's long-term debt ratings change. The Company had no balance outstanding under the Credit Agreement at December 31, 1997. The Credit Agreement presently serves as support for the issuance of commercial paper.

CURTISS-WRIGHT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Credit Agreements

The Corporation has two credit agreements in effect aggregating $45,000,000 with a group of three banks. The Revolving Credit Agreement commits a maximum of $22,500,000 to the Corporation for cash borrowings and letters of credit. The unused credit available under this facility at December 31, 1997 was $10,807,000. The commitments made under the Revolving Credit Agreement expire October 29, 2000, but may be extended annually for successive one year periods with the consent of the bank group. The Corporation also has in effect a Short-Term Credit Agreement which allows for cash borrowings of $22,500,000, all of which was available at December 31, 1997. The Short-Term Credit Agreement expires October 23, 1998. At expiration, the Short-Term Credit Agreement may be extended, with the consent of the bank group, for an additional period not to exceed 300 days. No cash borrowings were outstanding at December 31, 1997 or December 31, 1996. The Corporation is required under these Agreements to maintain certain financial ratios, and meet certain net worth and indebtedness tests for which the Corporation is in compliance. Under the provisions of the Agreements, retained earnings of $32,854,000 were available for cash dividends and stock repurchases at December 31, 1997.

At December 31, 1997, substantially all of the industrial revenue bond issues are collateralized by real estate, machinery and equipment. Certain of these issues are supported by letters of credit which total approximately $9,260,000. The Corporation has various other letters of credit outside the Revolving Credit Agreement totaling approximately $1,086,000.

FEDERAL-MOGUL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Debt

In December 1997, the Company entered into a $3.25 billion committed bank facility with a reputable financial institution related to the proposed T&N plc acquisition (refer to Note 20). The facility provides for up to $2.75 billion of senior debt and up to $500 million of subordinated debt. This facility is contingent upon the acquisition of T&N plc. Accordingly, no amounts are outstanding as of December 31, 1997.

In June 1997, the Company entered into a new $350 million multicurrency revolving credit facility with a consortium of international banks which matures in June 2002. The multicurrency revolving credit facility replaced the existing U.S. and European revolving credit facilities. The multicurrency revolving credit facility contains restrictive covenants that, among other matters, require the Company to maintain certain financial ratios. As of December 31, 1997, there were no borrowings outstanding against the multicurrency revolving credit facility. As of December 31, 1996, the Company had $185 million borrowed against the U.S. revolver and $9 million borrowed against the European revolver, both of which were included in short-term debt. Short-term debt also includes international subsidiaries' local credit arrangements that have terms in accordance with local customary practice. The weighted average interest rate for the Company's short-term debt was 9.9% and 7.9% as of December 31, 1997 and 1996, respectively.

HARRIS CORPORATION (JUN)

NOTES TO FINANCIAL STATEMENTS

Credit Arrangements

The Corporation maintains syndicated credit facilities with various banks which provide for borrowings up to $800 million.

These facilities consist of a 364-day $300 million facility which expires November 1997 and a five-year $500 million facility which expires November 2001. Interest rates on borrowings under these facilities are determined by a pricing matrix based upon the Corporation's long-term debt rating assigned by Standard and Poor's Ratings Group and Moody's Investors Service. A facility fee is payable on the credit and determined in the same manner as the interest rates. The Corporation is not required to maintain compensating balances in connection with these agreements. Under these agreements, $346.7 million was outstanding at June 27, 1997, $100 million of which has been classified as long-term based on the Corporation's intent to maintain borrowings of at least that amount for the next year.

The Corporation also has lines of credit for short-term financing aggregating $141.5 million from various U.S. and foreign banks, of which $99 million was available on June 27, 1997. These arrangements provide for borrowing at various interest rates, are reviewed annually for renewal, and may be used on such terms as the Corporation and the banks mutually agree. These lines do not require compensating balances.

Short-term debt is summarized below:

(In millions)	1997	1996
Bank notes	$278.0	$168.1
Other	10.5	13.2
	$288.5	$181.3

The weighted average interest rate for bank notes was 6.0 percent at June 27, 1997, and 6.5 percent at June 30, 1996.

HUMANA INC. (DEC)

(Dollars in millions)	1997	1996
Total Current Liabilities	$2,263	$1,500
Long-term medical and other costs payable	597	—
Long-term debt	889	225
Professional liability and other obligations	168	136
Total Liabilities	3,917	1,861

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Long-Term Debt

In August 1997, the Company entered into a five-year revolving credit agreement ("Credit Agreement") which provides a line of credit of up to $1.5 billion. The Credit Agreement replaced an existing $600 million revolving line of credit, under which there were no outstanding borrowings at December 31, 1996. Principal amounts outstanding under the Credit Agreement bear interest at rates ranging from LIBOR plus 12 basis points to LIBOR plus 30 basis points, depending on the ratio of debt to debt plus net worth. The Credit Agreement, under which $300 million was outstanding at December 31, 1997 bearing interest at a rate of 6.2 percent, contains customary covenants and events of default.

The Company also maintains a commercial paper program and issues debt securities thereunder. At December 31, 1997 and 1996, borrowings under the commercial paper program totaled approximately $589 million and $222 million, respectively. The average interest rate for 1997 and 1996 borrowings was 5.9 percent and 5.6 percent, respectively. The commercial paper program is backed by the Credit Agreement.

Borrowings under both the Credit Agreement and commercial paper program have been classified as long-term debt based on management's ability and intent to refinance borrowings on a long-term basis.

LONG-TERM LEASES

Standards for reporting leases on the financial statements of lessees and lessors are set forth in *Statement of Financial Accounting Standards No. 13* and subsequently issued amendments to and interpretations of *SFAS No. 13*.

Table 2-28, in addition to summarizing the number of survey companies reporting capitalized and/or noncapitalized lessees leases, shows the nature of information most frequently disclosed by the survey companies for capitalized and noncapitalized lessee leases. 41 survey companies reported lessor leases.

Examples of long-term lease presentations and disclosures follow.

TABLE 2-28: LONG-TERM LEASES

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Information Disclosed as to Noncapitalized Leases				
Rental expenses				
Basic	519	508	499	498
Contingent	50	53	56	57
Sublease	67	73	79	77
Minimum rental payments				
Schedule of	505	505	505	493
Classified by major categories of property	15	15	23	18
Information Disclosed as to Capitalized Leases				
Minimum lease payments	112	118	123	145
Imputed interest	99	106	104	126
Leased assets by major classifications	43	29	37	56
Executory costs	15	20	20	27
Number of Companies				
Capitalized and noncapitalized leases	249	269	264	279
Noncapitalized leases only	283	255	255	235
Capitalized leases only	15	18	27	30
No leases disclosed	53	58	54	56
Total Companies	**600**	**600**	**600**	**600**

Lessee—Capital Leases

ANALOGIC CORPORATION (JUL)

(000 omitted)	1997	1996
Property, plant and equipment, at cost:		
Land and land improvements	$ 4,252	$ 4,252
Buildings	36,853	36,825
Property under capital leases	6,251	6,251
Leasehold and capital lease improvements	2,090	2,090
Manufacturing equipment	66,117	63,196
Furniture and fixtures	20,737	19,194
Motor vehicles	926	998
	137,226	132,806
Less accumulated depreciation and amortization	88,979	85,050
	48,247	47,756

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	1997	1996
Current liabilities:		
Mortgage and other notes payable	344	3,644
Obligations under capital leases	497	442
Accounts payable, trade	13,185	11,438
Accrued employee compensation and benefits	11,654	9,822
Accrued warranty	2,764	2,521
Accrued expenses	3,579	3,632
Accrued income taxes	3,449	1,998
Total current liabilities	35,472	33,497
Long-term debt:		
Mortgage and other notes payable	6,333	6,677
Obligations under capital leases	2,281	2,778
	8,614	9,455
Deferred income taxes	3,854	4,832

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Business Operations and Significant Accounting Policies

(c) Property, plant and equipment:

For financial reporting purposes, depreciation and amortization are provided utilizing the straight-line method over the estimated useful lives of the assets or lease terms, whichever is shorter, and are computed principally utilizing accelerated methods for income tax purposes. Property under capital leases is amortized over the lease terms.

The annual provisions for depreciation and amortization have been computed in accordance with the following ranges of estimated useful lives:

Buildings	35 years
Property under capital lease	14 to 23 years
Manufacturing equipment	4 to 7 years
Furniture and fixtures	4 to 8 years
Leasehold and capital lease improvements	3 to 10 years
Motor Vehicles	3 years

7 (In Part): Lease Commitments and Related Party Transactions

The Company leases three operating facilities from a partnership in which the Chairman and the former Vice Chairman are partners under leases that have been accounted for as capital leases. Certain leases contain contingent rentals based upon cost of living adjustments. Contingent rentals were not significant in 1997, 1996 and 1995.

Property under capital leases is included in property, plant and equipment, as follows:

	July 31, 1997	1996
Land and buildings	$6,251,000	$6,251,000
Less accumulated amortization	5,085,000	4,781,000
Net capital lease assets	$1,166,000	$1,470,000

Certain of the Company's subsidiaries lease manufacturing and office space under non-cancelable operating leases. These leases expire through 1999 and contain renewal options. The Company leases certain other real property and equipment under operating leases which, in the aggregate, are not significant.

Rent expense approximated $531,000, $534,000 and $610,000 (net of sublease income of $1,188,000, $1,186,000 and $1,179,000) in fiscal 1997, 1996 and 1995, respectively.

The following is a schedule by year of future minimum lease payments at July 31, 1997:

Fiscal Year	Capital Leases	Operating Leases
1998	$ 812,000	$680,000
1999	812,000	239,000
2000	812,000	58,000
2001	812,000	5,000
2002	213,000	
2003	213,000	
	3,674,000	$982,000
Less amount representing interest, at 9.5%-17.6%	896,000	
Present value of minimum lease payments (includes current portion of $497,000)	$2,778,000	

Future minimum lease payments under capital leases have not been reduced for sublease rental income of approximately $1,188,000.

FRUIT OF THE LOOM, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Lease Commitments (In Part):

The Company and its subsidiaries lease certain manufacturing, warehousing and other facilities and equipment. The leases generally provide for the lessee to pay taxes, maintenance, insurance and certain other operating costs of the leased property. The leases on most of the properties contain renewal provisions.

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Following is a summary of future minimum payments under capitalized leases and under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 1997 (in thousands of dollars):

	Capitalized Leases	Operating Leases
Year Ending December 31,		
1998	$ 4,700	$33,300
1999	3,600	29,100
2000	3,600	11,400
2001	3,600	5,200
2002	3,600	2,200
Years subsequent to 2002	63,800	1,000
Total minimum lease payments	82,900	$82,200
Imputed interest	(32,600)	
Present value of minimum capitalized lease payments	50,300	
Current portion	1,500	
Long-term capitalized lease obligations	$48,800	

Assets recorded under capital leases are included in Property, Plant and Equipment as follows (in thousands of dollars):

	December 31, 1997	1996
Land	$ 8,300	$ 9,000
Buildings, structures and improvements	58,500	61,700
Machinery and equipment	82,500	82,500
	149,300	153,200
Accumulated amortization	(101,900)	(93,200)
	$ 47,400	$ 60,000

Rental expense for operating leases amounted to $33,700,000, $34,100,000 and $30,200,000 in 1997, 1996 and 1995, respectively.

THE MEAD CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

O (In Part): Leases

At December 31, 1997, future minimum annual rental commitments under noncancelable lease obligations are as follows:

(All dollar amounts in millions)

	Capital Leases	Operating Leases
Year ending December 31:		
1998	$ 8.0	$ 39.1
1999	8.7	29.7
2000	9.0	20.6
2001	7.4	14.2
2002	7.5	12.6
Later years through 2028	342.9	61.0
Total minimum lease payments	383.5	$177.2
Less amount representing interest	(195.8)	
Present value of net minimum lease payments	187.7	
Less current maturities of capital lease obligations	(.5)	
Capital lease obligations	$187.2	

Capital leases are for manufacturing facilities, equipment and warehouse and office space. Capital lease property included in property, plant and equipment is as follows:

(All dollar amounts in millions) December 31	1997	1996
Land and buildings	$ 4.4	$ 4.5
Machinery and equipment	195.6	170.6
	200.0	175.1
Less accumulated amortization	(80.5)	(73.4)
	$119.5	$101.7

WINN-DIXIE STORES, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Leases

(a) Leasing Arrangements: There were 1,466 leases in effect on store locations and other properties at June 25, 1997. Of these 1,466 leases, 44 store leases and 2 warehouse and manufacturing facility leases are classified as capital leases. Substantially all store leases will expire during the next twenty years and the warehouse and manufacturing facility leases will expire during the next twenty-five years. However, in the normal course of business, it is expected that these leases will be renewed or replaced by leases on other properties.

The rental payments on substantially all store leases are based on a minimum rental plus a contingent rental which is based on a percentage of the store's sales in excess of stipulated amounts. Most of the Company's leases contain renewal options for five-year periods at fixed rentals.

(b) Leases: The following is an analysis of the leased property under capital leases by major classes:

	Asset balances at	
Amounts in thousands	June 25, 1997	June 26, 1996
Store facilities	$59,646	65,933
Warehouses and manufacturing facilities	15,722	15,722
	75,368	81,655
Less: Accumulated amortization	37,090	37,373
	$38,278	44,282

The following is a schedule by year of future minimum lease payments under capital and operating leases, together with the present value of the net minimum lease payments as of June 25, 1997.

Amounts in thousands	Capital	Operating
Fiscal Year:		
1998	$ 10,111	292,491
1999	9,764	284,431
2000	9,633	280,631
2001	9,638	275,793
2002	9,699	271,404
Later years	61,347	2,592,409
Total minimum lease payments	110,192	3,997,159
Less: Amount representing estimated taxes, maintenance and insurance costs included in total minimum lease payments	2,286	
Net minimum lease payments	107,906	
Less: Amount representing interest	50,857	
Present value of net minimum lease payments	$ 57,049	

Lessee—Operating Leases

LIZ CLAIBORNE INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Commitments, Contingencies and Other Matters

The Company leases office, showroom, warehouse/distribution and retail space, computers and other equipment under various noncancellable operating lease agreements which expire through December 2013. Rental expense for 1997, 1996 and 1995 was approximately $77,278,000, $74,685,000 and $74,902,000, respectively.

At January 3, 1998, the minimum aggregate rental commitments are as follows:

(Dollars in thousands)

Fiscal Year	Operating Leases
1998	$ 53,917
1999	51,127
2000	47,404
2001	45,665
2002	29,327
Thereafter	119,640

Certain rental commitments have renewal options extending through the year 2030. Some of these renewals are subject to adjustments in future periods. Many of the leases call for additional charges, some of which are based upon various escalations, and, in the case of outlet and retail leases, the gross sales of the individual stores above base levels.

GANNETT CO., INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Commitments, Contingent Liabilities and Other Matters

Leases: Approximate future minimum annual rentals payable under non-cancelable operating leases are as follows:

(In thousands of dollars)	
1998	$ 34,827
1999	32,791
2000	30,673
2001	28,913
2002	14,834
Later years	55,442
Total	$197,480

Total minimum annual rentals have not been reduced for future minimum sublease rentals aggregating approximately $4 million. Total rental costs reflected in continuing operations were $43 million for 1997, $41 million for 1996 and $40 million for 1995.

HARRAH'S ENTERTAINMENT, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

7. Leases

Harrah's leases both real estate and equipment used in its operations and classifies those leases as either operating or capital leases following the provision of SFAS No. 13, "Accounting for Leases." The remaining lives of the Company's real estate operating leases range from one to six years with various automatic extensions totaling up to 45 years. The average remaining term for other operating leases, which generally contain renewal options, extends approximately five years.

Rental expense associated with operating leases is charged to expense in the year incurred and was included in the Consolidated Statements of Income as follows:

	1997	1996	1995
Noncancelable			
Minimum	$16,455	$14,774	$17,097
Contingent	2,929	2,032	—
Sublease	(294)	(313)	(53)
Other	3,584	3,435	2,001
	$22,674	$19,928	$19,045

The future minimum rental commitments as of December 31, 1997, were as follows:

	Noncancelable Operating Leases
1998	$12,888
1999	10,336
2000	9,630
2001	9,489
2002	9,071
Thereafter	84,283
Total minimum lease payments	$135,697

In addition to these minimum rental commitments, certain of these operating leases provide for contingent rentals based on a percentage of revenues in excess of specified amounts.

INTERFACE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Commitments and Contingencies

The Company leases certain marketing, production and distribution facilities, and equipment. At December 28, 1997 aggregate minimum rental commitments under operating leases with initial or remaining terms of one year or more consisted of the following:

Fiscal Year	(In thousands)
1998	$17,848
1999	13,990
2000	11,748
2001	8,535
2002	5,948
Thereafter	4,947
	$63,016

Rental expense amounted to approximately $20.7 million, $16.2 million, and $15.8 million for the fiscal years ended 1997, 1996 and 1995, respectively.

MOBIL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Leases

Mobil leases real estate, service stations, pipelines, tankers and other equipment through noncancelable capital and operating leases.

Rental expense (In millions) Year ended December 31	1995	1996	1997
Minimum rentals	$1,195	$1,260	$1,093
Contingent rentals	97	55	81
Total	1,292	1,315	1,174
Less: sublease rental income	187	188	137
Net rental expense	$1,105	$1,127	$1,037

Contingent lease rentals for operating and capital leases are determined generally by volumetric measurement or sales revenue. Some rental agreements contain escalation provisions that may require higher, future rent payments. Mobil does not expect that such rent increases, if any, will have a material effect on future earnings.

Future minimum lease payments under noncancelable leases (In millions)

At December 31, 1997	Operating Leases	Capital Lease Obligations
1998	$ 264	$ 81
1999	200	82
2000	156	21
2001	132	21
2002	122	21
Later years	1,365	290
Future minimum lease payments	$2,239	$516
Less: executory costs		1
interest		180
Total capital lease obligations		335
Less: short-term portion of capital lease obligations		48
Long-term portion of capital lease obligations		$287

Future minimum lease payments have not been reduced by future minimum sublease rentals of $63 million under operating leases. Capital leases included in Net Properties, Plants and Equipment were $243 million at December 31, 1996, and $301 million at December 31, 1997.

SYBASE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Lease Obligations and Other Liabilities and Commitments

The Company leases certain office facilities and certain furniture and equipment under operating leases expiring through 2004, which generally require Sybase to pay operating costs, including property taxes, insurance and maintenance. These facility leases generally contain renewal options and provisions adjusting the lease payments based upon changes in the consumer price index, increases in real estate taxes and operating expenses or in fixed increments. Rent expense is reflected on a straight-line basis over the term of the lease. Capital lease obligations incurred for equipment acquisitions have not been material.

Future minimum lease payments under noncancellable operating leases having initial terms in excess of one year as of December 31, 1997 are as follows (in thousands):

1998	$ 44,253
1999	32,037
2000	21,995
2001	17,204
2002	12,927
Thereafter	6,396
Total minimum lease payments	$134,812

During 1995, the Company entered into a five-year lease of a new research and development facility in Boulder, Colorado. Payments under this lease, which commenced during 1997, are based on LIBOR rates applied to the $13,016,000 cost of the facility funded by the lessor. The Company has an option to renew the lease for up to two five-year extensions, subject to certain conditions. If at the end of the lease term, whether caused by expiration, default or otherwise, the Company does not purchase the property, the Company would guarantee a residual value to the lessor of up to the lessor's net investment in the property. Under this lease, the Company is required to maintain compliance with certain financial covenants. As a result of net losses incurred in 1997, the Company failed to comply with certain of these covenants and such noncompliance has been waived by the lessor. In March 1998, the Company collateralized its obligations to the lessor by pledging $13,276,000 in cash deposits.

Facility rent expense amounted to approximately $42,322,000, $47,389,000 and $42,347,000 in 1997, 1996 and 1995, respectively.

At December 31, 1997, other liabilities included accrued rent expense under the Company's facilities leases ($1,461,000), noncurrent liabilities related to business combinations ($460,000) and other obligations ($38,000).

Lessor Leases

PENNZOIL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Leases

As Lessor

Pennzoil, through Jiffy Lube, owns or leases numerous service center sites which are leased or subleased to franchisees. Buildings owned or leased that meet the criteria for direct financing leases are carried at the gross investment in the lease less unearned income. Unearned income is recognized in such a manner as to produce a constant periodic rate of return on the net investment in the direct financing lease. Any buildings leased or subleased that do not meet the criteria for a direct financing lease and any land leased or subleased are accounted for as operating leases. The typical lease period is 20 years and some leases contain renewal options. The franchisee is responsible for the payment of property taxes, insurance and maintenance costs related to the leased property. The net investment in direct financing leases is classified as other assets in the accompanying consolidated balance sheet.

Future minimum lease payment receivables under noncancellable leasing arrangements as of December 31, 1997 are as follows:

	Amounts Receivable as Lessor	
	Direct Financing Leases	Operating Leases
Year Ending December 31:	(Expressed in thousands)	
1998	$ 4,593	$ 11,996
1999	4,651	11,542
2000	4,723	11,347
2001	4,781	10,532
2002	4,814	10,063
Thereafter	28,648	56,026
Net minimum future lease receipts	$52,210	$111,506
Less unearned income	22,626	
Net investment in direct financing leases at December 31, 1997	$29,584	

Investment in Leveraged Leases

ILLINOIS TOOL WORKS INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Investments as of December 31, 1997 and 1996 consisted of the following:

(In thousands)	1997	1996
Commercial mortgage loans	$ 573,717	$457,015
Commercial real estate	167,194	86,919
Net swap receivables	258,857	171,330
Receivable from mortgage servicer	18,216	16,313
Leveraged, direct financing and sales-type leases of equipment	79,875	83,432
Properties held for sale	22,583	18,456
Property developments	17,871	18,425
Affordable housing	17,095	13,581
Annuity contract	5,005	—
U.S. Treasury security	4,479	4,286
Other	5,123	2,935
	$1,170,015	$872,692

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The Company's investment in leveraged and direct financing leases relates to equipment used primarily in the transportation, mining and paper processing industries. The components of the investment in leveraged, direct financing and sales-type leases at December 31, 1997 and 1996 were as shown below:

(In thousands)	1997	1996
Lease contracts receivable (net of principal and interest on nonrecourse financing)	$86,183	$92,874
Estimated residual value of leased assets	25,596	25,601
Unearned and deferred income	(31,904)	(35,043)
Investment in leveraged, direct financing and sales-type leases	79,875	83,432
Deferred income taxes related to leveraged and direct financing leases	(36,639)	(37,980)
Net investment in leveraged, direct financing and sales-type leases	$43,236	$45,452

Sale-Leaseback

CONSOLIDATED PAPERS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Leases

The company sold certain assets for $136 million in December 1997. The assets were leased back from the purchaser over a period of 16 years. The resulting lease is being accounted for as an operating lease, and the resulting gain of $17 million is being amortized over the life of the lease. The lease requires the company to pay customary operating and repair expenses and to observe certain operating restrictions and covenants. The lease contains renewal options at lease termination and purchase options at amounts approximating fair market value in 2005, 2010 and at lease termination.

The company sold certain assets for $253 million and $169 million in May 1996 and September 1996, respectively. The assets were leased back from the purchaser over a period of 15 years. Under the agreements, the company will maintain deposits, initially in the amount of $393 million, which together with interest earned are expected to be sufficient to fund the company's lease obligations, including the repurchase of the assets. These lease agreements contain restrictions on net worth and other matters. These transactions are being accounted for as financing arrangements and the resulting gains are amortized over a 15-year period. At December 31, 1997, the company recorded assets for the deposits from the sale proceeds of $440 million and liabilities for the lease obligations of $469 million. $12.6 million of both the deposits and lease obligations are recorded as current. The net amount of capital lease assets at December 31, 1997, is $283 million.

Future scheduled minimum lease payments, excluding the lease bought out in January 1998, under capital and noncancelable operating leases as of December 31, 1997, are as follows:

(In thousands)	Operating Leases	Capital Leases
1998	$ 9,413	$ 21,087
1999	12,313	25,551
2000	10,381	26,844
2001	9,988	28,203
2002	9,410	29,631
Later years	72,607	884,461
Total minimum lease payments	$124,112	1,015,777
Imputed interest		(546,807)
Present value of capitalized lease payments		468,970
Less - current portion (included in other current liabilities)		12,649
Long-term capitalized lease obligations		$ 456,321

ZENITH ELECTRONICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note One (In Part): Significant Accounting Policies

Properties and Depreciation
Rental expenses under operating leases were $20.7 million, $12.8 million, and $15.3 million in 1997, 1996 and 1995, respectively. The 1997 increase in rental expense was due to the sale-leaseback transaction that was entered into in April 1997. See Note Fourteen for additional information on the sale-leaseback transaction.

Note Fourteen. Sale Leaseback Transaction:

In April 1997 the company entered into an $87 million sale-leaseback transaction whereby the company sold and leased back new and existing manufacturing equipment in its Melrose Park, IL., plant and in its Reynosa and Juarez, Mexico, facilities. The result of the sale was a $10.2 million gain for the company, which was deferred and is being amortized over the 12½ year lease term.

The related lease is being accounted for as an operating lease. The rental expense under this lease in 1997 was $8.1 million. The minimum lease payments required by the lease over the next five years are as follows (in million):

Year ending December 31:	
1998	$ 12.3
1999	10.6
2000	9.6
2001	9.7
2002	9.7
Thereafter	78.6
Total minimum lease payments	$130.5

The company's payment obligations, along with certain other items under the lease agreement are fully guaranteed by LGE. The sale-leaseback agreement contains financial penalties which would be triggered if the company was to terminate the lease early.

OTHER NONCURRENT LIABILITIES

In addition to long-term debt, many of the survey companies presented captions for deferred taxes, minority interests, employee liabilities, estimated losses or expenses, and deferred credits. Table 2-29 summarizes the nature of such noncurrent liabilities and deferred credits. Examples of presentations and disclosures for noncurrent liabilities and deferred credits follow.

TABLE 2-29: OTHER NONCURRENT LIABILITIES

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Deferred income taxes	401	411	408	424
Minority interest	148	147	143	138
Liabilities of nonhomogeneous operations	11	13	14	16
Employee liabilities				
Benefits	235	239	252	256
Pension accruals	130	133	156	148
Deferred compensation, bonus, etc.	58	54	58	56
Other—described	22	13	12	16
Estimated losses or expenses				
Environmental	59	62	55	54
Discontinued operations	30	30	46	47
Insurance	25	23	24	22
Warranties	9	9	8	12
Put options/warrants	7	10	—	—
Other—described	59	57	46	44
Deferred credits				
Deferred profit on sales	14	11	15	19
Payments received prior to rendering service	7	5	6	4
Other—described	18	14	21	16

Deferred Income Taxes

GENUINE PARTS COMPANY (DEC)

(Dollars in thousands)	1997	1996
Total Current Liabilities	$556,938	$568,379
Long-term debt	209,490	110,241
Deferred income taxes (Note 6)	89,049	75,388
Minority interests in subsidiaries	39,418	35,569

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Income Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities are as follows:

(In thousands)	1997	1996
Employee and retiree benefits	$53,228	$40,885
Property, plant and equipment	25,704	24,052
Merchandise inventories	1,311	1,730
Other	8,806	8,721
	$89,049	$75,388

KERR-MCGEE CORPORATION (DEC)

(Millions of dollars)	1997	1996
Total Current Liabilities	$523	$485
Long-term debt	552	626
Deferred credits		
Income taxes	159	131
Other	422	515
Total Deferred Credits	581	646

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Income Taxes

Deferred income taxes are provided to reflect the future tax consequences of differences between the tax basis of assets and liabilities and their reported amounts in the financial statements.

12 (In Part): Income Taxes

At December 31, 1997, the net deferred tax asset includes the benefit for $80 million in net operating loss carryforwards that have no expiration dates. At December 31, 1997, the company had additional foreign net operating loss carryforwards totaling $12 million that expire in 2001. These loss carryforwards offset a portion of the foreign net deferred tax liability. Realization of net operating loss carryforwards is dependent on generating sufficient taxable income. Although realization is not assured, the company believes it is more likely than not that all of the net deferred tax asset will be realized.

The net deferred tax asset, which is classified as Investments—Other assets in the Consolidated Balance Sheet, represents the net deferred taxes in certain foreign jurisdictions. Deferred tax liabilities and assets at December 31, 1997 and 1996, are composed of the following:

(Millions of dollars)	1997	1996
Net deferred tax liability—		
Accelerated depreciation	$240	$259
Exploration and development	72	65
Undistributed earnings of foreign subsidiaries	28	23
Postretirement benefits	(47)	(46)
Dismantlement, reclamation, remediation	(69)	(113)
Foreign operating loss carryforward	(4)	(10)
Other	(61)	(47)
	159	131
Net deferred tax asset—		
Accelerated depreciation	13	16
Foreign operating loss carryforward	(29)	(36)
Other	(6)	(3)
	(22)	(23)
Total	$137	$108

Minority Interest

AMERICAN HOME PRODUCTS CORPORATION (DEC)

(In thousands)	1997	1996
Total Current Liabilities	$4,327,018	$4,337,635
Long-term debt	5,031,861	6,020,575
Other noncurrent liabilities	2,248,282	2,486,375
Postretirement benefit obligations other than pensions	833,916	782,342
Minority interests	208,782	196,324

ATLANTIC RICHFIELD COMPANY (DEC)

(In millions)	1997	1996
Total Current Liabilities	$ 4,745	$ 5,303
Long-term debt	4,414	5,593
Deferred income taxes	3,083	2,884
Other deferred liabilities and credits	3,621	3,450
Minority interest	779	684
Total Liabilities	16,642	17,914

ELI LILLY AND COMPANY (DEC)

(Dollars in millions)	1997	1996
Total Current Liabilities	$4,191.6	$4,222.2
Other Liabilities		
Long-term debt	2,326.1	2,516.5
Deferred income taxes	215.5	376.0
Retiree medical benefit obligations	118.3	136.4
Other noncurrent liabilities	920.3	956.0
	3,580.2	3,984.9
Commitments and contingencies	—	—
Minority interest in subsidiary (Note 10)	160.0	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Minority Interest in Subsidiary:

In October 1997, a domestic subsidiary of the company issued $160 million (160 shares) of convertible Class B stock to an institutional investor. The Class B stock pays dividends on a quarterly basis at 25 basis points above the three-month LIBOR rate. The Class B stock is convertible on a one-to-one basis into the subsidiary's Class A stock at the option of the holder at any time. The subsidiary may redeem the Class B stock for $1 million per share plus accrued and unpaid dividends five years from the date of issuance and upon each fifth-year anniversary thereafter. Also, the stock may be redeemed by the subsidiary upon various redemption events, as defined in the stockholder's agreement, or at the option of the holder seven years from the date of issuance for $1 million per share plus accrued and unpaid dividends.

PITNEY BOWES INC. (DEC)

(Dollars in thousands)	1997	1996
Total Current Liabilities	$3,373,233	$3,305,289
Deferred taxes on income	905,768	720,840
Long-term debt	1,068,395	1,300,434
Other noncurrent liabilities	373,416	390,113
Total Liabilities	5,720,812	5,716,676
Preferred stockholders' equity in a subsidiary company	300,000	200,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data or as otherwise indicated)

6. Preferred Stockholders' Equity in a Subsidiary Company

Preferred stockholders' equity in a subsidiary company represents 3,000,000 shares of variable term voting preferred stock issued by Pitney Bowes International Holdings, Inc., a subsidiary of the company, which are owned by certain outside institutional investors. These preferred shares are entitled to 25% of the combined voting power of all classes of capital stock. All outstanding common stock of Pitney Bowes International Holdings, Inc., representing the remaining 75% of the combined voting power of all classes of capital stock, is owned directly or indirectly by Pitney Bowes Inc. The preferred stock, $.01 par value, is entitled to cumulative dividends at rates set at auction. The weighted average dividend rate in 1997 and 1996 was 4.1% and 4.0%, respectively. Preferred dividends are reflected as a minority interest in the Consolidated Statements of Income in selling, service and administrative expenses. The preferred stock is subject to mandatory redemption based on certain events, at a redemption price not less than $100 per share, plus the amount of any dividends accrued or in arrears. No dividends were in arrears at December 31, 1997 or 1996.

Employee-Related Liabilities

CSP, INC. (AUG)

(Amounts in thousands)	1997	1996
Total Current Liabilities	$7,738	$1,639
Deferred compensation and retirement plans	2,240	2,093
Commitments and contingencies		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Deferred Compensation and Retirement Plans

The Company has a 401(k) Retirement Plan under which the Company matches a portion of the employee's salary reduction contributions and may make discretionary contributions to the plan. All employees with one year of continuous service are eligible for the plan. All Company contributions are fully vested. Contributions by the Company were $94,000, $145,000 and $122,000 for 1997, 1996 and 1995, respectively.

The Company has a Supplemental Retirement Plan for certain employees that provides for payments (generally over 15 years) upon retirement, death or disability. The annual benefit is based upon a percentage of salary at the inception of the plan, plus an annual percentage increase, plus interest. In addition, the Company adopted deferred compensation plans for key executives that provide for payments, over a ten-year period, upon retirement, death or disability based upon a percentage of salary at that time.

The charge to expense for the plans for fiscal 1997, 1996 and 1995 amounted to $302,000, $277,000 and $207,000, respectively.

FEDERAL SCREW WORKS (JUN)

	1997	1996
Current Liabilities		
Accounts payable	$ 5,393,944	$ 2,976,916
Payroll and employee benefits	7,072,584	5,262,521
Dividend payable	108,651	108,666
Federal income taxes	848,739	414,739
Taxes, other than income taxes	1,429,692	1,317,832
Accrued pension contributions	428,719	664,308
Other accrued liabilities	375,090	371,114
Current maturities of long-term debt	400,000	400,000
Total Current Liabilities	16,057,419	11,516,096
Long-Term Liabilities		
Long-term debt	600,000	7,960,000
Unfunded pension obligation—Note 5	1,526,114	2,977,374
Deferred income taxes	1,564,000	1,122,000
Employee benefits	1,104,582	1,193,524
Postretirement benefits—Note 6	6,746,488	5,250,496
Other liabilities	478,654	439,754
	12,019,838	18,943,148

NOTES TO FINANCIAL STATEMENTS

Note 5 (In Part): Employee Benefits

The Company sponsors four defined benefit pension plans covering substantially all employees. Benefits under three of the plans are based on negotiated rates times years of service. Under the remaining plan, benefits are based on compensation during the years immediately preceding retirement and years of service. It is the Company's policy to make contributions to these plans sufficient to meet minimum funding requirements of the applicable laws and regulations, plus such additional amounts, if any, as the Company's actuarial consultants advise to be appropriate. Plan assets for these plans consist principally of fixed income instruments, equity securities and participation in insurance company contracts.

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	Plans for Which Assets Exceed Accumulated Benefits		Plans for Which Accumulated Benefits Exceed Assets	
	1997	1996	1997	1996
Actuarial present value of vested benefit obligations	$5,127,000	$4,642,000	$12,815,000	$12,271,000
Actuarial present value of accumulated benefit obligations	$5,179,000	$4,712,000	$13,171,000	$12,612,000
Plan assets at fair value	$8,791,000	$8,010,000	$10,543,000	$8,844,000
Projected benefit obligations	6,326,000	5,808,000	13,171,000	12,612,000
Excess (deficiency) of assets over projected benefit obligations	2,465,000	2,202,000	(2,628,000)	(3,768,000)
Unrecognized net (gain)/loss	(330,000)	(12,000)	2,270,000	2,521,000
Unrecognized prior service cost	(102,000)	(132,000)	1,056,000	758,000
Unrecognized net (asset) liability at transition	(849,000)	(1,021,000)	2,269,000	2,120,000
Additional liability recognized under the minimum liability provisions			(4,922,000)	(5,273,000)
Net pension asset (liability)	$1,184,000	$1,037,000	$(1,955,000)	$(3,642,000)

Certain plan amendments had the effect of increasing the projected benefit obligation for the under-funded plans by approximately $361,000 in 1997. In 1996, the change in the discount rate, coupled with changes in other actuarial assumptions and certain plan amendments, had the effect of increasing the projected benefit obligations for the under-funded plans by approximately $1,300,000.

In 1995, the Company established a retirement plan for directors who are not employees of the Company. The net periodic pension expense for the plan was $39,000 and $150,000 in 1997 and 1996, respectively. The actuarial present value of vested benefit obligations approximated $514,000 at June 30, 1997 and $560,000 at June 30, 1996. The plan is currently unfunded.

Note 6 (In Part): Other Postretirement Benefits

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The benefits are provided through certain insurance companies.

The following table presents the plan's funded status reconciled with amounts recognized in the Company's financial statements;

	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	$(9,703,000)	$(8,975,000)
Fully eligible active plan participants	(2,234,000)	(2,821,000)
Other active plan participants	(5,686,000)	(5,232,000)
	(17,623,000)	(17,028,000)
Unrecognized net (gain) or loss	(3,497,000)	(3,494,000)
Unrecognized transition obligation	14,374,000	15,272,000
Accrued postretirement benefit cost	$(6,746,000)	$(5,250,000)

MAYTAG CORPORATION (DEC)

(In thousands)	1997	1996
Total Current Liabilities	$ 566,638	$ 570,011
Noncurrent liabilities		
Deferred income taxes	23,666	27,012
Long-term debt	549,524	488,537
Postretirement benefits other than pensions	454,390	447,415
Pension liability	31,308	50,377
Other noncurrent liabilities	99,096	102,621
Total noncurrent liabilities	1,157,984	1,115,962

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Postretirement Benefits Other Than Pensions (In Part):

The Company provides postretirement health care and life insurance benefits for certain employee groups in the United States. Most of the postretirement plans are contributory and contain certain other cost sharing features such as deductibles and coinsurance. The plans are unfunded. Employees do not vest and these benefits are subject to change. Death benefits for certain retired employees are funded as part of, and paid out of, pension plans.

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The following table presents the status of the plans reconciled with amounts recognized in the Statements of Consolidated Financial Condition for the Company's postretirement benefits:

	December 31,	
(In thousands)	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	$258,214	$243,900
Fully eligible active plan participants	40,304	41,063
Other active plan participants	83,172	92,526
	381,690	377,489
Unrecognized prior service cost	18,839	28,778
Unrecognized net gain	53,861	41,148
Postretirement benefit liability	$454,390	$447,415

Pension Benefits (In Part):

The Company provides noncontributory defined benefit pension plans for most employees. Plans covering salaried and management employees generally provide pension benefits that are based on an average of the employee's earnings and credited service. Plans covering hourly employees generally provide benefits of stated amounts for each year of service. The Company's funding policy for the plans is to contribute amounts sufficient to meet the minimum funding requirement of the Employee Retirement Income Security Act of 1974, plus any additional amounts which the Company may determine to be appropriate. In 1997, 1996 and 1995, the Company made contributions to the plans of $4.8 million, $42.3 million and $1.6 million, respectively.

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The following table sets forth the funded status and amounts recognized in the Statements of Consolidated Financial Condition for the Company's defined benefit pension plans:

	December 31, 1997		December 31, 1996	
(In thousands)	Plans in Which Assets Exceed Accumulated Benefits	Plans in Which Accumulated Benefits Exceed Assets	Plans in Which Assets Exceed Accumulated Benefits	Plans in Which Accumulated Benefits Exceed Assets
Actuarial present value of benefit obligation:				
Vested benefit obligation	$(22,521)	$(809,785)	$(8,695)	$(758,171)
Accumulated benefit obligation	$(23,484)	$(891,378)	$(8,697)	$(837,891)
Projected benefit obligation	$(29,405)	$(954,300)	$(9,206)	$(895,825)
Plan assets at fair value	32,119	860,207	10,769	787,806
Projected benefit obligation less than (in excess of) plan assets	2,714	(94,093)	1,563	(108,019)
Unrecognized net (gain) loss	(870)	39,227	(453)	71,728
Unrecognized prior service cost	594	73,445	613	77,708
Unrecognized net transition asset	(278)	(16,068)	(282)	(21,176)
Net pension asset	$ 2,160	$ 2,511	$ 1,441	$ 20,241
Recognized in the Statements of Consolidated Financial Condition				
Pension investment (liability)	$ 2,160	$ (31,308)	$ 1,441	$ (50,377)
Intangible pension asset		33,819		70,511
Minimum pension liability adjustment—reduction of shareowners' equity				107
Net pension asset	$ 2,160	$ 2,511	$ 1,441	$ 20,241

FASB Statement No. 87 "Employers' Accounting For Pensions" requires the Company to recognize a minimum pension liability equal to the amount by which the actuarial present value of the accumulated benefit obligations exceeds the fair value of plans' assets. In 1997 and 1996, the Company recorded $33.8 million and $70.6 million, respectively, to recognize the minimum pension liability. A corresponding amount is required to be recognized as an intangible asset to the extent of the unrecognized prior service cost and unrecognized net transition obligation on an individual plan basis. Any excess of the minimum pension liability above the intangible asset is recorded as a separate component and reduction of shareowners' equity. The Company recorded an intangible asset of $33.8 million in 1997 and recorded an intangible asset of $70.5 million and a reduction of shareowners' equity of $0.1 million in 1996 in the Statements of Consolidated Financial Condition.

OWENS CORNING (DEC)

(In millions of dollars)	1997	1996
Total Current Liabilities	$1,307	$1,121
Long-term debt	1,595	818
Other		
Asbestos litigation claims	1,320	1,670
Asbestos-related liabilities—fibreboard	123	—
Other employee benefits liability (Note 9)	335	349
Pension plan liability	65	63
Other	165	161
Total Other Liabilities	2,008	2,243

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Postemployment and Postretirement Benefits Other Than Pensions

The Company and its subsidiaries maintain health care and life insurance benefit plans for certain retired employees and their dependents. The health care plans in the U.S. are unfunded and pay either 1) stated percentages of covered medically necessary expenses, after subtracting payments by Medicare or other providers and after stated deductibles have been met, or, 2) fixed amounts of medical expense reimbursement.

The following table reconciles the status of the accrued postretirement benefits cost liability at October 31, 1997 and 1996, as reflected on the balance sheet at December 31, 1997 and 1996:

(In millions of dollars)	1997	1996
Accumulated Postretirement Benefits Obligation:		
Retirees	$(225)	$(191)
Fully eligible active plan participants	(44)	(28)
Other active plan participants	(59)	(58)
Funded status	(328)	(277)
Unrecognized net (gain) loss	30	(10)
Unrecognized net reduction in prior service cost	(32)	(52)
Benefit payments subsequent to the valuation date	4	4
Accrued postretirement benefits cost liability (includes current liabilities of $24 million and $22 million in 1997 and 1996, respectively)	$(326)	$(335)

The Company also recognizes the obligation to provide benefits to former or inactive employees after employment but before retirement under certain conditions. These benefits include, but are not limited to, salary continuation, supplemental unemployment benefits, severance benefits, disability-related benefits (including workers' compensation), job training and counseling, and continuation of benefits such as health care and life insurance coverage. The accrued postemployment benefits cost liability at October 31, 1997 and 1996, as reflected on the balance sheet at December 31, 1997 and 1996 was $37 million and $40 million, respectively, including current liabilities of $4 million in each year. The net postemployment benefits expense was less than $1 million for 1997 and $2 million for 1996 and 1995.

SOUTHDOWN, INC. (DEC)

(In millions)	1997	1996
Current Liabilities:		
Current maturities of long-term debt	$ 1.5	$ 1.2
Accounts payable and accrued liabilities (Note 9)	81.2	89.0
Total current liabilities	82.7	90.2
Long-term debt	162.9	164.4
Deferred income taxes	132.1	120.3
Minority interest in consolidated joint venture	27.7	28.0
Long-term portion of postretirement benefit obligation (Note 16)	67.7	71.7
Other long-term liabilities and deferred credits	16.9	18.1
	490.0	492.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Accounts Payable and Accrued Liabilities:

December 31, (in millions)	1997	1996
Trade accounts payable	$23.4	$26.0
Accrued compensation and benefits	18.6	19.6
Accrued liabilities, trade	16.7	18.3
Accrued interest payable	4.3	4.5
Accrued taxes, other	3.9	3.2
Current portion of postretirement benefit obligation	3.0	3.0
Accrued environmental remediation costs	1.1	2.2
Income tax liability	1.5	1.5
Other accrued liabilities	8.7	10.7
	$81.2	$89.0

16 (In Part): Health Care and Life Insurance Benefits

The Company offers health care benefits to active employees and their dependents. Certain retirees under the age of sixty-five and their dependents are also offered health care benefits which consist primarily of medical and life insurance benefits. However, benefit payments for covered retirees sixty-five years of age or older are reduced by benefits paid by Medicare.

The following table sets forth the Company's accumulated postretirement benefit obligation, none of which has been funded, reconciled with the amount shown in the Company's balance sheet at December 31, 1997 and 1996:

December 31, (in millions)	1997	1996
Accumulated postretirement benefit obligation (APBO)		
Retirees	$25.8	$26.3
Fully eligible active participants	0.9	0.7
Other active participants	3.1	2.8
	29.8	29.8
Plan assets at fair value	—	—
Accumulated postretirement benefit obligation	29.8	29.8
Unrecognized prior service credit	26.3	28.6
Unrecognized net gain	14.6	16.3
Accrued postretirement benefit costs	$70.7	$74.7

Environmental Costs

TECUMSEH PRODUCTS COMPANY (DEC)

(Dollars in millions)	1997	1996
Total Current Liabilities	$263.3	$254.7
Long-term debt	17.5	14.4
Non-pension postretirement benefits	182.7	178.4
Product warranty and self-insured risks	28.9	30.2
Accrual for environmental matters	31.6	33.0
Pension liabilities	13.2	14.4
Total Liabilities	537.2	525.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Environmental Expenditures

Expenditures for environmental safekeeping are expensed or capitalized as appropriate. Costs associated with remediation activities are expensed. Liabilities relating to probable remedial activities are recorded when the costs of such activities can be reasonably estimated.

Note 9. Environmental Matters

The Company has been named by the EPA as a potentially responsible party in connection with the Sheboygan River and Harbor Superfund Site in Wisconsin. At December 31, 1997 and 1996, the Company had an accrual of $29.0 and $30.1 million, respectively, for estimated costs associated with the cleanup of certain polychlorinated biphenyl (PCB) contamination at this Superfund Site. The Company has based the estimated cost of cleanup on ongoing engineering studies, including samples taken in the Sheboygan River, and on assumptions as to the nature, extend and areas that will have to be remediated. Significant assumptions underlying the estimated costs are that remediation will involve innovative technologies, including (but not limited to) bioremediation near the Company's plant site and along the upper river, and only natural armoring and bioremediation in the lower river and harbor. The EPA has indicated it expects to issue a record of decision on the cleanup of the Sheboygan River and Harbor Site in 1998, but the ultimate resolution of the matter may take much longer. The ultimate costs to the Company will be dependent upon factors beyond its control. These factors include the scope and methodology of the remedial action requirements to be established by the EPA (in consultation with the Wisconsin Department of Natural Resources (WDNR)), rapidly changing technology, natural resource damages (if any) and the outcome of any related litigation.

The Company, in cooperation with the WDNR, is conducting an investigation of soil and groundwater contamination of the Company's Grafton, Wisconsin plant. Certain test procedures are underway to assess the extend of contamination and to develop remedial options for the site. While the Company has provided for estimated investigation and on-site remediation costs, the extent and timing of future off-site remediation requirements, if any, are not presently determinable.

The WDNR has requested that the Company and other interested parties join it in a cooperative effort to clean up PCB contamination in the watershed of the south branch of the Manitowoc River, downstream of the Company's New Holstein, Wisconsin facility. The Company has cooperated to date with the WDNR in investigating the scope and range of the contamination. The WDNR has not identified the parties it believes are responsible for such contamination. The Company has provided for preliminary investigation expenses. Although participation in a cooperative remediation effort is under consideration, it is not possible at this time to reasonably estimate the cost of any such participation.

In addition to the above mentioned sites, the Company is also currently participating with the EPA and various state agencies at certain other sites to determine the nature and extent of any remedial action which may be necessary with regard to such other sites. Based on limited preliminary data and other information currently available, the Company has no reason to believe that the level of expenditures for potential remedial action necessary at these other sites will have a material effect on its financial position.

TOSCO CORPORATION (DEC)

(Thousands of dollars)	1997	1996
Total Current Liabilities	$1,552,775	$1,032,506
Revolving credit facility	166,000	
Long-term debt	1,415,257	826,832
Accrued environmental costs	252,964	87,363
Deferred income taxes	140,435	80,302
Other liabilities	203,366	157,499
Total Liabilities	3,730,797	2,184,502

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Summary of Significant Accounting Policies

Environmental Costs

Liabilities for future remediation costs are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Other than for assessments, the timing and magnitude of these accruals are generally based on the completion of investigations or other studies or a commitment to a formal plan of action. The gross amount of the liability is based on the Company's best estimate of undiscounted future costs using currently available technology, and applying current regulations, as well as the Company's own internal environmental policies. Estimated reimbursements of remediation costs of petroleum releases from underground storage tanks are recorded as assets when reimbursements from state trust fund programs are probable.

Note 11. Accrued Environmental Costs

The Company is subject to extensive federal, state, and local environmental laws and regulations relating to its petroleum refining, distribution, and marketing operations. These laws and regulations (which are complex, change frequently, and are subject to differing interpretations) regulate the discharge of materials into the environment. The Company is currently involved in a number of environmental proceedings and discussions regarding the removal and mitigation of the environmental effects of subsurface liquid hydrocarbons and alleged levels of hazardous waste at certain of its refineries and other locations, including a site on the Superfund National Priorities List.

In July 1993, outstanding litigation concerning environmental issues was settled with the predecessor owners of the Avon Refinery (the "Settlement Agreement"). Under the Settlement Agreement, the former owners agreed to pay up to $18,000,000 for one-half of the costs that may be incurred for compliance with certain environmental orders and to provide the Company with a $6,000,000 credit for past expenses (which the company uses to reduce its one-half share of costs). After the $36,000,000 shared cost maximum is expended, the parties may elect to continue the Settlement Agreement or to reinstate litigation. The company and the former owners have established a committee to review and approve expenditures for environmental investigative and remediation actions at the Avon Refinery. Through December 31, 1997, the committee has spent $4,192,000 on such matters.

By agreement, Exxon is responsible for environmental obligations related to or arising out of its ownership and operation of the Bayway Refinery, purchased by the Company in April 1993. The Company has also received indemnifications with respect to environmental obligations arising out of or relating to the period prior to the respective acquisition dates of the Ferndale Refinery, the Trainer Refinery, and retail assets in the Pacific Northwest and Northern California from BP, and the Arizona retail properties from Exxon.

Through March 31, 2022, Unocal will be responsible for all environmental liabilities at the acquired refineries, gasoline stations, oil storage terminals, and pipelines arising out of or relating to the period prior to closing, except that the Company will pay the first $7,000,000 of such environmental liabilities each year, plus 40% of any amount in excess of $7,000,000 per year, with Unocal paying the remaining 60% each year. The aggregate maximum amount that the Company may have to pay in total for the 25 year period for such environmental liabilities is limited to $200,000,000. During the nine months ended December 31, 1997, the Company incurred environmental costs at the 76 Products sites of $9,497,000, of which $2,438,000 is reimbursable by Unocal and $7,059,000 was charged to the environmental accrual.

Environmental exposures are difficult to assess and estimate for numerous reasons including the complexity and differing interpretations of governmental regulations, the lack of reliable data, the number of potentially responsible parties and their financial capabilities, the multiplicity of possible solutions, the years of remedial and monitoring activity required, and the identification of new sites. The Company believes that it has adequately provided for environmental exposures. However, should these matters be resolved unfavorably to the Company, they could have a material adverse effect on its long-term consolidated financial position and results of operations.

Discontinued Operations

DRAVO CORPORATION (DEC)

(In thousands)	1997	1996
Current Liabilities:		
Current portion of long-term notes	$ 9,736	$ 6,166
Accounts payable—trade	17,548	14,542
Accrued insurance	1,482	1,906
Accrued retirement contribution	—	1,785
Net liabilities of discontinued operations (Note 2)	3,613	6,299
Redeemable preference stock	5,000	—
Other current liabilities	4,368	3,843
Total current liabilities	41,745	34,541
Long-term notes	74,396	63,535
Other liabilities	9,022	6,632
Net liabilities of discontinued operations (Note 2)	5,401	6,786

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Discontinued Operations

The remaining discontinued operations' assets and liabilities for the respective years ended December 31 relate to non-cancelable leases, environmental, insurance, legal and other matters associated with various discontinued businesses and are presented below:

(In thousands)	1997	1996
Current assets:		
Accounts and retainers receivable	$ 209	$ 323
Total current assets	209	323
Other	—	309
Total assets	$ 209	$ 632
Current liabilities:		
Accounts and retainers payable	$ 135	$ 536
Accrued loss on leases	1,028	2,304
Environmental	981	1,855
Other	1,680	1,927
Total current liabilities	3,822	6,622
Accrued loss on leases	—	954
Environmental	1,286	423
Other	4,115	5,718
Total liabilities	$9,223	$13,717
Net liabilities and accrued loss on leases of discontinued operations	$9,014	$13,085

Insurance

EMCOR GROUP, INC. (DEC)

(In thousands)	1997	1996
Total Current Liabilities	$456,595	$421,698
Long-term debt	63,212	73,051
Other long-term obligations	45,524	36,115

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note J. Insurance Liability

The Company's insurance liability is determined actuarially based on claims filed and an estimate of claims incurred but not yet reported. The present value of such claims was determined at December 31, 1997 and 1996 using a 4.0% discount rate. The estimated current portion of the insurance liability was approximately $5.1 million and $3.2 million at December 31, 1997 and 1996, respectively. Such amounts are included in "other accrued expenses and liabilities" in the accompanying Consolidated Balance Sheets. The non-current portion of the insurance liability was approximately $24.8 million and $18.5 million at December 31, 1997 and 1996, respectively. Such amounts are included in "Other Long-Term Obligations". The undiscounted liability was approximately $33.7 million and $24.9 million at December 31, 1997 and 1996, respectively.

The Company is subject to regulation with respect to the handling of certain materials used in construction which are classified as hazardous or toxic by Federal, State and local agencies. The Company's practice is to avoid participation in projects principally involving the remediation or removal of such materials. However, where remediation is a required part of contract performance, the Company believes it complies with all applicable regulations governing the discharge of material into the environment or otherwise relating to the protection of the environment.

Warranties

SEAGATE TECHNOLOGY, INC. (JUN)

(In thousands)	1997	1996
Accounts payable	$ 863,141	$ 715,396
Accrued employee compensation	200,360	180,126
Accrued expenses	504,777	305,044
Accrued warranty	197,676	185,708
Accrued income taxes	69,275	49,437
Current portion of long-term debt	1,125	2,425
Total Current Liabilities	1,836,354	1,438,136
Deferred income taxes	478,840	351,527
Accrued warranty	190,577	140,670
Other liabilities	39,497	44,909
Long-term debt, less current portion	701,945	798,305
Total Liabilities	3,247,213	2,773,547

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part):

Revenue Recognition and Product Warranty. Revenue from sales of products is generally recognized upon shipment to customers. The Company warrants its products against defects in design, materials and workmanship generally for three to five years depending upon the capacity category of the disc drive, with the higher capacity products being warranted for the longer periods. A provision for estimated future costs relating to warranty expense is recorded when products are shipped.

Put Options

POTLATCH CORPORATION (DEC)

(Dollars in thousands)	1997	1996
Total Current Liabilities	$ 297,556	$ 260,145
Long-term debt	722,080	672,048
Other long-term obligations	155,336	148,092
Deferred taxes	236,934	223,441
Put options (Notes 9 and 10)	1,638	7,758

NOTES TO FINANCIAL STATEMENTS

Note 9. Put Options

The company has in place a stock repurchase program through which it is authorized to purchase up to 1 million shares of its common stock over several years. Under the program, the company can purchase shares of common stock from time to time through open market and privately negotiated transactions at prices deemed appropriate by management.

Note 10. Disclosures About Fair Value of Financial Instruments

Estimated fair values of the company's financial instruments:

(Dollars in thousands)	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and short-term investments	$ 15,542	$ 15,542	$ 12,316	$ 12,316
Current notes payable	95,550	95,550	14,281	14,281
Long-term debt	722,102	788,360	703,427	738,521
Put options	1,638	1,638	7,758	7,758

For short-term investments, current notes payable and put options, the carrying amount approximates fair value. The fair value of the company's long-term debt is estimated based upon the quoted market prices for the same or similar debt issues. The amount of long-term debt for which there is no quoted market price is immaterial and the carrying amount approximates fair value.

Put Warrants

INTEL CORPORATION (DEC)

(In millions)	1997	1996
Total current liabilities	$6,020	$4,863
Long-term debt	448	728
Deferred tax liabilities	1,076	997
Put warrants	2,041	275

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Put Warrants

In a series of private placements from 1991 through 1997, the Company sold put warrants that entitle the holder of each warrant to sell to the Company, by physical delivery, one share of Common Stock at a specified price. On certain of these warrants, the Company simultaneously entered into additional contractual arrangements which cause the warrants to terminate if the Company's stock price reaches specified levels. Activity during the past three years is summarized as follows:

		Put warrants outstanding	
(In millions)	Cumulative net premium received	Number of warrants	Potential obligation
December 31, 1994	$194	50.0	$744
Sales	85	35.0	925
Repurchases	—	(11.0)	(201)
Expirations	—	(50.0)	(743)
December 30, 1995	279	24.0	725
Sales	56	18.0	603
Exercises	—	(3.6)	(108)
Expirations	—	(29.4)	(945)
December 28, 1996	335	9.0	275
Sales	288	46.3	3,525
Expirations	—	(29.0)	(1,759)
December 27, 1997	$623	26.3	$2,041

The amount related to Intel's potential repurchase obligation has been reclassified from stockholders' equity to put warrants. The 26.3 million put warrants outstanding at December 27, 1997 expire on various dates between February and August 1998 and have exercise prices ranging from $68 to $95 per share, with an average exercise price of $78 per share. There is no significant effect on diluted earnings per share for the periods presented.

Preferred Securities Of Subsidiary Trust

INTERNATIONAL PAPER COMPANY (DEC)

(In millions)	1997	1996
Total Current Liabilities	$4,880	$5,894
Long-term debt	7,154	6,691
Deferred income taxes	2,681	2,768
Other Liabilities	1,236	1,240
Minority Interest	1,643	1,865
International Paper—Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely International Paper Subordinated Debentures-Note 8	450	450

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Preferred Securities of Subsidiary

In the third quarter of 1995, International Paper Capital Trust (the Trust) issued $450 million of International Paper-obligated mandatorily redeemable preferred securities. The Trust is a wholly owned consolidated subsidiary of International Paper and its sole assets are International Paper 5 ¼% convertible subordinated debentures. The obligations of the Trust related to its preferred securities are fully and unconditionally guaranteed by International Paper. These preferred securities are convertible into International Paper common stock. Preferred securities distributions of $24 million were paid in each of the years 1997 and 1996, and $10 million was paid in 1995.

KMART CORPORATION (JAN)

(Dollars in millions)	1997	1996
Total current liabilities	$3,274	$3,602
Long-term debt and notes payable	1,725	2,121
Capital lease obligations	1,179	1,478
Other long-term liabilities	965	1,013
Company obligated mandatorily redeemable convertible preferred securities of a subsidiary trust holding solely 7 ¾% convertible junior subordinated debentures of Kmart (redemption value of $1,000)	981	980

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share data)

10. Convertible Preferred Securities

In June 1996, a trust sponsored and wholly owned by the Company issued 20,000,000 shares of trust convertible preferred securities ("Preferred Securities"), the proceeds of which were invested by the trust in $1 billion aggregate principal amount of the Company's newly issued 7 ¾% convertible Junior Subordinated Debentures ("Debentures"). The Preferred Securities accrue and pay cash distributions quarterly at a rate of 7 ¾% per annum of the stated liquidation amount of $50 per Preferred Security. Kmart has guaranteed, on a subordinated basis, distributions and other payments due on the Preferred Securities.

The Preferred Securities are convertible at the option of the holder at any time at the rate of 3.3333 shares of Kmart common stock for each Preferred Security, and are mandatorily redeemable upon the maturity of the Debentures on June 15, 2016, or to the extent of any earlier redemption of any Debentures by Kmart and are callable beginning June 15, 1999.

Based on the quoted market prices, the fair value of the Preferred Securities was approximately $1,040 as of year end 1997, and approximated book value at year end 1996.

QUALCOMM INCORPORATED (SEP)

(In thousands)	1997	1996
Total liabilities	$590,502	$340,417
Company-obligated mandatorily redeemable trust convertible preferred securities of a subsidiary trust holding solely debt securities of the Company (Note 7)	660,000	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Trust Convertible Preferred Securities of Subsidiary

In February 1997, QUALCOMM Financial Trust 1 (the "Trust"), the Company's wholly-owned subsidiary trust created under the laws of the State of Delaware, completed a private placement of $660 million of 5 3/4% Trust Convertible Preferred Securities ("Trust Convertible Preferred Securities"). The sole assets of the Trust are QUALCOMM Incorporated 5 3/4% Convertible Subordinated Debentures ("Convertible Subordinated Debentures") due February 24, 2012. The obligations of the Trust related to the Trust Convertible Preferred Securities are fully and unconditionally guaranteed by the Company. The Trust Convertible Preferred Securities are convertible into Company common stock at the rate of 0.6882 shares of Company common stock for each Trust Convertible Preferred Security (equivalent to a conversion price of $72.6563 per share of common stock). Distributions on the Trust Convertible Preferred Securities are payable quarterly by the Trust. The Trust Convertible Preferred Securities are subject to mandatory redemption on February 24, 2012, at a redemption price of $50 per preferred security. The Company has reserved 9,084,000 shares of common stock as of September 30, 1997 for possible conversion of the Trust Convertible Preferred Securities at the option of the holders.

The Company may cause the Trust to defer the payment of distributions for successive periods of up to twenty consecutive quarters. During such periods, accrued distributions on the Trust Convertible Preferred Securities will compound quarterly and the Company may not declare or pay distributions on its common stock or debt securities that rank equal or junior to the Convertible Subordinated Debentures. Also during such period, if holders of Trust Convertible Preferred Securities convert such securities into Company common stock, the holder will not receive any cash related to the deferred distribution.

Issuance cost of $18.6 million related to the Trust Convertible Preferred Securities were deferred and are being amortized over the period until mandatory redemption of the securities in February 2012.

As of September 30, 1997, the estimated fair value of the Trust Convertible Preferred Securities was approximately $701 million based on the last reported bid price in the Private Offerings Resales and Trading through Automated Linkages market.

Borrowings Against Future Stock Option Proceeds

TIME WARNER INC. (DEC)

(In millions)	1997	1996
Total current liabilities	$ 4,371	$ 4,012
Long-term debt	11,833	12,713
Borrowings against future stock option proceeds	533	488
Deferred income taxes	3,960	4,082
Unearned portion of paid subscriptions	672	679
Other liabilities	1,006	967

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Borrowings Against Future Stock Option Proceeds

In connection with Time Warner's expanded common stock repurchase program (Note 12), Time Warner entered into a new five-year, $1.3 billion revolving credit facility (the "Stock Option Proceeds Credit Facility") in early 1998, which replaced its previously existing facility. Borrowings under the Stock Option Proceeds Credit Facility are principally used to fund stock repurchases and approximately $125 million of future preferred dividend requirements on Time Warner's Series G, H, I and J Preferred Stock as of December 31, 1997. At December 31, 1997 and 1996, Time Warner had outstanding borrowings against future stock option proceeds of $533 million and $488 million, respectively.

The Stock Option Proceeds Credit Facility initially provides for borrowings of up to $1.3 billion, of which up to $125 million is reserved solely for the payment of interest and fees thereunder. Borrowings under the Stock Option Proceeds Credit Facility generally bear interest at LIBOR plus a margin equal to 75 basis points and are principally expected to be repaid from the cash proceeds received from the exercise of designated employee stock options. The receipt of such stock option proceeds in excess of $500 million through March 2000, and thereafter in full on a cumulative basis, permanently reduces the borrowing availability under the facility. At December 31, 1997, based on a closing market price of Time Warner common stock of $62.00, the aggregate value of potential proceeds to Time Warner from the exercise of outstanding vested, "in the money" stock options covered under the facility was approximately $2.3 billion, representing a 1.8 to 1 coverage ratio over the related $1.3 billion borrowing availability. To the extent that such stock option proceeds are not sufficient to satisfy Time Warner's obligations under the Stock Option Proceeds Credit Facility, Time Warner is generally required to repay such borrowings using proceeds from the sale of shares of its common stock held in escrow under the Stock Option Proceeds Credit Facility or, at Time Warner's election, using available cash on hand. In addition, as a result of Time Warner's commitment to use the Stock Option Proceeds Credit Facility to fund future preferred dividend requirements on its Series G, H, I and J Preferred Stock, Time Warner has also supplementally agreed to place in escrow an amount of cash equal to any excess of the unpaid, future preferred dividend requirements on such

series of convertible preferred stock over the borrowing availability under the facility at any time. Under these arrangements, Time Warner had placed 51 million shares in escrow at December 31, 1997, which shares not considered to be issued and outstanding capital stock of the Company. Time Warner may be required, from time to time, to have up to 105 million shares held in escrow.

Litigation

W. R. GRACE & CO. (DEC)

(Dollars in millions)	1997	1996
Total Current Liabilities	$1,357.7	$1,487.1
Long-term debt	658.7	1,073.0
Deferred income taxes	20.2	43.5
Noncurrent liability for asbestos-related litigation	619.4	859.1
Other liabilities	649.1	850.7
Total Liabilities	3,305.1	4,313.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

2 (In Part): Asbestos and Related Insurance Litigation

Grace is a defendant in property damage and personal injury lawsuits relating to previously sold asbestos-containing products and expects that it will be named as a defendant in additional asbestos-related lawsuits in the future. Grace was a defendant in approximately 40,600 asbestos-related lawsuits at December 31, 1997 (18 involving claims for property damage and the remainder involving approximately 96,900 claims for personal injury), as compared to approximately 41,500 lawsuits at December 31, 1996 (31 involving claims for property damage and the remainder involving approximately 91,500 claims for personal injury).

Asbestos-Related Liability
Based upon and subject to the factors discussed above, Grace estimates that its probable liability with respect to the defense and disposition of asbestos property damage and personal injury cases and claims was as follows at December 31, 1997 and 1996:

	1997 *(1)*	1996 *(2)*
Current liability for asbestos-related litigation *(3)*	$236.5 *(4)*	$135.0
Noncurrent liability for asbestos-related litigation	619.4	859.1
Total asbestos-related liability	$855.9 *(5)*	$994.1

(1) Reflects property damage and personal injury cases and claims pending at December 31, 1997, as well as personal injury claims expected to be filed through 2002. See discussion below.

(2) Reflects property damage and personal injury cases and claims pending at December 31, 1996, as well as personal injury claims expected to be filed through 2001. See discussion below.

(3) Included in "Other current liabilities" in the Consolidated Balance Sheet.

(4) The increase versus 1996 primarily relates to a 1997 property damage settlement to be paid in 1998 and personal injury group settlements to be paid in 1998.

(5) Excludes two property damage cases at December 31, 1997 as to which the liability is not yet estimable because Grace has not yet been able to obtain sufficient information through discovery proceedings.

Prior to 1995, Grace recorded noncash charges to reflect its estimated costs of defending against and disposing of the asbestos property damage and personal injury cases and claims then pending. In the fourth quarter of 1995, Grace determined that it had adequate experience to reasonably estimate the costs of defending against and disposing of asbestos personal injury claims to be filed during the three-year period 1996-1998 and recorded a noncash charge of $260.0 ($169.0 after-tax), primarily to reflect such anticipated filings. Based on certain developments during 1996, Grace determined in the 1996 fourth quarter that it had adequate experience to reasonably estimate the costs of defending against and disposing of asbestos personal injury claims to be filed during the five-year period 1997-2001 and recorded a noncash charge of $348.4 ($226.4 after-tax), primarily to reflect such anticipated filings. The 1996 provision also reflected increases in the estimated costs of defending against and disposing of personal injury claims pending at year-end 1996, and the 1995 provision also reflected increases in the estimated costs of defending against and disposing of certain property damage cases pending at year-end 1995 and personal injury claims filed during 1995. Based on developments and trends in 1997, Grace concluded that no additional charge would be necessary to cover the estimated costs of defending against and disposing of asbestos-related personal injury claims to be filed during the five-year period 1998-2002. However, as discussed above, these estimates are not necessarily indicative of actual costs. Based on the factors discussed above, Grace does not believe that it can reasonably estimate the number and defense and disposition costs of personal injury claims that may be brought against Grace after 2002. The accruals recorded for future cases and claims are not discounted to their present values; further, the actual cash payments related to future cases and claims are expected to continue beyond 2002.

Deferred Credits

AULT INCORPORATED (MAY)

	1997	1996
Total current liabilities	$6,235,999	$11,727,104
Long-term debt, less current maturities	441,100	935,064
Deferred rent expense (Note 8)	123,167	163,972
Retirement and Severance Benefits	358,384	332,716

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Commitments and Contingencies

The lease on the United States plant and office facilities includes scheduled base rent increases over the term of the lease. The total amount of the base rent payments is being charged to expense on the straight-line method over the term of the lease. In addition to the base rent payment, the Company pays a monthly allocation of the building's operating expenses. The Company has recorded a deferred credit to reflect the excess of rent expense over cash payments since inception of the lease.

BRIGGS & STRATTON CORPORATION (JUN)

(In thousands)	1997	1996
Total Current Liabilities	$213,994	$190,179
Deferred Revenue on Sale of Plant and Equipment	15,966	—
Accrued Pension Cost	31,891	6,734
Accrued Employee Benefits	12,324	11,697
Accrued Postretirement Health Care Obligations	74,020	69,049
Long-Term Debt	142,897	60,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Deferred Revenue on Sale of Plant & Equipment:
The sale of the Company's Menomonee Falls, Wisconsin facility for approximately $16.0 million was completed at the beginning of the fiscal quarter ended December 29, 1996. The provisions of the contract state that the Company will continue to own and occupy the warehouse portion of the facility for a period of up to ten years (the "Reservation Period"). The contract also contains a buy-out clause, at the buyer's option and under certain circumstances, of the remaining Reservation Period.

BURLINGTON RESOURCES INC. (DEC)

(In millions)	1997	1996
Long-term debt	$1,748	$1,853
Deferred income taxes	203	162
Deferred revenue	56	75
Other liabilities and deferred credits	260	269

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Deferred Revenue

In September 1996, the Company received cash proceeds of $108 million for a transaction in which it is obligated to delivery gas through December 31, 2002. The proceeds were recorded as deferred revenue and are being amortized into revenues as the gas is delivered. Approximately $20 million and $13 million of deferred revenue was recognized in 1997 and 1996, respectively.

MEREDITH CORPORATION (JUN)

(In thousands)	1997	1996
Total current liabilities	$277,960	$279,507
Long-term debt	—	35,000
Long-term program rights payable	6,028	8,419
Unearned subscription revenues	95,883	97,811
Deferred income taxes	23,051	25,510
Other deferred items	31,049	25,962
Total liabilities	433,971	472,209

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Organization and Summary of Accounting Policies

k. Revenues
Advertising revenues are recognized when the advertisements are published or aired. Revenues from magazine subscriptions are deferred and recognized proportionately as products are delivered to subscribers. Revenues from magazines sold on the newsstand and books are recognized at shipment, net of provisions for returns.

RESERVES—USE OF THE TERM "RESERVE"

Prior to being superseded by the Accounting Principles Board, the Committee on Terminology of the AICPA issued four terminology bulletins. In *Accounting Terminology Bulletin No. 1* the Committee recommended that the term *reserve* be applied only to amounts of retained earnings appropriated for general or specific purposes. In practice the term *reserve,* with rare exceptions, is applied to amounts designated as valuation allowances deducted from assets or as accruals for estimated liabilities. Table 2-30 shows that the term *reserve* appears occasionally in the financial statements of the survey companies.

TABLE 2-30: USE OF TERM "RESERVE"

	Number of Companies			
	1997	1996	1995	1994
To describe deductions from assets for				
Reducing inventories to LIFO cost	41	33	43	47
Doubtful accounts	19	21	23	21
Accumulated depreciation	3	5	4	3
Other—described	10	8	14	6
To describe accruals for				
Estimated expenses relating to property abandonments or discontinued operations	23	26	25	33
Insurance	16	13	19	23
Environmental costs	25	18	19	17
Employee benefits or compensation	6	4	6	8
Other—described	25	13	23	14
Other—not described	1	2	3	1

TITLE OF STOCKHOLDERS' EQUITY SECTION

Table 2-31 summarizes the titles used by the survey companies to identify the stockholders' equity section of the balance sheet.

TABLE 2-31: TITLE OF STOCKHOLDERS' EQUITY SECTION

	1997	1996	1995	1994
Stockholders' Equity	271	263	256	249
Shareholders' Equity	246	250	248	255
Shareowners' Equity	25	20	23	24
Common Stockholders' Equity	11	12	16	13
Shareholders' Investment	12	15	14	9
Common Shareholders' Equity	10	8	10	8
Other or no title	25	32	33	42
Total Companies	**600**	**600**	**600**	**600**

CAPITAL STRUCTURES

Effective for periods ending after December 15, 1997, paragraphs 4 and 5 of *Statement of Financial Accounting Standards No. 129* state the disclosure requirements for the capital structure of an entity. Prior to the effective date of *SFAS No. 129,* paragraphs 19 and 20 of *APB Opinion No. 15* stated such disclosure requirements.

Table 2-32 summarizes the capital structures disclosed on the balance sheets of the survey companies.

TABLE 2-32: CAPITAL STRUCTURES

	1997	1996	1995	1994
Common stock with:				
No preferred stock	485	472	457	448
One class of preferred stock	95	107	115	118
Two classes of preferred stock	18	19	24	28
Three or more classes of preferred stock	2	2	4	6
Total Companies	**600**	**600**	**600**	**600**
Companies included above with two or more classes of common stock	57	66	58	59

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.

TABLE 2-33: COMMON STOCK

	1997	**1996**	**1995**	**1994**
Par value stock shown at:				
Par value	576	580	568	573
Amount in excess of par	21	11	19	18
Assigned per share amount	6	12	9	5
No par value stock shown at:				
Assigned per share amount	9	8	14	18
No assigned per share amount	58	57	53	51
Issues outstanding	**670**	**668**	**663**	**665**

PREFERRED STOCK

Effective for periods ending after December 15, 1997, paragraphs 6-8 of *Statement of Financial Accounting Standards No. 129* state reporting and disclosure requirements for preferred stock. Prior to the effective date of *SFAS No. 129,* paragraphs 10 and 11 of *APB Opinion No. 10* and paragraph 10C of *Statement of Financial Accounting Standards No. 47* stated such reporting and disclosure requirements.

Table 2-34 summarizes the valuation bases of preferred stock. As with common stock, many of the survey companies present preferred stock at par value. Examples of preferred stock presentations and disclosures follow.

TABLE 2-34: PREFERRED STOCK

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Par value stock shown at:				
Par value	53	52	63	66
Liquidation or redemption value	15	23	24	24
Assigned per share amount	4	8	5	9
Fair value at issuance date	3	1	4	2
Other	11	10	10	12
No par value stock shown at:				
Liquidation or redemption value	14	15	19	19
Assigned per share amount	13	13	13	13
Fair value at issuance date	2	—	3	3
No assigned per share amount	12	11	15	23
Number of Companies				
Preferred stock outstanding	120	130	145	160
No preferred stock outstanding	480	470	455	440
Total Companies	**600**	**600**	**600**	**600**

Preferred Stock Extended At Par Value

THE LTV CORPORATION (DEC)

(In millions, except share data)	1997	1996
Shareholders' equity		
Convertible preferred stock - aggregate liquidation value $50; par value $1.00 per share	$ 1	$ 1
Common stock - par value $0.50 per share; authorized 150 million shares; issued 105 million shares; 100 million shares in 1997 and 105 million shares in 1996 outstanding	53	53
Additional paid-in capital	1,032	1,021
Retained earnings	661	646
Treasury stock at cost (5 million shares)	(69)	—
Accumulated other comprehensive loss	(3)	(9)
Other	—	(2)
Total shareholders' equity	1,676	1,710

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shareholders' Equity (In Part):

LTV has authorized for issuance 20 million shares of preferred stock with a $1.00 par value. At December 31, 1997, the Company has 500,000 outstanding shares of Series B Convertible Preferred Stock ("Series B"). This issue has a stated liquidation preference value of $50 million, is senior to all common stock and has weighted voting rights equal to that number of shares of common stock into which it can be converted. Dividends on the Series B are payable quarterly in either cash or common stock, at the election of LTV, at the rate of 4.5% per annum on the stated value. Holders of the Series B have the right to convert the stated value of their shares, in whole or in part, into common stock at a conversion price of $17.09 per share (potentially 2.9 million shares). LTV has the right to redeem the Series B for $52 million at December 31, 1997, declining to $50 million at June 28, 2000.

MAXXAM INC. (DEC)

(In millions of dollars except share amounts)	1997	1996
Stockholders' deficit:		
Preferred stock, $.50 par value; 12,500,000 shares authorized; Class A $.05 Non-Cumulative Participating Convertible Preferred Stock; shares issued: 669,701	$ .3	$ .3
Common stock, $0.50 par value; 28,000,000 shares authorized; shares issued: 10,063,359 and 10,063,885, respectively	5.0	5.0
Additional capital	222.8	155.9
Accumulated deficit	(118.5)	(185.6)
Pension liability adjustment	(3.3)	(5.1)
Treasury stock, at cost (shares held: preferred—845; common—3,062,762 and 1,400,112, respectively)	(109.2)	(21.3)
Total stockholders' deficit	(2.9)	(50.8)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Stockholders' Deficit

Preferred Stock

The holders of the Company's Class A $.05 Non-Cumulative Participating Convertible Preferred Stock (the "Class A Preferred Stock") are entitled to receive, if and when declared, preferential cash dividends at the rate of $.05 per share per annum and will participate thereafter on a share for share basis with the holders of common stock in all cash dividends, other than cash dividends on the common stock in any fiscal year to the extent not exceeding $.05 per share. Stock dividends declared on the common stock will result in the holders of the Class A Preferred Stock receiving an identical stock dividend payable in shares of Class A Preferred Stock. At the option of the holder, the Class A Preferred Stock is convertible at any time into shares of common stock at the rate of one share of common stock for each share of Class A Preferred Stock. Each holder of Class A Preferred Stock is generally entitled to ten votes per share on all matters presented to a vote of the Company's stockholders.

Preferred Stock Extended At Stated Value

SUIZA FOODS CORPORATION (DEC)

	1997	1996
	(In thousands)	
Stockholders' Equity:		
Preferred stock, 11,691 shares of Series A preferred stock issued and outstanding, with a stated value of $320 per share	$ 3,741	$ 3,741
Common stock, 30,463,312 and 25,002,823 shares issued and outstanding	305	250
Additional paid-in capital	281,774	164,390
Retained earnings	73,490	45,473
Total stockholders' equity	359,310	213,854

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Stockholders' Equity

Capital Shares

Authorized capital shares of the Company include 1,000,000 shares of preferred stock and 100,000,000 shares of common stock with a par value of $.01 per share.

The rights and preferences of preferred stock are established by the Company's Board of Directors upon issuance. In connection with the Country Fresh merger, the Company issued 11,691 shares of Series A preferred stock in exchange for all the outstanding shares of Country Fresh preferred stock. The Series A preferred stock has a stated and redemption value of $320 per share, bears a cumulative dividend rate of 8% and is redeemable only at the Company's option.

Preferred Stock Extended At Redemption Or Liquidating Value

KAMAN CORPORATION (DEC)

(In thousands, except share and per share amounts)	1997	1996
Shareholders' Equity:		
Capital stock, $1 par value per share:		
Preferred stock, authorized 700,000 shares:		
Series 2 preferred stock, 6½% cumulative convertible (stated at liquidation preference of $200 per share) authorized 500,000 shares, issued 188,456 shares in 1997 and 285,837 shares in 1996	$ 37,691	$ 57,167
Common stock:		
Class A, authorized 48,500,000 shares, nonvoting; $.10 per common share dividend preference, issued 19,936,385 shares in 1997 and 18,075,247 shares in 1996	19,936	18,075
Class B, authorized 1,500,000 shares, voting: issued 667,814 shares in 1997 and 1996	668	668
Additional paid-in capital	42,876	21,696
Retained earnings	190,336	132,058
Unamortized restricted stock awards	(1,147)	(818)
Equity adjustment from foreign currency translation	(328)	(612)
	290,040	228,234
Less 2,929 shares and 9,738 shares of Class A common stock in 1997 and 1996, respectively, held in treasury, at cost	(30)	(104)
Total shareholders' equity	290,010	228,130

SARA LEE CORPORATION (JUN)

(Dollars in millions except share data)	1997	1996
Preferred stock (authorized 13,500,000 shares; no par value)		
Auction: Issued and outstanding-2,000 shares in 1997 and 3,000 shares in 1996; redeemable at $100,000 per share	$ 200	$ 300
ESOP convertible: issued and outstanding-4,328,597 shares in 1997 and 4,468,303 shares in 1996	314	324
Unearned compensation	(272)	(286)
Common stockholders' equity		
Common stock: (authorized 600,000,000 shares; $1.33⅓ par value)		
Issued and outstanding-480,277,317 shares in 1997, and 485,054,544 shares in 1996	640	646
Paid-in capital	—	141
Retained earnings	4,274	3,783
Translation adjustments	(618)	(227)
Unearned restricted stock issued for future services	(16)	(23)
Total common stockholders' equity	4,280	4,320

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions except per share data)

Preferred Stock

Four series of 500 shares each of nonvoting auction preferred stock are outstanding as of June 28, 1997. At its option, the corporation redeemed two series of 500 shares each of this preferred stock during 1997. The shares were redeemed at face value, and no gain or loss was recognized.

The dividend rate for each of the series of auction preferred stock is established through a Dutch auction conducted by an agent of the corporation. Auctions are held six out of every seven weeks with the dividend rate for one of the series set at each auction. Since inception, no auction has failed. If an auction does fail, the holders of the preferred stock would continue to hold the shares and receive a dividend rate that is a function of current commercial paper rates.

The convertible preferred stock sold to the corporation's Employee Stock Ownership Plan (ESOP) is redeemable at the option of the corporation at any time after December 15, 2001. Each share is currently convertible into four shares of the corporation's common stock and is entitled to 5.133 votes. This stock has a 7.5% annual dividend rate, payable semiannually, and

has a liquidation value of $72.50 plus accrued but unpaid dividends. The purchase of the preferred stock by the ESOP was funded with notes guaranteed by the corporation. The loan is included in long-term debt and is offset in the corporation's Consolidated Balance Sheets under the caption Unearned Compensation. Each year, the corporation makes contributions that, with the dividends on the preferred stock held by the ESOP, will be used to pay loan interest and principal. Shares are allocated to participants based upon the ratio of the current year's debt service to the sum of the total principal and interest payments over the life of the loan. Plan expense is recognized in accordance with methods prescribed by the FASB.

ESOP-related expenses amounted to $13 in 1997, $13 in 1996 and $12 in 1995. Payments to the ESOP were $43 in 1997, $41 in 1996 and $38 in 1995. Principal and interest payments by the ESOP amounted to $19 and $24 in 1997, $16 and $25 in 1996 and $12 and $26 in 1995.

The corporation has a Preferred Stock Purchase Rights Plan. The Rights are exercisable 10 days after certain events involving the acquisition of 20% or more of the corporation's outstanding common stock or the commencement of a tender or exchange offer for at least 25% of the common stock. Upon the occurrence of such an event, each Right, unless redeemed by the board of directors, entitles the holder to receive common stock equal to twice the exercise price of the Right. The exercise price is $140 multiplied by the number of preferred shares held. There are 3,000,000 shares of preferred stock reserved for issuance upon exercise of the Rights.

Financial Instruments and Risk Management (In Part):

Fair Values. The carrying amounts of cash and equivalents, trade receivables, notes payable, accounts payable and auction preferred stock approximated fair value as of June 28, 1997, June 29, 1996 and July 1, 1995. The fair values of the remaining financial instruments recognized on the Consolidated Balance Sheets of the corporation at the respective year-end were:

	1997	1996	1995
Long-term debt, including current portion	$2,258	$1,993	$2,102
ESOP convertible preferred stock	751	615	567

The fair value of the corporation's long-term debt, including the current portion, is estimated using discounted cash flows based on the corporation's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the ESOP preferred stock is based upon the contracted conversion into the corporation's common stock.

THE WASHINGTON POST COMPANY (DEC)

(In thousands, except share amounts)	1997	1996
Redeemable Preferred Stock, Series A, $1 par value, with a redemption and liquidation value of $1,000 per share; 23,000 shares authorized; 11,947 shares issued and outstanding	$ 11,947	$ 11,947
Preferred Stock, $1 par value; 977,000 shares authorized	—	—
Common Shareholders' Equity		
Common stock		
Class A common stock, $1 par value; 7,000,000 shares authorized; 1,739,250 and 1,779,250 shares issued and outstanding	1,739	1,779
Class B common stock, $1 par value; 40,000,000 shares authorized; 18,260,750 and 18,220,750 shares issued; 8,349,962 and 9,131,165 shares outstanding	18,261	18,221
Capital in excess of par value	33,415	26,455
Retained earnings	2,231,341	2,002,359
Cumulative foreign currency translation adjustment	(464)	4,663
Unrealized gain on available-for-sale securities (net of taxes)	31	3,155
Cost of 9,910,913 and 9,089,585 shares of Class B common stock held in treasury	(1,100,249)	(733,829)
	1,184,074	1,322,803

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

F. Redeemable Preferred Stock

In connection with the acquisition of a cable television system during the first quarter of 1996, the company issued 11, 947 shares of its Series A Preferred Stock and agreed to issue an additional 1,282 shares of such stock on February 23, 2000 (which additional number of shares is subject to reduction in the event of any breach of the representations and warranties made by the seller in the acquisition agreement).

The Series A Preferred Stock has a par value of $1.00 per share and a liquidation preference of $1,000 per share; it is redeemable by the company at any time on or after October 1, 2015 at a redemption price of $1,000 per share. In addition, the holders of such stock have a right to require the company to purchase their shares at the redemption price during an annual 60-day election period, with the first such period beginning on February 23, 2001. Dividends on the Series A Preferred Stock are payable four times a year at the annual rate of $80.00 per share and in preference to any dividends on the company's common stock. The Series A Preferred Stock is not convertible into any other security of the company, and the holders thereof have no voting rights except with respect to any proposed changes in the preferences and special rights of such stock.

ADDITIONAL PAID-IN CAPITAL

Table 2-35 lists the balance sheet captions used to describe additional paid-in capital. Examples of descriptive captions for additional paid-in capital are shown in this section in connection with discussions of the other components of stockholders' equity.

TABLE 2-35: ADDITIONAL PAID-IN CAPITAL—CAPTION TITLE

	1997	1996	1995	1994
Additional paid-in capital	262	254	256	248
Capital in excess of par or stated value	136	142	145	145
Paid-in capital	47	46	46	48
Additional capital, or other capital	34	35	36	36
Capital surplus	31	32	30	31
Paid-in surplus	1	1	2	2
Other captions	16	11	12	18
	527	521	527	528
No additional paid-in capital account	73	79	73	72
Total Companies	**600**	**600**	**600**	**600**

RETAINED EARNINGS

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 other components of stockholders' equity.

TABLE 2-36: RETAINED EARNINGS—CAPTION TITLE

	1997	1996	1995	1994
Retained Earnings	479	477	462	455
Retained Earnings with additional words	6	7	7	7
Earnings with additional words	31	34	35	34
Income with additional words	11	9	11	9
Earned Surplus	1	1	1	1
Retained Earnings (Deficit)	26	32	37	41
Accumulated Deficit	46	40	47	53
Total Companies	**600**	**600**	**600**	**600**

BADGER METER, INC. (DEC)

(Dollars in thousands)	1997	1996
Shareholders' equity:		
Common Stock, $1 par; authorized 5,000,000 shares; issued 3,240,263 shares in 1997 and 3,154,566 shares in 1996	$3,240	$3,155
Class B Common Stock, $.10 par; authorized 5,000,000 shares; issued 1,125,570 shares in 1997 and 1996	112	112
Capital in excess of par value	8,315	6,803
Reinvested earnings	33,057	28,200
Less: Employee benefit stock	(917)	(1,053)
Treasury stock, at cost, 795,989 shares in 1997 and 728,190 shares in 1996	(2,340)	(579)
Total shareholders' equity	41,467	36,638

EKCO GROUP, INC. (DEC)

(Amounts in thousands, except per share data)	1997	1996
Stockholders' equity		
Common stock, $.01 par value; outstanding 19,066 shares and 18,580 shares, respectively	$ 191	$ 186
Capital in excess of par value	109,462	107,622
Cumulative translation adjustment	636	869
Retained earnings (deficit)	4,665	(1,352)
Unearned compensation	(2,787)	(2,963)
Pension liability adjustment	(2,173)	(1,847)
	109,994	102,515

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.

TABLE 2-37: TREASURY STOCK—BALANCE SHEET PRESENTATION

	1997	1996	1995	1994
Common stock				
Cost of treasury stock shown as stockholders' equity deduction	360	350	349	342
Par of stated value of treasury stock deducted from issued stock of the same class	19	19	27	23
Cost of treasury stock deducted from stock of the same class	5	4	6	2
Other	3	1	3	6
Total Presentations	**387**	**374**	**385**	**373**
Preferred Stock				
Cost of treasury stock shown as stockholders' equity deduction	2	4	3	2
Par or stated value of treasury stock deducted from issued stock of the same class	2	1	—	2
Other	—	—	1	2
Total Presentations	**4**	**5**	**4**	**6**
Number of Companies				
Disclosing treasury stock	384	373	384	373
Not disclosing treasury stock	216	227	216	227
Total Companies	**600**	**600**	**600**	**600**

Cost of Treasury Stock Shown as Reduction of Stockholders' Equity

ALUMAX INC. (DEC)

(In millions of dollars, except per share amounts)	1997	1996
Stockholders' Equity:		
Preferred stock of $1.00 par value—authorized 50,000,000 shares	—	—
Common stock of $.01 par value—authorized 200,000,000 shares; issued and outstanding 53,390,250 shares in 1997 and 54,692,057 shares in 1996	$ .6	$ .5
Paid-in capital	935.8	920.2
Retained earnings	758.0	724.3
Cumulative foreign currency translation adjustment	(13.6)	(4.2)
Common stock in treasury, at cost—1,812,900 shares in 1997	(59.1)	—
Total stockholders' equity	1,621.7	1,640.8

NOTES TO FINANCIAL STATEMENTS

Note 10 (In Part): Stockholders' Equity

Treasury Stock. In the fourth quarter of 1997, the Company began acquiring shares of its common stock in connection with a stock repurchase program announced in July 1996. That program authorizes the Company to purchase up to 2.5 million common shares from time to time on the open market or pursuant to negotiated transactions at price levels the Company deems attractive. The Company purchased 1.8 million shares of common stock in 1997 at an aggregate cost of $59.1. The purpose of the stock repurchase program is to help the Company achieve its long-term goal of enhancing stockholder value. In February 1998, the Board of Directors amended the program to provide that purchases reported to, and ratified by, the Board of Directors or by the Executive Committee of the Board shall not be counted in determining compliance with the 2.5 million share limitation.

PHILIP MORRIS COMPANIES INC. (DEC)

(In millions of dollars, except per share data)	1997	1996
Stockholders' Equity		
Common stock, par value $0.33^1/_3$ per share (2,805,961,317 shares issued)	$ 935	$ 935
Earnings reinvested in the business	24,924	22,478
Currency translation adjustments	(1,109)	192
	24,750	23,605
Less cost of repurchased stock (380,474,028 and 374,615,043 shares)	9,830	9,387
Total stockholders' equity	14,920	14,218

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Capital Stock:

In February 1997, the Company's Board of Directors declared a three-for-one split of the Company's common stock, effected by a distribution on April 10, 1997, of two shares for each share held of record at the close of business on March 17, 1997. In addition, the par value of the Company's common stock was changed from $1.00 to $0.33⅓ per share and authorized shares of common stock were increased from 4 billion to 12 billion shares. All references in the consolidated financial statements to shares and related prices, weighted average number of shares, per share amounts and stock plan data have been adjusted to reflect the split.

Shares of common stock issued, repurchased and outstanding were as follows:

	Shares Issued	Shares Repurchased	Net Shares Outstanding
Balances, January 1, 1995	2,805,961,317	(247,384,122)	2,558,577,195
Exercise of stock options and issuance of other stock awards		19,410,786	19,410,786
Repurchased		(84,477,963)	(84,477,963)
Balances, December 31, 1995	2,805,961,317	(312,451,299)	2,493,510,018
Exercise of stock options and issuance of other stock awards		23,672,505	23,672,505
Repurchased		(85,836,249)	(85,836,249)
Balances, December 31, 1996	2,805,961,317	(374,615,043)	2,431,346,274
Exercise of stock options and issuance of other stock awards		12,345,228	12,345,228
Repurchased		(18,204,213)	(18,204,213)
Balances, December 31, 1997	2,805,961,317	(380,474,028)	2,425,487,289

At December 31, 1997, 188,254,449 shares of common stock were reserved for stock options and other stock awards under the Company's stock plans and 10 million shares of Serial Preferred Stock, $1.00 par value, were authorized, none of which have been issued.

EMERSON ELECTRIC CO. (SEP)

(Dollars in millions except per share amounts)	1997	1996
Stockholders' equity		
Preferred stock of $2.50 par value per share. Authorized 5,400,000 shares; issued - none	—	—
Common stock of $.50 par value per share. Authorized 1,200,000,000 shares; issued 476,677,006 shares in 1997 and 1996	$ 238.3	$ 238.3
Additional paid-in capital	3.3	12.3
Retained earnings	6,348.9	5,707.7
Cumulative translation adjustments	(205.9)	(29.2)
	6,384.6	5,929.1
Less cost of common stock in treasury, 35,873,321 shares in 1997 and 29,237,152 shares in 1996	963.9	575.7
Total stockholders' equity	5,420.7	5,353.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Common Stock

At September 30, 1997, 14,197,711 shares of common stock were reserved, including 13,158,734 shares for issuance under the Company's stock plans and 1,038,977 shares for conversion of the outstanding 8% convertible subordinated debentures at a price of $13.49 per share. During 1997, 8,278,440 treasury shares were acquired and 1,642,271 treasury shares were issued.

Par Value of Treasury Stock Deducted From Issued Stock

SEABOARD CORPORATION (DEC)

(Thousands of dollars)	1997	1996
Stockholders' equity		
Common stock of $1 par value. Authorized 4,000,000 shares, issued 1,789,599 shares including 302,079 shares of treasury stock	$ 1,790	$ 1,790
Shares held in treasury	(302)	(302)
	1,488	1,488
Additional capital	13,214	13,214
Unrealized gain on debt securities, net of income tax expense of $5 and $8 in 1997 and 1996, respectively	10	16
Retained earnings	384,303	355,216
Total stockholders' equity	399,015	369,934

OTHER ACCOUNTS SHOWN IN STOCKHOLDERS' EQUITY SECTION

Many of the survey companies present accounts other than Capital Stock, Additional Paid-in Capital, Retained Earnings, and Treasury Stock in the stockholders' equity section of the balance sheet. Other stockholders' equity accounts appearing on the balance sheets of the survey companies include, but are not limited to, cumulative translation adjustments, guarantees of ESOP debt, unearned or deferred compensation related to employee stock award plans, amounts owed to a company by employees for loans to buy company stock and unrealized losses/gains related to investments in certain debt and equity securities. Table 2-38 shows the number of survey company balance sheets presenting other stockholders' equity accounts.

297 survey companies disclosed that stock purchase rights have 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 usually do not appear on the balance sheet.

Effective for periods beginning after December 15, 1997, *Statement of Financial Accounting Standards No. 130* requires that the total of other comprehensive income for a period shall be transferred to a component of equity that is displayed separately from retained earnings and additional paid-in capital. Classifications within other comprehensive income include foreign currency items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities. The balance sheets of 14 survey companies presented, as a component of equity, a caption for accumulated other comprehensive income.

Examples showing the presentation of other stockholders' equity accounts follow.

TABLE 2-38: OTHER STOCKHOLDERS' EQUITY ACCOUNTS

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Cumulative translation adjustments	405	403	400	395
Unearned compensation	115	117	110	95
Unrealized losses/gains on certain investments	113	109	105	80
Minimum pension liability adjustments	106	101	117	107
Guarantees of ESOP debt	65	68	78	92
Employee benefit trusts	25	16	—	—
Receivables from sale of stock	13	12	16	15

Accumulated Other Comprehensive Income (Loss)

FIRST DATA CORPORATION (DEC)

(In millions)	1997	1996
Stockholders' Equity:		
Common Stock, $.01 par value; authorized 600.0 shares, issued 448.9 shares (1997) and 448.9 shares (1996)	$ 4.5	$ 4.5
Additional paid-in capital	2,132.9	2,101.8
Retained earnings	1,509.9	1,610.7
Accumulated other comprehensive income	65.8	26.3
Less treasury stock at cost, 2.0 shares (1997) and 0.9 shares (1996)	(55.8)	(33.5)
Total Stockholders' Equity	3,657.3	3,709.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Comprehensive Income

Effective January 1, 1997, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"), which establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption had no impact on the Company's net income or stockholders' equity. SFAS 130 requires unrealized gains or losses on the Company's available-for-sale securities, currency translation adjustments, and minimum pension liability, which prior to adoption were reported separately in stockholders' equity, to be included in other comprehensive income. Prior year financial statements have been reclassified to conform to the requirements of SFAS 130.

FLEMING COMPANIES, INC. (DEC)

(In thousands)	1997	1996
Shareholders' equity:		
Common stock, $2.50 par value, authorized-100,000 shares, issued and outstanding-38,264 and 37,798 shares	$ 95,660	$ 94,494
Capital in excess of par value	504,451	503,595
Reinvested earnings	536,792	514,408
Accumulated other comprehensive income:		
Cumulative currency translation adjustment	(4,922)	(4,700)
Additional minimum pension liability	(37,715)	(24,897)
Accumulated other comprehensive income	(42,637)	(29,597)
Less ESOP note	(4,594)	(6,942)
Total shareholders' equity	1,089,672	1,075,958

THE LTV CORPORATION (DEC)

(In millions, except share data)	1997	1996
Shareholders' equity		
Convertible preferred stock - aggregate liquidation value $50; par value $1.00 per share	$ 1	$ 1
Common stock - par value $0.50 per share, authorized 150 million shares; issued 105 million shares; 100 million shares in 1997 and 105 million shares in 1996 outstanding	53	53
Additional paid-in capital	1,032	1,021
Retained earnings	661	646
Treasury stock at cost (5 million shares)	(68)	—
Accumulated other comprehensive loss	(3)	(9)
Other	—	(2)
Total shareholders' equity	1,676	1,710

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Comprehensive Income

The following table reflects the accumulated balances of other comprehensive income (in millions):

	Gains (Losses) On Marketable Securities	Minimum Pension Liability	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 1995	$(1)	$ (6)	$ (7)
Current year change	3	(179)	(176)
Balance at December 31, 1995	2	(185)	(183)
Current year change	(2)	176	174
Balance at December 31, 1996	—	(9)	(9)
Current year change	—	6	6
Balance at December 31, 1997	$—	$ (3)	$ (3)

The tax expense (benefit) associated with items included in comprehensive income were $2 million, $64 million and $(67) million for 1997, 1996 and 1995, respectively.

THE LUBRIZOL CORPORATION (DEC)

(In thousands of dollars)	1997	1996
Common shares without par value - outstanding 56,966,894 shares in 1997 and 58,522,676 shares in 1996	$ 82,669	$ 78,534
Retained earnings	773,184	744,310
Accumulated other comprehensive income (loss)	(40,405)	(3,468)
Total shareholders' equity	815,448	819,376

NOTES TO FINANCIAL STATEMENTS
(In thousands of dollars unless otherwise indicated)

Note 7 (In Part): Shareholders' Equity

In June 1997, FASB issued SFAS 130 - Reporting Comprehensive Income, which becomes effective in 1998; however, earlier application is permitted. SFAS 130 requires presentation of comprehensive income (net income plus all other changes in net assets from nonowner sources) and its components in the financial statements. The company elected to early adopt SFAS 130 and has changed the format of its consolidated statements of shareholders' equity to present comprehensive income.

Components of other comprehensive income (loss) consist of the following:

	1997	1996	1995
Foreign currency translation adjustments	$(36,941)	$(6,663)	$12,957
Change in unrealized gains on marketable securities			(35,645)
Income tax benefit	4	213	12,223
Other comprehensive income (loss)	$(36,937)	$(6,450)	$(10,465)

The change in unrealized gain on marketable securities during 1995 includes reclassification adjustments for $38.5 million of gains realized in income from the sale of the securities. The 1995 income tax benefit includes a benefit of $12.5 million related to the change in unrealized gain (including $13.5 million for reclassification of realized gains). Accumulated other comprehensive income or loss shown in the consolidated statements of shareholders' equity at December 31, 1997, 1996 and 1995 is solely comprised of the accumulated foreign currency translation adjustment, net of tax effects.

Cumulative Translation Adjustments

POLAROID CORPORATION (DEC)

	1997	1996
	(In millions)	
Common stockholders' equity (Note 1)		
Common stock, $1 par value, authorized 150,000,000 shares	$ 75.4	$ 75.4
Additional paid-in capital	425.2	409.4
Retained earnings	1,304.1	1,457.8
Cumulative translation adjustments	(39.8)	—
Less: Treasury stock, at cost	1,279.4	1,244.8
Deferred compensation	1.1	39.6
Total common stockholders' equity	484.4	658.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Foreign Currency Translation:
Effective January 1, 1997, the Company has determined that the local currency is the functional currency for most of its subsidiaries outside the U.S. under Financial Accounting Standards Board Statement No. 52, "Foreign Currency Translation" (FAS 52). This change was adopted because of the Company's new operational and financial structure in Europe and the increased globalization of the Company's manufacturing since the initial adoption of FAS 52 in 1981. Assets and liabilities denominated in foreign functional currencies are translated at the exchange rate as of the balance sheet date. Translation adjustments are recorded as a separate component of shareholders' equity. Revenues, costs and expenses denominated in foreign functional currencies are translated at the weighted average exchange rate for the period. The U.S. dollar will continue to be the functional currency for subsidiaries in highly inflationary economies. This change did not have a material impact on the Company's consolidated balance sheet as of January 1, 1997.

Prior to 1997, the Company's foreign operations were measured by reflecting financial results of those operations as if they had taken place within a U.S. dollar-based economic environment. For those years, inventory, property, plant and equipment, cost of goods sold and depreciation were remeasured from foreign currencies to U.S. dollars at historical exchange rates. All other accounts were translated at current exchange rates. Gains and losses resulting from those remeasurements were included in income.

SPS TECHNOLOGIES, INC. (DEC)

(Thousands of dollars, except share data)	1997	1996
Shareholders' Equity		
Preferred stock, par value $1 per share, authorized 400,000 shares, issued none		
Common stock, par value $.50 per share, authorized 60,000,000 shares, issued 13,576,846 shares (13,292,500 shares in 1996)	$ 6,788	$ 6,646
Additional paid-in capital	92,597	82,561
Retained earnings	133,391	100,891
Minimum pension liability	(2,292)	(2,257)
Common stock in treasury, at cost, 1,204,766 shares (1,290,762 shares in 1996)	(8,856)	(7,920)
Cumulative translation adjustments	(6,838)	(2,325)
Total Shareholders' Equity	214,790	177,596

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Foreign Currency Translation
With the exception of an operation in Brazil, the financial statements of the Company's non-United States subsidiaries are translated into United States dollars using current rates of exchange, with gains or losses included in the cumulative translation adjustment account in the shareholders' equity section of the consolidated balance sheets. For the operation in Brazil, financial statements are translated at either current or historical exchange rates, as appropriate. These adjustments, along with gains and losses on currency transactions (denominated in currencies other than local currency), are reflected in the statements of consolidated operations.

Effective January 1998, Brazil will no longer be considered a highly inflationary economy, because the three-year cumulative rate of inflation is below 100%. The Company will measure the financial statements of its Brazilian entity using the Brazilian real as its functional currency.

Unearned Compensation Relating to Stock Award Plans

THE MCGRAW-HILL COMPANIES, INC. (DEC)

(In thousands, except share data)	1997	1996
Shareholders' equity (Note 10)		
$1.20 preference stock, $10 par value: authorized - 891,256 shares; outstanding - 1,362 shares in 1997 and 1,388 shares in 1996	$ 14	$ 14
Common stock, $1 par value: authorized - 150,000,000 shares; issued - 102,919,231 shares in 1997 and 102,919,060 shares in 1996	102,919	102,919
Additional paid-in capital	35,469	37,473
Retained income	1,542,854	1,394,884
Accumulated other comprehensive income	(74,247)	(57,302)
Less - common stock in treasury - at cost (3,817,643 shares in 1997 and 3,388,398 shares in 1996)	159,447	107,410
Unearned compensation on restricted stock	12,911	9,460
Total shareholders' equity	1,434,651	1,361,118

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Stock Plan Awards

The company applies the provisions of Accounting Principles Board Opinion (APBO) No. 25, Accounting for Stock Issued to Employees, in accounting for its stock-based awards. Accordingly. no compensation cost has been recognized for its stock option plans and the com-

pensation cost that has been recognized for its restricted stock performance awards continues under APBO No. 25.

Restricted stock performance awards have been granted under the 1993 and 1987 Plans. These restricted stock awards will vest only if the company achieves certain financial goals over various vesting periods. Recipients are not required to provide consideration to the company other than rendering service and have the right to vote the shares and to receive dividends.

Under SFAS No. 123, compensation cost is recognized for the fair value of the restricted stock awarded, which is its market value without restrictions at the date of grant. For performance incentive shares, adjustments are made for achievement of goals but not for subsequent changes in the market value of the stock.

A total of 319,695 restricted shares were issued at an average market value of $48.62 in 1997, 289,358 shares at an average market value of $43.79 in 1996 and 282,468 shares at an average market value of $33.68 in 1995. The awards are recorded at the market value on the date of grant. Initially the total market value of the shares is treated as unearned compensation and is charged to expense over the respective vesting periods. Under APBO No. 25, for performance incentive shares, adjustments are also made to expense for changes in market value and achievement of financial goals. Restricted stock compensation charged to expense was $16.0 million for 1997, $12.0 million for 1996 and $9.1 million for 1995. Restricted shares outstanding at the end of the year were 555,717 in 1997, 545,679 in 1996 and 539,356 shares in 1995.

HERMAN MILLER, INC. (MAY)

(In thousands, except share and per share data)	1997	1996
Shareholders' Equity:		
Preferred stock, no par value (10,000,000 shares authorized, none issued)	$ —	$ —
Common stock, $.20 par value (60,000,000 shares authorized, 46,030,822 and 49,398,460 shares issued and outstanding 1997 and 1996)	9,207	4,934
Additional paid-in capital	—	14,468
Retained earnings	292,237	303,578
Cumulative translation adjustment	(10,863)	(11,633)
Key executive stock programs	(3,519)	(3,202)
Total Shareholders' Equity	287,062	308,145

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Key Executive and Director Stock Programs (In Part):

Restricted Stock Grants. The company has granted restricted common shares to certain key employees. Shares were awarded in the name of the employee, who has all rights of a shareholder, subject to certain restrictions on transferability and a risk of forfeiture. The forfeiture provisions on the awards expire annually, over a period not to exceed six years, as certain financial goals are achieved. During fiscal 1997, 50,738 shares were granted under the company's long-term incentive plan, 7,200 shares were forfeited, and the forfeiture provisions expired on 32,431 shares. As of May 31, 1997, 117,278 shares remained subject to forfeiture provisions and restrictions on transferability.

The remaining shares subject to forfeiture provisions have been recorded as unearned stock grant compensation and are included as a separate component of shareholders' equity under the caption Key Executive Stock Programs. The unearned compensation is being charged to selling, general, and administrative expense over the five-year vesting period and was $.4, $.3, and $.2 million in 1997, 1996, and 1995, respectively.

Key Executive Stock Purchase Assistance Plan. In October 1994, the company adopted a key executive stock purchase assistance plan whereby the company may extend credit to officers and key executives to purchase the company's stock through the exercise of options or on the open market. These loans are secured by the shares acquired and are repayable under full recourse promissory notes. The sale or transfer of shares is restricted for five years after the loan is fully paid. The plan provides for the key executives to earn repayment of a portion of the notes, based on meeting annual performance objectives as set forth by the Executive Compensation Committee of the Board of Directors. The notes bear interest at 7.0 percent per annum. Interest is payable annually and principal is due on various dates through September 1, 2007. As of May 31, 1997, the notes outstanding relating to the exercise of options were $.5 million and are included as a separate component of shareholders' equity under the caption Key Executive Stock Programs. Notes outstanding related to open-market purchases were $1.5 million and are recorded in other assets. Compensation expense related to earned repayment was $3.9 million in 1997, $1.7 million in 1996, and immaterial in 1995.

Unrealized Investment Losses/Gains

ARDEN GROUP, INC. (DEC)

(In thousands, except share data)	1997	1996
Stockholders' equity:		
Common stock, Class A, $.25 par value: 893,434 and 1,106,053 shares issued and outstanding, respectively, including 339,300 treasury shares	$ 223	$ 276
Common stock, Class B, $.25 par value; 342,246 shares issued and outstanding	86	86
Paid-in capital	4,793	5,617
Notes receivable from officer/director	(255)	(369)
Unrealized gain on available-for-sale securities	416	
Retained earnings	46,750	53,880
	52,013	59,490
Less, treasury stock; 339,300 shares at cost	3,753	3,753
Total stockholders' equity	48,260	55,737

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Marketable Securities

Marketable securities consist of mutual funds, fixed-income securities, preferred stock, common stock, mortgage-backed government securities and collateralized mortgage obligations. Marketable securities are stated at market value as determined by the most recently traded price of each security at the balance sheet date. By policy, the Company invests primarily in high-grade marketable securities. All marketable securities are defined as trading securities or available-for-sale securities under the provisions of Statement of Financial Accounting Standards No. ("SFAS") 115, "Accounting for Certain Investments in Debt and Equity Securities."

Management determines the appropriate classification of its investments in marketable securities at the time of purchase and reevaluates such determination at each balance sheet date. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and unrealized holding gains and losses are included in earnings. Debt securities for which the Company does not have the intent or ability to hold to maturity and equity securities are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. The cost of investments sold is determined on the specific identification or the first-in, first-out method.

BOSTON SCIENTIFIC CORPORATION (DEC)

(In thousands, except share and per share data)	1997	1996
Stockholders' equity:		
Preferred stock, $.01 par value - authorized 25,000,000 shares, none issued and outstanding		
Common stock, $.01 par value - authorized 300,000,000 shares, 195,611,491 shares issued at December 31, 1997 and at December 31, 1996	$ 1,956	$ 1,956
Additional paid-in capital	432,556	437,074
Contingent stock repurchase obligation	18,295	24,855
Retained earnings	706,542	574,051
Foreign currency translation adjustment	(94,279)	(37,964)
Unrealized gain on available-for-sale securities, net	17,422	18,886
Treasury stock, at cost - 1,800,627 shares at December 31, 1997 and 643,991 shares at December 31, 1996	(96,260)	(23,743)
Total stockholders' equity	986,232	995,115

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C (In Part): Cash, Cash Equivalents and Investments

The Company has no trading securities. Unrealized gains and temporary losses for available-for-sale securities are excluded from earnings and are reported, net-of-tax, as a separate component of stockholders' equity until realized. The cost of available-for-sale securities is based on the specific identification method.

Minimum Pension Liability Adjustments

CROWN CORK & SEAL COMPANY, INC. (DEC)

(In millions, except share data)	1997	1996
Shareholders' equity		
Preferred stock, 4.5% cumulative convertible, par value: $41.8875; authorized: 12,432,622		
1997 - outstanding 12,431,793	$ 520.8	
1996 - outstanding 12,432,622		$ 520.8
Additional preferred stock, authorized: 30,000,000; none issued		
Common stock, par value: $5.00; authorized: 500,000,000		
1997 - issued 155,792,386	779.0	
1996 - issued 155,791,632		779.0
Additional paid-in capital	1,560.7	1,567.3
Retained earnings	1,327.2	1,185.0
Minimum pension liability - Note R	(16.9)	(14.8)
Cumulative translation adjustment	(504.6)	(337.1)
Treasury stock (1997 - 27,393,843 shares; 1996 - 27,380,835 shares)	(137.0)	(136.9)
Total shareholders' equity	3,529.2	3,563.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

R (In Part): Pensions and Other Retirement Benefits

Pensions

The Company sponsors various pension plans, covering substantially all U.S. Canadian and some non-U.S. and non-Canadian employees and participates in certain multi-employer pension plans. The benefits for these plans are based primarily on years of service and the employees' remuneration near retirement. Contributions to multi-employer plans in which the Company and its subsidiaries participate are determined in accordance with the provisions of negotiated labor contracts or applicable local regulations. The Company's objective in funding its pension plans is to accumulate funds sufficient to provide for all accrued benefits. In certain countries the funding of pension plans is not a common practice as funding provides no economic benefit. Consequently, the Company has several pension plans which are not funded.

The Company recognizes a minimum pension liability for underfunded plans. The minimum liability is equal to the excess of the accumulated benefit obligation over plan assets. A corresponding amount is recognized as either an intangible asset, to the extent of previously unrecognized prior service cost and previously unrecognized transition obligation, or a reduction of shareholders' equity. The Company had recorded additional liabilities of $39.4 and $36.6 as of December 31, 1997 and 1996, respectively. An intangible asset of $12.9 and $13.7 and a shareholders' equity reduction, net of income taxes, of $16.9 and $14.8 was recorded as of December 31, 1997 and 1996, respectively.

THE PERKIN-ELMER CORPORATION (JUN)

(Dollar amounts in thousands, except per share amounts)	1997	1996
Shareholders' equity		
Capital stock		
Preferred stock $1 par value: 1,000,000 shares authorized; none issued		
Common stock $1 par value: 90,000,000 shares authorized; 45,599,755 shares issued	$ 45,600	$ 45,600
Capital in excess of par value	198,570	186,058
Retained earnings	278,760	194,613
Foreign currency translation adjustments	(267)	446
Unrealized gain on investment		23,245
Minimum pension liability adjustment	(705)	(29,365)
Treasury stock, at cost (shares: 1997 - 1,795,563; 1996 - 2,701,186)	(85,086)	(97,155)
Total shareholders' equity	436,872	323,442

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Retirement and Other Benefits

Pension Plans. The Company maintains or sponsors pension plans that cover substantially all worldwide employees. Pension benefits earned are generally based on years of service and compensation during active employment. However, the level of benefits and terms of vesting vary among the plans. Pension plan assets are administered by trustees and are principally invested in equity and fixed income securities. The funding of pension plans is determined in accordance with statutory funding requirements.

A minimum pension liability adjustment is required when the actuarial present value of accumulated benefits exceeds plan assets and accrued pension liabilities. The minimum liability adjustment, less allowable intangible assets, net of tax benefit, is reported as a reduction of shareholders' equity. At June 30, 1997, pension plan assets exceeded the present value of accumulated benefits for most plans. Accordingly, the additional minimum liability was reduced to $.7 million at June 30, 1997 from $29.4 million at June 30, 1996.

Guarantees of ESOP Debt

DONALDSON COMPANY, INC. (JUL)

(Thousands of dollars)	1997	1996
Shareholders' Equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized, none issued	$ —	$ —
Common stock, $5.00 par value, 40,000,000 shares authorized, 27,063,407 issued in 1997 and 1996	135,317	135,317
Additional paid-in capital	6,212	2,994
Retained earnings	167,444	128,795
Cumulative translation adjustment	934	6,065
Treasury stock—2,337,379 and 1,738,793 shares in 1997 and 1996, at cost	(63,312)	(41,561)
Receivable from ESOP	(2,730)	(2,730)
Total Shareholders' Equity	243,865	228,880

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note E (In Part): Employee Benefit Plans

Employee Stock Ownership Plan: In 1987, the company established an Employee Stock Ownership Plan (ESOP) for eligible U.S. employees. The ESOP borrowed $21.0 million from the company to purchase 3,600,000 newly issued shares of Common Stock. These shares are held in trust and are issued to employees' accounts in the ESOP as the loan is repaid over 10 years. At July 31, 1997 and 1996, 3,600,000 and 3,237,021 shares have been allocated to employees. The loan obligation of the ESOP is considered unearned employee benefit expense and, as such, is recorded as a reduction of the company's shareholders' equity. The company's contributions to the ESOP, plus dividends paid on unallocated shares held by the ESOP, are used to repay the loan principal and interest. Both the loan obligation and the unearned benefit expense are reduced by the amount of loan principal repayments made by the ESOP. The ESOP contribution expense totaled $2.6 million, $2.5 million and $2.1 million in 1997, 1996 and 1995, respectively. The ESOP's 10-year term was completed at July 31, 1997, therefore, no further shares will be allocated in the future.

JOHNSON & JOHNSON (DEC)

(Dollars in millions)	1997	1996
Shareowners' equity		
Preferred stock-without par value (authorized and unissued 2,000,000 shares)	$ —	$ —
Common stock-par value $1.00 per share (authorized 2,160,000,000 shares; issued 1,534,824,000 shares)	1,535	1,535
Note receivable from employee stock ownership plan (Note 14)	(51)	(57)
Cumulative currency translation adjustments	(411)	(122)
Retained earnings	12,694	11,012
	13,767	12,368
Less common stock held in treasury, at cost (189,687,000 and 202,340,000 shares)	1,408	1,532
Total shareowners' equity	12,359	10,836

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Savings Plan

The Company has voluntary 401(k) savings plans designed to enhance the existing retirement programs covering eligible employees. The Company matches a percentage of each employee's contributions consistent with the provisions of the plan for which he/she is eligible.

In the U.S. salaried plan, one-third of the Company match is paid in Company stock under an employee stock ownership plan (ESOP). In 1990, to establish the ESOP, the Company loaned $100 million to the ESOP Trust to purchase shares of Company stock on the open market. In exchange, the Company received a note, the balance of which is recorded as a reduction of shareowners' equity.

Total Company contributions to the plans were $58 million in 1997, $50 million in 1996 and $45 million in 1995.

Employee Benefit Trusts

CONAGRA, INC. (MAY)

(Dollars in millions except per share amount)	1997	1996
Common stockholders' equity		
Common stock of $5 par value, authorized 1,200,000,000 shares; issued 253,080,765 and 252,990,917	$1,265.4	$1,264.9
Additional paid-in capital	643.3	423.1
Retained earnings	2,061.2	1,683.5
Foreign currency translation adjustment	(31.5)	(39.1)
Less treasury stock, at cost, common shares 15,018,313 and 9,834,464	(655.1)	(390.0)
	3,283.3	2,942.4
Less unearned restricted stock and value of 13,101,304 and 16,014,644 common shares held in Employee Equity Fund (Note 9)	(811.6)	(686.9)
Total common stockholders' equity	2,471.7	2,255.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in millions except share and per share amounts)

9. Employee Equity Fund

In fiscal 1993, the Company established a $700 million Employee Equity Fund ("EEF"), a newly formed grantor trust, to pre-fund future stock-related obligations of the Company's compensation and benefit plans. The EEF supports existing, previously approved employee plans that use ConAgra common stock and does not change those plans or the amounts of stock expected to be issued for those plans.

For financial reporting purposes the EEF is consolidated with ConAgra. The fair market value of the shares held by the EEF is shown as a reduction to common stockholders' equity in the Company's Consolidated Balance Sheets. All dividends and interest transactions between the EEF and ConAgra are eliminated. Differences between cost and fair value of shares held and/or released are included in consolidated additional paid-in capital.

Following is a summary of shares held by the EEF.

	1997	1996
Shares held	13,101,304	16,014,644
Cost - per share	$29.105	$29.105
Cost - total	381.3	466.1
Fair market value - per share	$60.500	$42.000
Fair market value - total	792.6	672.6

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

(Dollars in millions)	1997	1996
Stockholders' equity:		
Preferred stock, par value $.01 per share - shares authorized: 150,000,000 shares issued: 1997 - 2,597,261; 1996 - 2,610,711	$ 252	$ 253
Common stock, par value $.50 per share - shares authorized: 1,875,000,000 shares issued: 1997 - 969,015,351; 1996 - 1,018,141,084	8,601	7,752
Retained earnings	11,010	11,189
Translation adjustments	791	2,401
Treasury stock, at cost (shares: 1997 - 923,955; 1996 - 2,179,066)	(86)	(135)
Employee benefits trust, at cost (10,000,000 shares) - Note V	(860)	—
Net unrealized gain on marketable securities	108	168
Total stockholders' equity	19,816	21,628

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

V. Employee Benefits Trust

Effective November 1, 1997, the company created an employee benefits trust to which the company contributed 10 million shares of treasury stock. The company is authorized to instruct the trustee to sell shares from time to time and to use proceeds from such sales, and any dividends paid on such contributed stock, toward the partial satisfaction of the company's future obligations under certain of its compensation and benefits plans, including its retiree medical plans. The shares held in trust are not considered outstanding for earnings per share purposes until they are committed to be released, and the shares will be voted by the trustee in accordance with its fiduciary duties. As of December 31, 1997, no shares have been committed to be released.

Receivables From Sale of Stock

COMPUTER SCIENCES CORPORATION

(In thousands except share data)	1997	1996
Stockholders' equity		
Preferred stock, par value $1 per share; authorized 1,000,000 shares; none issued		
Common stock, par value $1 per share; authorized 275,000,000 shares; issued 76,924,836 (1997) and 75,428,622 (1996)	$ 76,925	$ 75,429
Additional paid-in capital	569,719	506,569
Earnings retained for use in business	1,055,183	862,770
Foreign currency translation and unfunded pension adjustments	(14,625)	(7,214)
	1,687,202	1,437,554
Less common stock in treasury, at cost, 332,220 shares (1997) and 311,928 shares (1996)	(11,982)	(10,488)
Unearned restricted stock	(1,251)	(2,088)
Notes receivable for shares sold (note 8)	(4,409)	(4,865)
Stockholders' equity, net	1,669,560	1,420,113

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Stock Incentive and Stock Purchase Plans

Stock Incentive Plans
Certain acquired companies sold shares of their common stock to employees and directors in exchange for non-interest bearing notes secured by the shares. The outstanding principal balances of these notes amounted to $4,409,000 at March 28, 1997 and are classified as a reduction of stockholders' equity.

Stock Purchase Rights

BAUSCH & LOMB INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS
(Dollar amounts in millions, except per share data)

13 (In Part): Shareholders' Equity

In 1988, the company's board of directors approved the adoption of a shareholder rights plan, in which preferred share purchase rights were distributed as a dividend at the rate of one right for each outstanding share of the company's Common and Class B stock. Common and Class B shares issued subsequent to the adoption of the rights plan automatically have preferred share purchase rights attached to them. Under certain circumstances each right entitles shareholders to purchase one two-hundredth of a share of Series A Preferred stock, par value $1.00 per share. The rights may become exercisable under certain circumstances involving actual or potential acquisitions of 20% or more of the outstanding Common and Class B stock by a person or group. The board of directors may substitute common stock equivalent preferred shares for Common shares for the exercise of stock purchase rights. Until the rights become exercisable, they have no dilutive effect on earnings per share.

The rights, which are non-voting, can be redeemed by the company at a price of one-half cent per right at any time prior to the acquisition by a person or group of 20% of the outstanding shares of the company's Common and Class B stock. In the event a person or group has acquired 20%, but not more than 50%, of such shares, the company may redeem the rights of each holder, other than the acquirer, in exchange for either one share of Common stock or one two-hundredth of a share of Series A Preferred stock. During 1997, the board of directors evaluated a proposal, passed by shareholders at the 1997 annual meeting, to revoke this plan. The board concluded that the plan will be allowed to lapse on the scheduled expiration of the rights on July 1, 1998.

HARTMARX CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Purchase Rights

On December 6, 1995, the Company's Board of Directors approved a new Stockholder Rights Plan, which took effect immediately upon the expiration of the then existing Rights on January 31, 1996. A dividend of one Right per common share was distributed to stockholders of record January 31, 1996. Each Right, expiring January 31, 2006, represents a right to buy from the Company 1/1000th of a share of Series A Junior Participating Preferred Stock, $1.00 par value, at a price of $25 per Right. This dividend distribution of the Rights was not taxable to the Company or its stockholders.

Separate certificates for Rights will not be distributed, nor will the Rights be exercisable, unless a person or group acquires 15 percent or more, or announces an offer that could result in acquiring 15 percent or more, of the Company's common shares. Following an acquisition of 15 percent or more of the Company's common shares (a "Stock Acquisition"), each Right holder, except the 15 percent or more stockholder, has the right to receive, upon exercise, common shares valued at twice the then applicable exercise price of the Right (or, under certain circumstances, cash, property or other Company securities), unless the 15 percent or more stockholder has offered to acquire all of the outstanding shares of the Company under terms that a majority of the independent directors of the Company have determined to be fair and in the best interest of the Company and its stockholders. Similarly, unless certain conditions are met, if the Company engages in a merger or other business combination following a Stock Acquisition where it does not survive or survives with a change or exchange of its common shares or if 50 percent or more of its assets, earning power or cash flow is sold or transferred, the Rights will become exercisable for shares of the acquiror's stock having a value of twice the exercise price (or, under certain circumstances, cash or property). The Rights are not exercisable, however, until the Company's right of re-

demption described below has expired. Generally, Rights may be redeemed for $.01 each (in cash, common shares or other consideration the Company deems appropriate) until the earlier of (i) the tenth day following public announcement that a 15 percent or greater position has been acquired in the Company's stock or (ii) the final expiration of the Rights. Until exercise, a Right holder, as such, has no rights as a stockholder of the Company.

IKON OFFICE SOLUTIONS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Shareholders' Equity

IKON amended its Rights Agreement (Rights Plan) as of June 18, 1997. The Rights Plan, which was scheduled to expire in accordance with its terms on February 10, 1998, was extended as amended for an additional ten-year term expiring June 18, 2007.

The Rights Plan established a new exercise price of $204.00 per preferred stock purchase right (individually, a "Right," and collectively, the "Rights"). A Right entitles holders thereof to buy 1/100th of a share of Series 12 Preferred Stock of the Company (the "Preferred Shares").

The Rights Plan provides that the Rights will be exercisable and will trade separately from shares of the Company's common stock only if a person or group (an "Acquiring Person") acquires beneficial ownership of 15% or more of the shares of the Company's common stock or commences a tender or exchange offer that would result in such a person or group owning 15% or more of the shares of the Company's common stock (a "Flip-in Event"). Only when one or more of these events occur will shareholders receive certificates for the Rights.

If any person actually acquires 15% or more of the shares of common stock, other than through a tender or exchange offer for all shares of common stock that provides a fair price and other terms for such shares, or if a 15%-or-more shareholder engages in certain "self-dealing" transactions or engages in a merger or other business combination in which the Company survives and shares of its common stock remain outstanding, the other shareholders will be able to exercise the Rights and buy shares of common stock of the Company having twice the value of the exercise price of the Rights. A provision has been added to the Rights Plan that allows shareholders, upon action by a majority of the Continuing Directors (Continuing Directors are, in general, directors who were members of the Board of Directors prior to a Flip-in Event), to exercise their Rights for 50% of the shares of common stock otherwise purchasable upon surrender to the Company of the Rights so exercised and without other payment of exercise price.

The Rights Plan has also reduced the price at which the Board of Directors can redeem the Rights to $.01.

The Rights, in general, may be redeemed at any time prior to the tenth day following public announcement that a person has acquired a 15% ownership position in shares of common stock of the Company.

THE QUAKER OATS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Shareholder Rights Plan

On May 8, 1996, the Company's Board of Directors adopted a new Shareholder Rights Plan to replace the Shareholder Rights Plan originally adopted in 1986 which expired on July 30, 1996. The Company's Shareholders Rights Plan is designed to deter coercive or unfair takeover tactics and to prevent a person or group from gaining control of the Company without offering a fair price to all shareholders.

Under the terms of the 1996 Shareholder Rights Plan, all common shareholders own one "Right" per outstanding share of common stock entitling them to purchase from the Company one one-hundredth of a share of Series C Junior Participating Preferred Stock at an exercise price of $150. The Rights become exercisable 10 days after a public announcement that a person or group has acquired shares representing 15 percent or more of the outstanding shares of common stock, or 15 business days following commencement of a tender offer for 15 percent or more of such outstanding shares of common stock.

The Company can redeem the Rights for $0.01 per Right at any time prior to their becoming exercisable. The Rights will expire on July 31, 2006, unless redeemed earlier by the Company or exchanged for common stock.

If after the Rights become exercisable the Company is involved in a merger or other business combination at any time when there is a holder of 15 percent or more of the Company's stock, the Rights will then entitle holders, upon exercise of the Rights, to receive shares of common stock of the acquiring or surviving company with a market value equal to twice the exercise price of each Right. There is an exemption for any issuance of common stock by the Company directly to any person, even if that person would become the beneficial owner of 15% or more of the common stock, provided that such person does not acquire any additional shares of common stock. The Rights described in this paragraph shall not apply to an acquisition, merger or consolidation which is determined by a majority of the Company's independent directors, after consulting one or more investment banking firms, to be fair and otherwise in the best interest of the Company and its shareholders.

SCHERING-PLOUGH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shareholders' Equity (In Part):

In June 1997, the Board of Directors of the Company approved the redemption of the Company's outstanding Preferred Share Purchase Rights at the redemption price of $.00125 per right, effective July 10, 1997. The Board also declared a dividend distribution of one new Preferred Share Purchase Right on each outstanding share of Schering-Plough common stock to replace the rights being redeemed. The 1997 rights are attached to, and

presently only trade with, the Company's common shares and are not exercisable. The 1997 rights will become exercisable only if a person or group acquires 20 percent or more of the Company's common stock or announces a tender offer which, if completed, would result in ownership by a person or group of 20 percent or more of the Company's common stock. Should a person acquire 20 percent or more of the Company's outstanding common stock through a merger or other business combination transaction, each right will entitle its holder (other than such acquirer) to purchase common shares of Schering-Plough having a market value of twice the exercise price of the right. The exercise price of the rights is $200.

Following the acquisition by a person or group of beneficial ownership of 20 percent or more but less than 50 percent of the Company's common stock, the Board of Directors may call for the exchange of the rights (other than rights owned by such acquirer), in whole or in part, for the common stock at an exchange ratio of one for one, or one one-hundredth of a share of Junior Participating Preferred Stock per right. Also, prior to the acquisition by a person or group of beneficial ownership of 20 percent or more of the Company's common stock, the rights are redeemable for 1 cent per right at the option of the Board of Directors. The new rights will expire in July 2007 unless earlier redeemed. The Board of Directors is also authorized to reduce the 20 percent thresholds referred to above to not less than 10 percent.

Stock Purchase Warrants

ALPHA INDUSTRIES, INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Common Stock

Stock Purchase Warrants

In April 1994, the Company amended its line of credit agreement and issued 50,000 stock purchase warrants to Silicon Valley Bank. The warrants are exercisable at $3.75 per share and expire on April 1, 1999.

AMERICAN STANDARD COMPANIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Capital Stock

In December 1996, the Company, Kelso & Company, L.P. ("Kelso") and ASI Partners entered into an agreement (the "Stock Disposition Agreement") providing for (i) the sale by ASI Partners of 12,429,548 shares of the Company's common stock (including 1,621,245 shares sold pursuant to the underwriters' over-allotment option) in a secondary offering (the "Secondary Offering") completed in the first quarter of 1997, and (ii) the repurchase by the Company from ASI Partners of all shares of Company common stock to be owned by ASI Partners after the distribution (the "Share Distribution") by ASI Partners of 3,780,353 shares of such stock to certain of its partners at their election. Accordingly, in conjunction with the Secondary Offering, the Company purchased 4,628,755 shares of common stock from ASI partners for $208 million (the "Share Repurchase"). The Company financed the Share Repurchase (to be held as treasury shares) with borrowings under the 1997 Credit Agreement. The Company had previously completed a secondary offering in September 1995 (together with the Secondary Offering, the "Secondary Offerings") for 22,500,000 shares of its common stock, substantially all of which were owned by ASI Partners. After the Secondary Offerings, the Share Distribution and the Share Repurchase, ASI Partners owned no common stock of the Company and is no longer entitled to designate any of the Company's directors. All of the shares sold in the Secondary Offerings were previously issued and outstanding shares, and the Company received no proceeds therefrom.

In accordance with the Stock Disposition Agreement, the Company also issued to ASI Partners 5-year warrants to purchase 3,000,000 shares of common stock of the Company at $55 per share (the "Exercise Price"), $10 per share over the public offering price. The warrants entitle holders to receive cash or shares, at the Company's option, based on the difference between the then market value of the Company's common stock and the Exercise Price. The warrants will be exercisable between January 31, 1998, and February 11, 2002. The estimated fair value of these warrants at the date issued was $9.34 per share using a Black-Scholes option pricing model and assumptions similar to those used for valuing the Company's stock options as described below.

BJ SERVICES COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Acquisitions of Businesses

Western: In April 1995, the Company acquired the Western Company of North America ("Western") for total consideration, including $7.2 million of transaction costs, of $511.4 million in cash, Company common stock and warrants to purchase Company common stock. The transaction may be summarized as follows:

(In thousands)	
Cash	$ 247,880
Stock issued (12,036,393 shares)	239,551
Warrants issued (4,800,037 warrants)	24,000
Total consideration	511,431
Net assets acquired	335,891[1]
Goodwill	$ 175,540

(1) Includes cash acquired of $44.5 million.

14 (In Part): Stockholders' Equity

Stock Purchase Warrants:
In connection with the acquisition of Western (See Note 3), the Company issued 4,800,037 stock purchase warrants ("Warrants"). The Warrants were issued on April 14, 1995 at an initial value of $5.00 per Warrant. Each Warrant represents the right to purchase one share of the Company's common stock at an exercise price of $30, until the expiration date of April 15, 2000. As of September 30, 1997, 546 Warrants had been exercised.

Section 3: Income Statement

INCOME STATEMENT TITLE

Table 3-1 summarizes the key word terms used in statement of income titles. Many of the survey companies which used the term *operations* showed a net loss in one or more of the years presented in the statement of income.

TABLE 3-1: INCOME STATEMENT TITLE

	1997	1996	1995	1994
Income	299	308	298	291
Operations	173	162	167	180
Earnings	122	125	127	117
Other	6	5	8	12
Total Companies	**600**	**600**	**600**	**600**

INCOME STATEMENT FORMAT

Either a single-step form or a multi-step form is acceptable for preparing a statement of income. Table 3-2 shows that the survey companies presented a multi-step income statement more frequently than a single-step income statement.

Effective for fiscal years beginning after December 15, 1997, *Statement of Financial Accounting Standards. No. 130* requires that comprehensive income and its components, as defined in the Statement, be reported in a financial statement. Comprehensive income and its components can be reported in an income statement, a separate statement of comprehensive income, or a statement of changes in stockholders' equity. Although the requirements of *SFAS No. 130* did not apply to 1997 financial statements, 14 survey companies reported the components of comprehensive income in a financial statement—3 in a separate statement and 11 in a statement of changes in stockholders' equity. Examples of such financial statements are presented on pages 464-471.

Occasionally the survey companies disclosed reclassifications of income statement amounts. Examples of such reclassifications follow.

TABLE 3-2: INCOME STATEMENT FORMAT

	1997	1996	1995	1994
Single-step Form				
Federal income tax shown as separate last item	164	185	187	192
Federal income tax listed among operating items	4	3	2	5
Multi-step Form				
Costs and expenses deducted from sales to show operating income	224	206	223	217
Costs deducted from sales to show gross margin	208	206	188	186
Total Companies	**600**	**600**	**600**	**600**

Reclassifications

CINCINNATI MILACRON INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part):

Reclassification of Financial Statement
Beginning in 1997, amortization of goodwill, which was previously included as a component of cost of products sold, is included in other costs and expenses-net in the Consolidated Statement of Earnings. Amounts reported for prior years have been reclassified to conform to the 1997 presentation.

DELUXE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note One (In Part): Significant Accounting Policies

Reclassifications. Effective October 1, 1997, the Company elected to reclassify certain expenses in its consolidated statements of income. As a result, net sales, cost of sales, and selling, general, and administrative expense have been restated for all prior periods to reflect these new classifications. The Company now reflects postage expense incurred by its financial institution check printing operations as cost of sales. Previously, this expense was included in net sales. The effect of this reclassification was to increase net sales and cost of sales expense by $92.9 million, $84 million, and $79.5 million for the years ended December 31, 1997, 1996, and 1995, respectively. The Company reclassified all of its employee profit sharing and pension expense and its

employee bonus and stock purchase discount expense to cost of sales and selling, general, and administrative expense. The effect of this reclassification was to increase cost of sales by $26 million, $37.2 million, and $34.3 million and to increase selling, general, and administrative expense by $31.8 million, $34.8 million, and $45.2 million for the years ended December 31, 1997, 1996, and 1995, respectively. Additionally, certain other costs of the financial institution check printing operations have been reclassified. Costs of the order entry function and certain accounting and information services have been reclassified from cost of sales to selling, general, and administrative expense, and costs related to reprinting check orders have been reclassified from selling, general, and administrative expense to cost of sales. These reclassifications resulted in a decrease to cost of sales and an increase to selling, general, and administrative expense of $31.8 million, $31.5 million, and $36.2 million for the years ended December 31, 1997, 1996 and 1995, respectively. Finally, certain minor amounts reported in 1996 and 1995 have been reclassified to conform with the 1997 presentation. These changes had no significant impact on previously reported results of operations or shareholders' equity.

FORT JAMES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Reclassifications

Certain amounts in the financial statements and notes thereto have been reclassified to conform to 1997 classifications including a reclassification of customer freight charges from net sales to cost of sales. Reportable segments for all periods have been reconfigured to include bleached board operations (formerly in the North American Consumer Products segment) in the Packaging segment and to include the food-wrap operations (formerly in the Packaging segment) in the North American consumer Products segment.

REVENUES AND GAINS

Paragraphs 78 and 82 of FASB *Statement of Financial Accounting Concepts No. 6* define revenues and gains.

> 78. Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.
>
> 82. Gains are increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from revenues or investments by owners.

Table 3-3 summarizes the descriptive income statement captions used by the survey companies to describe revenue. Gains most frequently disclosed by the survey companies are listed in Table 3-4. Excluded from Table 3-4 are segment disposals, gains shown after the caption for income taxes (Table 3-16), and extraordinary gains (Table 3-17).

Examples of revenues and gains follow.

TABLE 3-3: REVENUE CAPTION TITLE

	1997	1996	1995	1994
Net Sales				
Net sales	342	342	339	346
Net sales and operating revenues	12	13	11	9
Net sales combined with other items	4	4	4	6
Sales				
Sales	81	88	86	81
Sales and operating revenues	23	22	24	28
Sales combined with other items	11	7	14	14
Other Captions				
Revenue	115	114	114	111
Gross sales, billings, shipments, etc.	12	10	8	5
Total Companies	**600**	**600**	**600**	**600**

TABLE 3-4: GAINS

	Number of Companies			
	1997	1996	1995	1994
Interest	338	331	324	331
Sale of assets	160	126	139	121
Equity in earnings of investees	103	93	108	92
Dividends	68	71	80	89
Foreign currency transactions	52	41	50	38
Royalties	35	26	24	27
Rentals	13	13	10	10
Liability accrual reduced	9	12	17	10
Litigation settlements	9	8	10	10
Public offering of subsidiary's stock	4	13	6	12

REVENUES

ASARCO INCORPORATED (DEC)

(In thousands)	1997	1996	1995
Sales of products and services	$2,721,048	$2,716,784	$3,197,753
Operating costs and expenses:			
Cost of products and services	2,114,554	2,109,395	2,313,194
Selling, administrative and other	137,657	132,779	130,871
Depreciation and depletion	130,802	118,569	118,827
Research and exploration	43,186	37,609	25,881
Provision for asset impairments and plant closures	—	—	45,564
Environmental and other closed plant charges, net of recoveries	20,160	14,993	76,274
Total operating costs and expenses	2,446,359	2,413,345	2,710,611
Operating income	274,689	303,439	487,142

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition
Substantially all of the Company's copper and most of its lead production are sold as refined metal under annual contracts. To the extent not sold under annual contracts, production may be sold on a spot sale basis. The Company's zinc production and the balance of its lead production are sold in the form of concentrates and bullion under contracts of one to three years duration. Silver and gold are sold under monthly contracts or in spot sales. Revenue is recognized primarily in the month product is shipped to customers based on prices as provided in sales contracts. Certain subsidiaries, principally SPCC, recognize revenue based on prices prevailing at the time of shipment to customers with final pricing generally occurring within three months of shipment. Revenues with respect to these sales are adjusted in the period of settlement to reflect final pricing and in periods prior to settlement to reflect any decline in market prices which may occur between shipment and settlement.

THE BOEING COMPANY (DEC)

(Dollars in millions)	1997	1996	1995
Sales and other operating revenues	$45,800	$35,453	$32,960
Operating costs and expenses	40,644	29,383	27,370
General and administrative expense	2,187	1,819	1,794
Research and development expense	1,924	1,633	1,674
Special charges	1,400		2,438
Earnings (loss) from operations	(355)	2,618	(316)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Sales and Other Operating Revenues
Sales under fixed-price-type contracts are generally recognized as deliveries are made or at the completion of contractual billing milestones. For certain fixed-price contracts that require substantial performance over an extended period before deliveries begin, sales are recorded based upon attainment of scheduled performance milestones. Sales under cost-reimbursement contracts are recorded as costs are incurred. Certain U.S. Government contracts contain profit incentives based upon performance relative to predetermined targets. Incentives based on cost performance are recorded currently, and other incentives and fee awards are recorded when the amounts can be reasonably estimated or are awarded. Commercial aircraft sales are recorded as deliveries are made. Income associated with customer financing activities is included in sales and other operating revenues.

CURTISS-WRIGHT CORPORATION (DEC)

(In thousands)	1997	1996	1995
Net sales	$219,395	$170,536	$154,446
Cost of sales	143,706	117,067	104,178
Gross margin	75,689	53,469	50,268
Research and development costs	1,877	997	1,180
Selling expenses	7,979	6,337	6,092
General and administrative expenses	29,382	24,556	21,548
Environmental remediation and administrative expenses	3,132	2,397	835
Operating income	33,319	19,182	20,613

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

D. Revenue Recognition

The Corporation records sales and related profits for the majority of its operations as units are shipped, services are rendered, or as engineering milestones are achieved. Sales and estimated profits under long-term valve contracts are recognized under the percentage-of-completion method of accounting. Profits are recorded pro rata, based upon current estimates of direct and indirect manufacturing and engineering costs to complete such contracts.

Losses on contracts are provided for in the period in which the loss becomes determinable. Revisions in profit estimates are reflected on a cumulative basis in the period in which the basis for such revisions become known.

In accordance with industry practice, inventoried costs contain amounts relating to contracts and programs with long production cycles, a portion of which will not be realized within one year.

HARRIS CORPORATION (JUN)

(In millions)	1997	1996	1995
Revenue			
Revenue from product sales and rentals	$3,335.7	$3,189.2	$3,032.2
Revenue from services	461.5	432.0	411.9
Interest	37.4	38.1	36.8
	3,834.6	3,659.3	3,480.9
Costs and Expenses			
Cost of product sales and rentals	2,267.4	2,151.9	2,075.9
Cost of services	251.8	252.7	252.6
Engineering, selling and administrative expenses	963.8	911.9	835.8
Interest	59.9	62.5	65.4
Other - net	(20.3)	5.9	13.6
Income before income taxes	3,522.6	3,384.9	3,243.3

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (In Part):

Revenue Recognition. Revenue is recognized from sales other than on long-term contracts when a product is shipped, from rentals as they accrue, and from services when performed. Revenue on long-term contracts is accounted for principally by the percentage-of-completion method, whereby income is recognized based on the estimated stage of completion of individual contracts. Unearned income on service contracts is amortized by the straight-line-method over the term of the contracts. Royalty income is included as a component of cost of product sales and rental and is recognized on the basis of terms specified in contractual settlement agreements.

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

(Dollars in millions)	1997	1996	1995
Revenue:			
Hardware sales	$36,229	$36,316	$35,600
Services	19,302	15,873	12,714
Software	12,844	13,052	12,657
Maintenance	6,402	6,981	7,409
Rentals and financing	3,731	3,725	3,560
Total revenue	78,508	75,947	71,940
Cost:			
Hardware sales	23,538	23,396	21,862
Services	15,281	12,647	10,042
Software	3,784	4,082	4,428
Maintenance	3,394	3,659	3,651
Rentals and financing	1,902	1,624	1,590
Total cost	47,899	45,408	41,573
Gross profit	30,609	30,539	30,367

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Revenue

Revenue from hardware sales or sales-type leases is recognized when the product is shipped. Revenue from one-time-charge licensed software is recognized when the program is shipped with a deferral for post-contract customer support. This deferral is earned over the support period. Revenue from monthly software licenses is recognized as license fees accrue; from maintenance and services over the contractual period or as the services are performed; from rentals and operating leases, monthly as the fees accrue; and from financing at level rates of return over the term of the lease or receivable. Revenue is reduced for estimated customer returns and allowances.

GAINS

Sale Of Assets

BOWNE & CO., INC. (DEC)

	1997	1996	1995
Net sales	$716,647,000	$501,369,000	$392,713,000
Expenses:			
Cost of sales	392,120,000	276,141,000	233,493,000
Selling and administrative	203,362,000	133,194,000	102,439,000
Depreciation and amortization	29,669,000	21,247,000	17,852,000
Interest	1,621,000	677,000	884,000
Purchased in-process research and development and other charges	6,991,000	—	—
	633,763,000	431,259,000	354,668,000
Operating income	82,884,000	70,110,000	38,045,000
Gain on sale of subsidiary	35,273,000	—	—
Other income	2,456,000	4,905,000	3,706,000
Income before income taxes	120,613,000	75,015,000	41,751,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Sale of Subsidiary

On January 6, 1997, the Company sold its 90% interest in Baseline Financial Services, Inc. The Company recorded a pre-tax gain of $35,273,000 and an after-tax gain of $20,005,000, or $1.11 per share on a diluted basis.

CLARCOR INC. (NOV)

(Dollars in thousands)	1997	1996	1995
Net sales	$ 394,264	$ 372,382	$ 330,110
Cost of sales	273,702	263,597	234,452
Gross profit	120,562	108,785	95,658
Selling and administrative expenses	73,166	66,189	56,930
Merger-related costs	2,972	—	—
Operating income	44,424	42,596	38,728
Other income (expense):			
Interest expense	(2,759)	(3,822)	(3,418)
Interest and dividend income	1,020	1,132	1,104
Gain on sale of marketable securities	1,706	1,675	—
Other, net	(199)	(176)	217
	(232)	(1,191)	(2,097)
Earnings before income taxes and minority interests	44,192	41,405	36,631

NOTES TO FINANCIAL STATEMENTS
(Dollars in thousands)

C. Investment in Marketable Securities

In November 1996, the Company sold 50% of its 5% interest in G.U.D. Holdings Limited, an Australian company, recognizing a pretax gain on the sale of $1,675 in fiscal 1996. The Company sold its remaining 2.5% investment in December 1996 recognizing a pretax gain on the sale of $1,706 in fiscal 1997. The investment, with an average cost basis, had been classified as available for sale under the provisions of Statement of Financial Accounting Standards No. 115, (SFAS 115) "Accounting for Certain Investments in Debt and Equity Securities." The quoted market value of the investment was $3,292 as of November 30, 1996, which included unrealized holding gains, net of deferred income taxes, of $992 and $1,285 as of November 30, 1996 and 1995, respectively. The 1996 and 1995 unrealized holding gains, net of deferred income taxes, have been included as a component of shareholders' equity at November 30.

DOW JONES & COMPANY, INC. (DEC)

(In thousands)	1997	1996	1995
Revenues			
Information services	$1,101,696	$1,125,625	$1,092,002
Advertising	1,011,864	896,981	771,779
Circulation and other	458,958	458,986	419,980
Total revenues	2,572,518	2,481,592	2,283,761
Expenses			
News, operations and development	899,868	820,564	748,945
Selling, administrative and general	895,707	831,270	764,161
Newsprint	152,478	164,766	157,047
Second class postage and carrier delivery	114,442	110,256	103,497
Depreciation and amortization	250,734	217,756	206,070
Restructuring	1,001,263		
Operating expenses	3,314,492	2,144,612	1,979,720
Operating (loss) income	(741,974)	336,980	304,041
Other Income (Deductions)			
Investment income	3,473	4,249	5,379
Interest expense	(19,367)	(18,755)	(18,345)
Equity in (losses) earnings of associated companies	(49,311)	(5,408)	14,193
Gain on disposition of businesses and investments (Note 3)	52,595	14,315	13,557
Other, net	(9,300)	(121)	4,075
(Loss) income before income taxes and minority interests	(763,884)	331,260	322,900

NOTES TO FINANCIAL STATEMENTS

Note 3. Acquisitions and Dispositions

In the second quarter of 1997, the company purchased Indepth Data Inc., a provider of comprehensive historical and real-time information on fixed-income instruments for $23.5 million in cash. The acquisition was accounted for by the purchase method.

The first quarter of 1997 included a gain of $6.2 million ($3.6 million after taxes) from the sale of the company's American Demographics subsidiary, a publisher of information products serving the marketing industry. In the fourth quarter of 1997, the company recognized a gain of $46.4 million ($27.7 million after taxes) from the sale of its 35% interests in Bear Island Paper Company, L.P., a newsprint mill, and Bear Island Timberlands Company, L.P.

The third quarter of 1996 included a gain of $14.3 million ($8.8 million after taxes) from the sale of the company's minority interest in Press-Enterprise Company, a newspaper publisher in Riverside, California.

In the first quarter of 1995, the company recognized a gain of $13.4 million ($5.8 million after taxes) from the sale of 80% of its interest in SportsTicker, a real-time sports news and information company.

MINNESOTA MINING AND MANUFACTURING COMPANY (DEC)

(Amounts in millions)	1997	1996	1995
Net sales	$15,070	$14,236	$13,460
Operating expenses			
Cost of goods sold	8,580	8,099	7,720
Selling, general and administrative expenses	3,815	3,646	3,440
Restructuring charge	—	—	79
Total	12,395	11,745	11,239
Operating income	2,675	2,491	2,221
Other income and expense			
Interest expense	94	79	102
Investment and other income - net	(56)	(67)	(49)
Gain on divestiture - net	(803)	—	—
Total	(765)	12	53
Income from continuing operations before income taxes and minority interest	3,440	2,479	2,168

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Gain on Divestiture

Effective August 15, 1997, the company sold National Advertising Company, an outdoor and mall advertising subsidiary, for cash proceeds of $1 billion. After adjusting for the net cost of the assets sold and for the expenses associated with the divestiture, the company realized a gain of $803 million ($495 million after-tax), or $1.20 per basic share and $1.18 per diluted share. National Advertising Company had annual sales of about $200 million and operating income of about $35 million.

THE PERKIN-ELMER CORPORATION (JUN)

(Dollar amounts in thousands)	1997	1996	1995
Revenues	$1,276,766	$1,162,949	$1,063,506
Cost of sales	642,264	595,857	560,402
Gross Margin	634,502	567,092	503,104
Selling, general and administrative	375,880	339,994	317,120
Research, development and engineering	105,660	102,338	95,088
Provision for restructured operations	13,000	71,600	23,000
Acquired research and development	26,801	27,093	
Operating Income	113,161	26,067	67,896
Gain on sale of investment	37,420	11,704	20,800
Interest expense	2,325	4,971	8,180
Interest income	7,574	4,894	3,500
Other income (expense), net	1,548	(2,193)	(1,452)
Income Before Income Taxes	157,378	35,501	82,564

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Acquisitions and Dispositions

Dispositions

Etec Systems, Inc.- In fiscal 1997, the Company completed the sale of its entire equity interest in Etec Systems, Inc. Before-tax gains of $37.4 million, or $.65 per share after-tax, and $11.7 million, or $.21 per share after-tax, were recognized in fiscal 1997 and 1996, respectively. Net cash proceeds received from the sales were $45.8 million and $16.6 million, respectively.

Silicon Valley Group, Inc. - During the third quarter of fiscal 1995, the Company sold its equity interest in Silicon Valley Group, Inc. for net cash proceeds of $49.8 million, resulting in a before-tax gain of $20.8 million, or $.40 per share after-tax.

Foreign Currency Transactions

PEERLESS MFG. CO. (JUN)

	1997	1996	1995
Net Sales	$41,486,492	$33,643,998	$32,089,132
Cost of goods sold	29,961,203	23,430,761	21,506,004
Gross profit	11,525,289	10,213,237	10,583,128
Operating expenses			
Marketing and engineering	9,129,347	7,524,363	7,011,380
General and administrative	1,988,618	1,485,113	1,758,432
	11,117,965	9,009,476	8,769,812
Operating income	407,324	1,203,761	1,813,316
Other income (expense)			
Interest income	24,687	45,559	93,974
Interest expense	(55,475)	(16,858)	(8,040)
Foreign exchange gains (losses)	103,583	(28,628)	(56,368)
Other, net	57,877	(21,686)	65,779
	130,672	(21,613)	95,345
Earnings before income taxes	537,996	1,182,148	1,908,661

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Nature of Operations and Summary of Accounting Policies

Foreign Currency

All balance sheet accounts of foreign operations are translated into U.S. dollars at the year-end rate of exchange and statements of earnings items are translated at the weighted average exchange rates for the year. The resulting translation adjustments are made directly to a separate component of stockholders' equity. Gains and losses from foreign currency transactions, such as those resulting from the settlement of foreign receivables or payables, are included in the consolidated statements of earnings.

From time to time, the Company enters into forward exchange contracts in anticipation of future movements in certain foreign exchange rates and to hedge against foreign currency fluctuations. Realized and unrealized gains and losses on these contracts are included in net income, except that gains and losses on contracts to hedge specific foreign currency commitments are deferred and accounted for as part of the underlying transaction.

Liability Accruals Reduced

HORMEL FOODS CORPORATION (OCT)

(In thousands)	1997	1996	1995
Sales, less returns and allowances	$3,256,551	$3,098,685	$3,046,195
Cost of products sold	2,497,662	2,398,272	2,294,254
Gross profit	758,889	700,413	751,941
Expenses:			
Selling and delivery	514,931	503,108	502,729
Administrative and general	75,788	75,659	65,766
Restructuring charges	(5,176)	8,659	
Operating income	173,346	112,987	183,446
Other income and expenses:			
Interest and investment income	9,156	14,106	12,762
Equity in earnings of affiliates	3,402		
Interest expense	(15,043)	(1,619)	(1,529)
Earnings before income taxes	170,861	125,474	194,679

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note J: Restructuring Charge

The company recorded an $8.7 million restructuring charge ($5.4 million after tax, or $.07 per share) in the fourth quarter of 1996 related to the exit from its catfish business. The restructuring charge included accruals related to the estimated costs associated with closing the fish farms and processing plants and liquidating the business. The amount accrued included $3.6 million to close the farms and fish processing plants; $2.7 million and $1.7 million of write-downs to estimated net realizable value related to fixed assets and live fish inventory, respectively, and $600,000 of employee related costs.

Although the accruals that were established in 1996 were based upon a complete business liquidation which was likely at the time, the company was ultimately able to sell the catfish business in 1997. The sale of the catfish business resulted in a change in estimate of the restructuring accrual to $3.5 million, requiring the reversal of $5.2 million ($3.2 million after tax, or $.04 per share) of the accrual in 1997. The company has retained an accrual of approximately $650,000 at October 25, 1997, related to the costs estimated to be incurred on employee related and final settlement costs.

MCCORMICK & COMPANY, INCORPORATED (NOV)

(In thousands)	1997	1996	1995
Net sales	$1,800,966	$1,732,506	$1,691,086
Cost of goods sold	1,172,328	1,128,032	1,106,935
Gross profit	628,638	604,474	584,151
Selling, general and administrative expense	461,022	453,088	415,459
Restructuring (credit) charge	(3,227)	58,095	(3,904)
Operating income	170,843	93,291	172,596

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

10 (In Part): Business Restructuring and Discontinued Operations

Business Restructuring

In the third quarter of 1996, the Company began implementation of a restructuring plan and recorded a restructuring charge of $58,095. This charge reduced net income by $39,582 or $.49 per share. In addition, there were additional charges directly related to the restructuring plan which could not be accrued in 1996 but will be expensed as the plan is implemented. Under the restructuring plan, the Company has closed the Brooklyn, New York packaging plant, converted from a direct sales force to a broker sales force for certain regions in the U.S., exited from certain minor non-core product lines, closed its manufacturing facility in Switzerland and moved that production to its U.K. facility, sold the Minipack business and sold Giza National Dehydration Company of Egypt.

In the fourth quarter of 1994, the Company recorded a charge of $70,445 for restructuring its business operations. Except for the realignment of some of our overseas operations, this restructuring plan is complete.

In the third quarter of 1997, the Company reevaluated its restructuring plans. Most of the actions under these plans are completed or near completion and have resulted in losses being less than originally anticipated. In addition, an agreement in principle to dispose of an overseas food brokerage and distribution business with 6% of consolidated net sales was not consummated. As a result of these developments, the Company recognized a restructuring credit of $9,493. Concurrent with the reevaluation of restructuring plans, the Company initiated plans to streamline the food brokerage and distribution business and close the Freehold, New Jersey packaging plant, resulting in a $5,734 restructuring charge. Charges related to these initiatives include severance and personnel costs of $2,516 and a $3,218 writedown of assets to net realizable value and will require net cash outflows of approximately $3,365. The credit for the restructuring reevaluation, the charge for the new initiatives and charges directly related to the restructuring plan which could not be accrued in 1996 resulted in a net restructuring credit of $3,227 ($2,033 after tax) in 1997.

As of November 30, 1997, the restructuring liabilities are as follows: $4,274 for severance and personnel costs and $1,287 for other exit costs. In addition, approximately $1,711 of additional charges remain to be expensed during the implementation, primarily costs to move equipment and personnel.

The Company expects to have all restructuring programs completed in 1998.

Royalties

LAM RESEARCH CORPORATION (JUN)

(In thousands)	1997	1996	1995
Net sales	$ 989,742	$ 1,254,070	$798,209
Royalty income	12,662	22,814	12,348
Total revenue	1,002,404	1,276,884	810,557
Costs and expenses:			
Cost of goods sold	689,459	663,181	418,818
Research and development	170,624	173,013	127,840
Selling, general and administrative	197,089	227,755	145,507
Restructuring charge	9,021	—	—
	1,066,193	1,063,949	692,165
Operating income (loss)	(63,789)	212,935	118,392

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M: Licensing/Royalty Agreements

The Company receives royalty income from TEL under a licensing agreement signed in fiscal 1987 and extended in fiscal 1992 and 1996. For the years ended June 30, 1997, 1996 and 1995, the Company earned approximately $11,700,000, $20,700,000 and $10,500,000, respectively, of royalty income from TEL. The current royalty agreement, which was set to expire December 31, 1996, was renegotiated at a reduced royalty rate (5% to 1%) which went into effect January 1, 1997.

The Company also receives royalty income from Sumitomo. Royalty income earned from Sumitomo for fiscal 1997, 1996 and 1995 amounted to approximately $1,000,000, $2,100,000, and $1,700,000, respectively.

During fiscal 1995, the Company earned approximately $100,000 of royalty income from other sources.

Litigation Settlement

APPLIED MATERIALS, INC. (OCT)

(In thousands)	1997	1996	1995
Net sales	$4,074,275	$4,144,817	$3,061,881
Cost of products sold	2,173,350	2,195,078	1,652,033
Gross margin	1,900,925	1,949,739	1,409,848
Operating expenses:			
Research, development and engineering	567,612	481,394	329,676
Marketing and selling	314,381	313,631	223,296
General and administrative	252,214	226,063	162,944
Bad debt expense	16,318	—	—
Acquirted in-process research and development	59,500	—	—
Restructuring	—	25,100	—
Income from operations	690,900	903,551	693,932
Income from litigation settlements, net	69,000	—	—
Interest expense	20,705	20,733	21,401
Interest income	59,726	39,618	26,012
Income from consolidated companies before taxes	798,921	922,436	698,543

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Commitments and Contingencies

Legal Matters

During fiscal 1997, the Company settled certain outstanding litigation with Novellus Systems, Inc. (Novellus). In connection with this settlement, the Company received $80 million in damages for past patent infringement and will receive ongoing royalties for certain system shipments subsequent to the date of the settlement.

During the fourth fiscal quarter of 1997, the Company paid $11 million to settle all outstanding litigation with General Signal Corporation, and acquired ownership of five patents regarding "cluster tool" architecture which had originally belonged to Drytek Systems.

Nonrecurring Gain

THE FAIRCHILD CORPORATION (JUN)

(In thousands)	1997	1996	1995
Revenue:			
Net sales of products	$738,460	$445,990	$287,817
Revenues from services	—	54,820	77,733
Other income (expense)	(658)	635	1,169
	737,802	501,445	366,719
Costs and Expenses:			
Cost of goods sold	533,337	344,914	245,094
Cost of services	—	39,005	54,753
Selling, general & administrative	161,309	104,981	74,797
Research and development	7,807	94	974
Amortization of goodwill	4,832	4,687	4,520
Restructuring	—	2,319	—
	707,285	496,000	380,138
Operating income (loss)	30,517	5,445	(13,419)
Interest expense	52,493	67,112	71,087
Interest income	(4,695)	(8,072)	(3,371)
Net interest expense	47,798	59,040	67,716
Investment income, net	6,651	4,575	5,705
Equity in earnings of affiliates	7,747	4,871	1,607
Minority interest	(3,514)	(1,952)	(2,293)
Loss from continuing operations before nonrecurring income and taxes	(6,397)	(46,101)	(76,116)
Nonrecurring income	2,528	161,406	—
Earnings (loss) from continuing operations before taxes	(3,869)	115,305	(76,116)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

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

Nonrecurring Income: Nonrecurring income in 1997 resulted from the $2,528 gain recorded from the sale of Fairchild Scandinavian Bellyloading Company ("SBC"), (See Note 2). Nonrecurring income for 1996 was $161,406 and includes a $163,130 nontaxable gain resulting from the merger of Fairchild Communications Services Company into Shared Technologies Inc. (See Note 3). Expenses incurred in 1996 in connection with other, alternative transactions considered but not consummated were netted against the above gain in 1996.

Note 2 (In Part):

In September 1994, the Company acquired all of the outstanding common stock of Fairchild Scandinavian Bellyloading Company AB ("SBC") for the assumption of a minimal amount of debt. SBC is a designer and manufacturer of a patented cargo loading system, which is in-

stalled in the cargo area of commercial aircraft. On June 30, 1997, the Company sold all the patents of SBC to Teleflex Incorporated ("Teleflex") for $5,000, and immediately thereafter sold all the stock of SBC to a wholly owned subsidiary of Teleflex for $2,000. The Company may also receive an additional amount of up to $7,000 based on future net sales of SBC's patented products and services. In fiscal 1997, the company recorded a $2,528 nonrecurring gain as a result of these transactions.

EXPENSES AND LOSSES

Paragraphs 80 and 83 of FASB *Statement of Financial Accounting Concepts No. 6* define expenses and losses.

80. Expenses are outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.

83. Losses are decreases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from expenses or distributions to owners.

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 expenses, other than cost of goods sold. Excluded from Table 3-6 are rent (Table 2-28), employee benefits, depreciation (Table 3-13), and income taxes (Table 3-14). 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.

TABLE 3-5: EXPENSES—COST OF GOODS SOLD CAPTIONS

	1997	1996	1995	1994
Single Amount				
Cost of sales	265	263	260	257
Cost of goods sold	108	109	102	107
Cost of products sold	105	105	104	103
Cost of revenues	18	15	15	21
Elements of cost	11	15	15	13
Other captions	69	69	65	72
	576	576	561	573
More Than One Amount	24	24	39	27
Total Companies	**600**	**600**	**600**	**600**

TABLE 3-6: EXPENSES—OTHER THAN COST OF GOODS SOLD

	Number of Companies			
	1997	1996	1995	1994
Selling, general and administrative	335	342	340	344
Selling and administrative	147	140	152	152
General and/or administrative	90	100	89	79
Selling	26	18	20	14
Interest	561	571	579	583
Research, development, engineering, etc.	319	312	296	306
Advertising	129	121	100	54
Provision for doubtful accounts	37	33	31	33
Taxes other than income taxes	35	30	29	37
Maintenance and repairs	24	27	34	48
Exploration, dry holes, abandonments	21	23	23	22

TABLE 3-7: LOSSES

	Number of Companies			
	1997	1996	1995	1994
Restructuring of operations	144	138	129	100
Intangible asset amortization	132	111	110	109
Write-down of assets	106	111	114	64
Foreign currency transactions	82	80	96	115
Minority interest	42	36	34	37
Sale of assets	40	29	25	24
Environmental cleanup	28	22	28	32
Litigation settlements	24	33	25	28
Sale of receivables	22	27	25	21
Equity in losses of investees	20	26	15	30
Purchased R&D	20	N/C	N/C	N/C

N/C - Not compiled.

EXPENSES

Cost of Goods Sold

FEDERAL-MOGUL CORPORATION (DEC)

(Millions of dollars)	1997	1996	1995
Net sales	$1,806.6	$2,032.7	$1,998.8
Cost of products sold	1,381.8	1,660.5	1,602.2
Gross margin	424.8	372.2	397.6

FIGGIE INTERNATIONAL INC. (DEC)

(In thousands)	1997	1996	1995
Net sales	$248,602	$227,221	$210,834
Cost of sales	174,674	159,002	148,232
Gross profit on sales	73,928	68,219	62,602
Operating Expenses:			
Selling, general and administrative	38,651	38,318	42,902
Research and development	12,732	11,951	11,108
Total operating expenses	51,383	50,269	54,010
Operating income	22,545	17,950	8,592

Research And Development

BADGER METER, INC. (DEC)

(In thousands)	1997	1996	1995
Net sales	$130,771	$116,018	$108,644
Operating costs and expenses:			
Cost of sales	82,034	73,490	69,500
Marketing and administrative	30,281	27,347	25,644
Research and engineering	7,488	6,426	6,479
	119,803	107,263	101,623
Operating earnings	10,968	8,755	7,021

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Research and Development. Research and development costs are charged to expense as incurred and amounted to $4,397,000, $3,851,000 and $3,858,000 in 1997, 1996 and 1995, respectively.

SYBASE, INC. (DEC)

(In thousands)	1997	1996	1995
Revenues:			
License fees	$471,036	$605,491	$615,642
Services	432,901	406,054	340,944
Total revenues	903,937	1,011,545	956,586
Costs and expenses:			
Cost of license fees	31,356	29,859	29,736
Cost of services	248,625	246,273	205,019
Sales and marketing	469,161	523,159	481,404
Product development and engineering	138,590	164,676	151,902
General and administrative	62,607	72,561	67,888
Cost of restructuring	—	49,232	—
Cost of merger	—	—	24,017
Purchase of in-process technology	—	—	19,965
Total costs and expenses	950,339	1,085,760	979,931
Operating loss	(46,402)	(74,215)	(23,345)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Product Development. Revenues recognized under vendor and end-user funding arrangements amounted to $984,000 and $2,237,000 for 1996 and 1995, respectively. There were no such revenues recognized in 1997. Company-funded product development, calculated as total product development expenses including amounts capitalized for financial reporting purposes, less revenues recognized under the vendor and end-user funding arrangements discussed above, amounted to $157,900,000 and $177,613,000 and $162,278,000 for 1997, 1996 and 1995, respectively.

TERADYNE, INC. (DEC)

(In thousands)	1997	1996	1995
Net sales	$1,266,274	$1,171.615	$1,191,022
Expenses:			
Cost of sales	734,370	724,624	646,382
Engineering and development	162,500	143,931	123,487
Selling and administrative	194,103	180,265	176,797
	1,090,973	1,048,820	946,666
Income from operations	175,301	122,795	244,356

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B (In Part): Accounting Policies

Engineering and Development Costs
The Company's products are highly technical in nature and require a large and continuing engineering and development effort. All engineering and development costs are expensed as incurred.

Advertising

RUBBERMAID INCORPORATED (DEC)

(Dollars in thousands)	1997	1996	1995
Net sales	$2,399,701	$2,354,989	$2,344,170
Cost of sales	1,748,424	1,649,520	1,673.232
Selling, general, and administrative expenses	416,641	432,063	402,586
Realignment costs	16,000	—	158,000
Other charges (credits), net:			
Interest expense	37,944	26,281	13,682
Interest income	(2,182)	(1,933)	(3,422)
Miscellaneous	(51,032)	4,046	4,457
	(15,270)	28,394	14,717
Earnings before income taxes	233,906	245,012	95,635

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

12. Advertising Costs

Costs incurred for producing and communicating advertising and other brand support, including costs incurred under cooperative advertising programs with customers, are charged to selling, general, and administrative expenses as incurred or expensed ratably during the year in relation to revenues or certain other performance measures. Advertising costs were $137,963, $153,313, and $142,025 in 1997, 1996, and 1995, respectively.

THE SCOTTS COMPANY (SEP)

(In millions)	1997	1996	1995
Sales	$900.8	$751.9	$732.8
Cost of sales	573.6	512.4	498.8
Gross profit	327.2	239.5	234.0
Advertising and promotion	83.9	69.2	60.5
Selling, general and administrative	130.5	116.6	109.4
Amortization of goodwill and other intangibles	10.2	8.8	6.0
Other expense (income), net	6.3	17.1	(4.5)
Income from operations	96.3	27.8	62.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Advertising and Promotion
The Company advertises its branded products through national and regional media, and through cooperative advertising programs with retailers. Retailers are also offered pre-season stocking and in-store promotional allowances. Certain products are also promoted with direct consumer rebate programs. Costs for these advertising and promotional programs are generally expensed ratably over the year in relation to revenues or related performance measures.

Provision For Doubtful Accounts

CONCORD FABRICS INC. (AUG)

	1997	1996	1995
Net Sales	$108,820,287	$146,561,416	$180,152,779
Cost of Sales	76,302,759	108,814,265	143,950,238
Merchandising expenses	6,933,616	9,070,758	9,644,429
Selling and shipping expenses	8,979,360	12,189,783	13,852,770
General and administrative expenses	9,143,052	11,890,945	12,640,139
Provision for doubtful accounts	901,000	1,070,000	633,000
Interest expense, net	1,101,775	1,811,747	2,432,438
Plant shut-down costs	—	—	1,100,000
Total	103,361,562	144,847,498	184,253,014
Earnings (loss) before income taxes and extraordinary item	5,458,725	1,713,918	(4,100,235)

LOSSES

Restructuring Of Operations

BESTFOODS (DEC)

(Dollars in millions)	1997	1996	1995
Net sales	$8,400	$8,478	$7,199
Cost of sales	4,655	4,826	4,135
Gross profit	3,745	3,652	3,064
Marketing	978	932	827
Selling, general, and administrative	1,662	1,696	1,391
Restructuring, integration, and other charges—net	242	—	95
Equity in earnings of unconsolidated affiliates	(3)	(3)	(5)
Expenses and other income—net	2,879	2,625	2,308
Operating income	866	1,027	756

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restructuring, Integration, and Other Charges—Net

In 1997, the Company recorded a restructuring charge in the second quarter of $242 million ($156 million after-tax or $1.08 per basic share). The majority of this charge pertains to North American and European divisions and includes the sale of non-care businesses, plant closings, and the reorganization of administrative functions. The Baking division's restructuring charge includes continued consolidation and reconfiguration of the manufacturing and distribution systems to improve overall business efficiency and effectiveness. The restructuring charge and its utilization are summarized as follows:

(Dollars in millions)	1997 Charge	Utilized 1997	To be Utilized
Employee costs	$114	$15	$99
Plant and support facilities	67	67	—
Other	61	22	39
Total	$242	$104	$138

In 1995 the Company recorded a $60 million charge to close a consumer foods plant in the U.S. and realign production at several other facilities worldwide. This charge was fully utilized by December 31, 1996. Also in 1995, the Company recorded a gain of $20 million from the sale of a small insecticide business in Brazil. This gain, combined with the 1995 charge mentioned above, resulted in a net charge of $40 million, $24 million after taxes or $.17 per basic share. In addition, the Company in 1995 recorded an integration charge of $55 million, $34 million after taxes or $.23 per basic share for the cost of combining its baking business with an acquired baking business. All activities related to these charges have been completed.

FORT JAMES CORPORATION (DEC)

(In millions)	1997	1996	1995
Net sales	$7,259.0	$7,707.1	$8,887.9
Cost of goods sold	5,077.7	5,564.2	6,835.2
Selling and administrative expenses	1,124.4	1,222.9	1,217.4
Restructure and other unusual items	454.2	10.7	51.9
Income from operations	602.7	909.3	783.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Restructure and Other Unusual Items

In 1997, the Company recorded a $454.2 million net charge for restructure and other unusual items primarily associated with the merger and integration of the combined operations. Included in this total are facility closures and write-downs of redundant property, plant and equipment of $234.5 million, severance and other employee related costs of $103.1 million, contract termination costs of $82.8 million, transaction costs of $54.2 million, and other merger related costs of $49.2 million offset by gains on sales of timberlands of $69.6 million. As of December 28, 1997, payments of $87.8 million have been made for these charges. The Company anticipates that substantially all of the remaining restructure costs will be paid in 1998.

The facility closure costs represent the estimated loss on the closure of facilities primarily in the North American and European Consumer Products businesses that were necessary to eliminate redundancies in the combined company. The charge for property, plant and equipment represents the write-down to the net realizable value of less efficient and duplicate machinery and equipment not needed in the combined restructured manufacturing operations. The severance and other employee related costs provide for a reduction of approximately 3,100 employees related to the facility closures duplicate position eliminations and streamlining of operations related to cost reduction initiatives. However, approximately 600 new jobs will be created from the upgrade of remaining manufacturing facilities and expanded marketing and product development capabilities. The costs of contract terminations are comprised primarily of supply and sales distributor contracts.

Transaction costs include investment bankers fees, legal fees, and other costs paid for the consummation of the merger. An additional estimated $60 million of nonaccruable merger-related costs will be recorded in 1998 as incurred.

Additionally, the Company had recorded restructuring and other items charges of $10.7 million and $51.9 million in 1996 and 1995, respectively. These charges included $83.3 million of severance charges, $63.5 million of asset write-offs, and $5.0 million of transaction costs associated with the Crown Vantage spinoff, offset by $89.2 million in net gains on business dispositions. Severance charges related to approximately 1,250, 580 and

460 employees at the Company's European consumer Products Business, North American Consumer Products Business, and other domestic manufacturing and corporate facilities, respectively. Asset write-downs related to asset consolidations in Europe and the phase-out of certain packaging equipment. As of December 28, 1997, the amount remaining in the accruals for the 1996 and 1995 charges was immaterial and is expected to be fully utilized in 1998.

JOHNSON CONTROLS, INC. (SEP)

(In millions)	1997	1996	1995
Net sales	$11,145.4	$9,210.0	$7,400.7
Cost of sales	9,485.6	7,878.3	6,236.0
Gross profit	1,659.8	1,331.7	1,164.7
Selling, general and administrative expenses	1,062.7	852.8	769.6
Restructuring charge	70.0	—	—
Operating income	527.1	478.9	395.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Restructuring Charge

In the second quarter of 1997, the Company recorded a restructuring charge, including related asset writedowns, of $70.0 million ($40.3 million or $.48 per primary share and $.44 per fully diluted share, after-tax). The restructuring initiatives involve the Company's automotive and controls segments and include four plant closings and the elimination of certain underperforming business lines resulting in workforce reductions of approximately 650 employees and the writedown of certain long-lived assets, including goodwill. These actions, taking place in both the United States and Europe, resulted in restructuring charges of $37.0 million and $33.0 million for the automotive and controls segments, respectively. The automotive segment charges primarily relate to its European business where certain manufacturing capacity is being eliminated or realigned with future customer sourcing requirements, and product development resources are being consolidated. Most significantly, the Company has decided to close a complete seat manufacturing facility located in Belgium due to the announcement by Renault of the closure of their automobile manufacturing operations in that country. In addition, the Company is converting a set cushion facility in Portugal from a specialized rubberized hair to a new foam operation as a result of the loss of certain General Motors business in Spain. Within the controls segment, the Company is restructuring a business which provides low-end maintenance services as it no longer provides a means of penetrating more lucrative markets. In addition, the Company has exited the domestic cable installation business.

The cash and noncash elements of the restructuring charge approximate $15.6 million and $54.4 million, respectively. Details of the restructuring charge are as follows:

(In millions)	Original Accrual	Utilized Cash	Utilized Noncash	Balance at Sept 30, 1997
Writedown of long-lived assets	$43.6	$ —	$43.6	$ —
Employee severance and termination benefits	10.7	5.6	—	5.1
Other	15.7	3.8	2.2	9.7
	$70.0	$9.4	$45.8	$14.8

For plants to be closed and business lines eliminated, the tangible assets to be disposed of have been written down to their estimated fair value, less cost of disposal. All intangible asset carrying values associated with the plant closings and elimination of business lines have been eliminated. The write-down of long-lived assets of $43.6 million approximates the carrying value of those assets as fair value of the tangible assets less costs to sell is negligible. Considerable management judgment is necessary to estimate fair value, accordingly, actual results could vary significantly from such estimates. As part of the restructuring initiative, approximately 300 employees have separated from the Company as of September 30, 1997. It is expected that the restructuring actions will be substantially completed by approximately mid-year of fiscal 1998.

Intangible Asset Amortization

LEE ENTERPRISES, INCORPORATED (SEP)

(In thousands)	1997	1996	1995
Operating revenue			
Publishing:			
Daily Newspapers:			
Advertising	$179,822	$169,151	$153,325
Circulation	80,522	79,814	72,863
Other	58,097	53,599	48,689
Broadcasting	120,489	117,797	100,586
Equity in net income of associates companies	7,756	7,008	8,277
	$446,686	$427,369	$383,740
Operating expenses:			
Compensation costs	$165,547	$153,076	$137,368
Newsprint and ink	30,906	38,535	31,936
Depreciation	17,175	16,236	11,965
Amortization of intangibles	11,129	11,563	9,501
Other	117,778	113,218	101,565
	$342,535	$332,628	$292,335
Operating income	$104,151	$94,741	$91,405

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Nature of Business and Significant Accounting Policies

Intangibles:
Intangibles include covenants not-to-compete, consulting agreements, customer lists, broadcast licenses and agreements, newspaper subscriber lists, and the excess costs over fair value of net assets of businesses acquired.

The execs cost over fair value of net tangible assets include $21,510,000 incurred prior to October 31, 1970, which is not being amortized. Excess costs related to specialty publications are being amortized over 10 to 15 year periods. Intangibles, representing non-compete covenants, consulting agreements, customer lists, broadcast licenses and agreements and newspaper subscriber lists are being amortized over periods of 3 to 40 years. The remaining costs are being amortized over periods of 40 years. All intangibles are amortized by the straight-line method.

Write-Down of Assets

DSC COMMUNICATIONS CORPORATION (DEC)

(In thousands)	1997	1996	1995
Revenue	$1,575,479	$1,380,891	$1,422,018
Cost of revenue:			
Special charges related to inventories and associated assets	—	82,500	—
Other	913,207	843,247	736,119
Total cost of revenue	913,297	925,747	736,119
Gross profit	662,272	455,144	685,899
Operating costs and expenses:			
Research and product development	252,089	210,091	189,751
Selling, general and administrative	232,220	233,576	207,188
In-process research and development	135,000	—	—
Asset write-down	22,000	—	—
Special charges for excess facilities and equipment	—	13,500	—
Other operating costs	10,930	10,020	9,542
Total operating costs and expenses	652,239	467,187	406,481
Operating income (loss)	10,033	(12,043)	279,418

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Asset Write-Down

On January 30, 1998, the Company completed the sale of its fixed wireless local loop business to a syndicate of venture capitalists for a minority ownership interest in a newly formed company, Airspan Communications Corporation ("Airspan"), and a promissory note issued by Airspan. Due to the uncertainty regarding the ultimate recovery of the investment and the note, the Company recorded a $22.0 million asset write-down in 1997. This business incurred an after-tax loss of approximately $19.6 million, or $0.16 per diluted share, which is included in the Company's consolidated results of operations in 1997.

EG&G, INC. (DEC)

(Dollars in thousands)	1997	1996	1995
Sales:			
Products	$860,598	$867,623	$802,187
Services	600,207	559,629	617,391
Total Sales	1,460,805	1,427,252	1,419,578
Costs and Expenses:			
Cost of Sales:			
Products	553,551	547,504	512,970
Services	531,140	501,239	539,076
Total cost of sales	1,084,691	1,048,743	1,052,046
Research and development expenses	44,907	42,841	42,379
Selling, general and administrative expenses	243,409	248,038	242,480
Asset impairment charge *(Note 7)*	28,200	—	—
Total Costs and Expenses	1,401,207	1,339,622	1,336,905
Operating Income from Continuing Operations	59,598	87,630	82,673

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Asset Impairment Charge

As a result of IC Sensors' inability to achieve the improvements specified in its corrective action plan, including new product orders, improved manufacturing yields, cost reductions, and attraction and retention of critical personnel, the division continued operating at a loss in 1997, which triggered an impairment review of its long-lived assets. A revised operating plan was developed to restructure and stabilize the business. The revised projections by product line provided the basis for measurement of the asset impairment charge. The Company calculated the present value of expected cash flows of IC Sensors' product lines to determine the fair value of the assets. Accordingly, in the second quarter of 1997, the Company recorded an impairment charge of $26.7 million in the Optoelectronics segment, for a write-down of goodwill of $13.6 million and fixed assets of $13.1 million.

The Company also recorded a $1.5 million impairment charge in 1997 to write off the goodwill of the Environmental Services division in the Technical Services segment.

ELI LILLY AND COMPANY (DEC)

(Dollars in millions)	1997	1996	1995
Net sales	$8,517.6	$7,346.6	$6,763.8
Cost of sales	2,362.9	2,118.4	1,885.7
Research and development	1,382.0	1,189.5	1,042.3
Marketing and administrative	2,314.4	1,991.9	1,854.0
Asset impairment (Note 2)	2,443.0	—	—
Gain on sale of Dow Elanco	(631.8)	—	—
Interest expense	234.1	288.8	286.3
Other income—net	(97.2)	(273.3)	(70.1)
	8,007.4	5,315.3	4,998.2
Income from continuing operations before income taxes	510.2	2,031.3	1,765.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Asset Impairment

In November 1994, the company purchased PCS Health Systems, Inc. (PCS), McKesson Corporation's pharmaceutical-benefits-management business, for approximately $4.1 billion. Substantially all the purchase price was allocated to goodwill.

Subsequently, pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the company evaluated the recoverability of the long-lived assets, including intangibles, of its PCS health-care-management businesses. While revenues and profits are growing and new capabilities are being developed at PCS, the rapidly changing, competitive and highly regulated environments in which PCS operates has prevented the company from significantly increasing PCS' operating profits from levels that existed prior to the acquisition. In addition, since the acquisition, the health-care-industry trend toward highly managed care has been slower than originally expected and the possibility of selling a portion of PCS' equity to a strategic partner has not been realized. In the second quarter of 1997, concurrent with PCS' annual planning process, the company determined that PCS' estimated future undiscounted cash flows were below the carrying value of PCS' long-lived assets. Accordingly, during the second quarter of 1997, the company adjusted the carrying value of PCS' long-lived assets, primarily goodwill, to their estimated fair value of approximately $1.5 billion, resulting in a noncash impairment loss of approximately $2.4 billion ($2.21 per share). The estimated fair value was based on anticipated future cash flows discounted at a rate commensurate with the risk involved.

PHOTO CONTROL CORPORATION (DEC)

	1997	1996	1995
Net Sales	$10,423,244	$14,211,920	$14,698,526
Cost of sales	8,175,528	10,140,652	10,783,382
Gross profit	2,247,716	4,071,268	3,915,144
Expenses			
Marketing and administrative	2,820,346	2,804,186	3,377,883
Research, development and engineering	1,055,843	1,107,985	1,309,738
Interest	56,860	67,818	103,387
Provision for Inventory Losses (Note 3)	1,260,000		
Moving cost	99,589		
Gain on sale of building	(645,671)		
	4,646,967	3,979,989	4,791,008
Income (loss) before income taxes	(2,399,251)	91,279	(875,864)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Business Description

Photo Control Corporation (the Company) designs, manufactures and markets professional cameras, photographic package printers, electronic flash equipment, and related photographic accessories.

The principal market for the Company's long-roll camera equipment is the sub-segment of the professional photography market requiring high-volume equipment, such as elementary and secondary school photographers. The market with respect to electronic flash equipment is broader, extending to all professional and commercial photographers and to experienced amateur photographers. The market for photographic package printers is photographic processing labs which specialize in producing photographic color print packages such as those often produced for weddings and school photography. The geographic market in which the Company competes with respect to long-roll camera equipment, flash equipment, and printers consists of the entire United States and, to a lesser extent, some foreign countries.

In 1997, sales of camera equipment was the highest followed by flash equipment and printer sales; however, sales in all three product lines declined from 1996. As a result of the sales decrease and operating losses the flash equipment operation was moved from California to Minnesota and both the flash equipment and printer operation consolidated into the camera operation. The land and building in California was sold at a gain of $645,671 and the related debt of $565,000 paid off.

There has been a consolidation of school photography and studio portrait photograph in recent years which has concentrated the Company's sales to fewer customers. It is expected that this trend will continue. In 1997, two customers accounted for 13.3% and 8.4% of the Company's sales and in 1996 for 11.0% and 14.3%, respectively. Due to the rapidly changing technology related to many areas of image processing, the company has discontinued manufacturing of many products and is replacing them with newer, updated equipment.

Part 3 (In Part): Inventories

Due to the changing market conditions discussed in Note 1, a thorough review was made of the inventory in all three product lines. As a result, a provision for inventory losses of $1,260,000 pertaining to the electronic flash and printer product lines was charged against operations in 1997. At year end December 31, 1997 the allowance for inventory obsolescence is $1,150,000.

UNISYS CORPORATION (DEC)

(In millions)	1997	1996	1995
Revenue	$6,636.0	$6,370.5	$6,342.3
Costs and expenses			
Cost of revenue	4,402.4	4,252.1	4,650.1
Selling, general and administrative expenses	1,427.2	1,448.1	1,849.8
Research and development expenses	302.3	342.9	404.5
Goodwill impairment	883.6		
	7,015.5	6,043.1	6,904.4
Operating income (loss)	(379.5)	327.4	(562.1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Significant Fourth-Quarter Events

Other Charges. In the fourth quarter of 1997, the company recorded a charge of $883.6 million, or $4.85 per diluted common share, for the writeoff of goodwill principally related to the 1986 merger of Burroughs Corporation and Sperry Corporation. Yearly amortization of such goodwill was approximately $36 million. Effective December 31, 1997, the company elected to change its method of measuring goodwill impairment. Prior to the change, when impairment indicators existed, goodwill was evaluated for impairment and any impairment would have been measured based on comparing the unamortized goodwill to projected undiscounted operating results. Under the company's new accounting method, any impairment of goodwill indicated by such comparison would be measured by discounting projected cash flows using a discount rate commensurate with the risk involved. When a goodwill impairment must be recognized, the company believes the discounted cash flow method is a better measurement of the remaining value of goodwill, considering the company's circumstances, particularly the rapid changes that continue to occur in the marketplace away from the proprietary technology and maintenance businesses, and the continuing declines in revenue and margins in these businesses.

Foreign Currency Transactions

TOKHEIM CORPORATION (NOV)

(Amounts in thousands)	1997	1996	1995
Net sales	$385,469	$279,733	$221,573
Cost of sales, exclusive of items listed below	283,932	210,223	166,974
Selling, general, and administrative expenses	68,167	51,667	41,251
Depreciation and amortization	9,232	5,028	4,857
Merger and acquisition costs and other unusual items	3,493	6,459	2,680
Operating income	20,645	6,356	5,811
Interest expense (net of interest income of $837, $602 and $269, respectively)	16,451	7,191	3,319
Foreign currency (gain) loss	48	159	(143)
Minority interest in subsidiaries	394	393	—
Other income, net	(1,445)	(158)	(635)
Earnings (loss) before income taxes and extraordinary loss	5,197	(1,229)	3,270

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Translation of Foreign Currency

The financial position and results of operations of the Company's foreign subsidiaries are measured using local currency as the functional currency. Revenues and expenses of such subsidiaries have been translated into U.S. dollars at average exchange rates prevailing during the period. Assets and liabilities have been translated at the rates of exchange at the balance sheet date. Translation gains and losses are deferred as a separate component of shareholders' equity, unless there is a sale or complete liquidation of the underlying foreign investments. Aggregate foreign currency transaction gains and losses are included in determining net earnings.

Minority Interest

FOSTER WHEELER CORPORATION (DEC)

(In thousands of dollars)	1997	1996	1995
Revenues:			
Operating revenues	$4,059,965	$4,005,503	$3,042,177
Other income (including interest: 1997—$21,669; 1996—$21,714; 1995 —$23,404)	112,050	35,108	39,753
Total Revenues	4,172,015	4,040,611	3,081,930
Costs and Expenses:			
Cost of operating revenues	3,816,748	3,510,970	2,642,290
Selling, general and administrative expenses	268,026	296,921	250,369
Other deductions (including interest 1997—$54,675; 1996—$54,940; 1995—$49,011)	89,544	76,678	64,998
Provision for special charges	—	24,000	50,120
Minority interest	2,931	5,176	4,490
Total Costs and Expenses	4,177,249	3,913,745	3,012,267
(Loss)/earnings before income taxes	(5,234)	126,866	69,663

Environmental Cleanup

FANSTEEL INC. (DEC)

	1997	1996	1995
Net Sales	$140,194,075	$120,833,831	$102,597,754
Costs and Expenses			
Cost of products sold	118,677,180	99,990,541	84,951,756
Selling, general and administrative	16,508,472	14,500,746	13,210,850
Environmental remediation	6,900,000	—	—
	142,085,652	114,491,287	98,162,606
Operating Income (Loss)	(1,891,577)	6,342,544	4,435,148

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Discontinued Operations, Contingent Liabilities, and Other Liabilities

The Company has accrued for estimated environmental investigatory and noncapital remediation costs based upon an evaluation of currently available facts with respect to each individual site, including the results of environmental studies and testing conducted in 1997, and considering existing technology, presently enacted laws and regulations, and prior experience in remediation of contaminated sites. An additional provision of $6,900,000 was recorded in 1997 for the estimated potential exposure for such costs expected to be incurred in the future. Actual costs to be incurred in future periods at identified sites may vary from the estimates, given the inherent uncertainties in evaluating environmental exposures. Future information and developments will require the Company to continually reassess the expected impact of these environmental matters. The Company does not expect that any sums it may have to pay in connection with these environmental liabilities would have a materially adverse effect on its consolidated financial position.

Litigation Settlement

SEARS, ROEBUCK AND CO. (DEC)

(In millions)	1997	1996	1995
Revenues			
Merchandise sales and services	$36,371	$33,751	$31,133
Credit revenues	4,925	4,313	3,702
Total revenues	41,296	38,064	34,835
Costs and Expenses			
Cost of sales, buying and occupancy	26,769	24,889	23,160
Selling and administrative	8,331	8,059	7,428
Provision for uncollectible accounts	1,532	971	589
Depreciation and amortization	786	697	580
Interest	1,409	1,365	1,373
Reaffirmation charge	475	—	—
Total costs and expenses	39,302	35,981	33,130
Operating income	1,994	2,083	1,705

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Legal Proceedings

On June 3, 1997, the Company entered into a settlement of the consolidated debtor class action lawsuits filed in the United States Bankruptcy and District Courts for the District of Massachusetts by certain current and former credit card holders of the Company who had declared personal bankruptcy (the "Settlement"). These lawsuits alleged that the Company had violated the United States Bankruptcy Code and consumer protection laws in various states through activities related to certain debt reaffirmation agreements. During the second quarter of 1997, the Company entered into consent decrees with Attorneys General in all fifty states and with the Federal Trade Commission relating to these matters. The consent decrees with the States' Attorneys General require the Company, among other things, to establish funds aggregating $40 million to be shared among the states and used in part for consumer education. A federal civil and criminal investigation of these matters is ongoing.

On Oct. 28, 1997, at a joint fairness hearing before the United States Bankruptcy and the District Courts for the District of Massachusetts, the courts approved the Settlement. The Settlement required, among other things, the Company to pay the debtors the amounts collected pursuant to reaffirmation agreements that were not filed with the bankruptcy courts, including finance charges, plus 10% interest, and to undergo a review of its credit bankruptcy reaffirmation procedures. In addition, outstanding balances relating to unfiled debt reaffirmation agreements were written off. The Company will also establish a $25 million fund to be distributed to the debtors participating in the Settlement.

Six purported shareholders' derivative actions have been filed on behalf of the Company against its directors and certain of its offices, alleging breach of fiduciary duty for failing to prevent the improper handling of certain of the Company's debt reaffirmation agreements. The complaints seek unspecified damages and attorneys' fees and expenses. Five of the six, which were filed May 14, 1997, Jun. 11, 1997, Jun. 27, 1997, Sept. 11, 1997, and Nov. 5, 1997 have been consolidated in the Supreme Court of the State of New York for the County of New York. The remaining case, which was filed on Dec. 17, 1997 in the Chancery Court of the State of Illinois, Cook County, has been stayed pending resolution of the New York consolidated action. The Company has reached an agreement in principle to settle all six of these derivative actions, subject to court approval at a hearing which has been set for May 7, 1998.

On Oct. 9, 1997, the Company reached an agreement in principle to settle several consolidated securities class action lawsuits against the Company and one of its officers in the United States District Court for the Northern District of Illinois. The amended consolidated complaint alleges violations of the Securities Exchange Act of 1934 for failure to disclose the bankruptcy collection practices described above in periodic filings with the Securities and Exchange Commission prior to Apr. 10, 1997.

The Company recorded a pretax charge of $475 million ($320 million on an after-tax basis) in the second quarter for the estimated cost for the matters referred to above, including other related expenses. This estimate is based on management's assumptions as to the ultimate outcome of future events and actual results could differ from this estimate. As such, it is possible that additional costs relating to the civil and criminal investigation referred to above could be incurred that are material to operating results for the period in which such investigation is resolved. However, in the opinion of management, such possible additional costs are not expected to have a material effect on financial position, liquidity or capital resources of the Company.

Sale Of Receivables

FIRST BRANDS CORPORATION (JUN)

(Dollars in thousands)	1997	1996	1995
Net sales	$1,119,898	$1,073,022	$1,036,515
Cost of goods sold (including depreciation and rent expense of $38,785, $36,837 and $38,447)	713,686	687,103	645,886
Selling, general and administrative expenses	268,086	241,711	255,283
Amortization and other depreciation	13,478	15,607	16,599
Restructuring expense	19,000	—	—
Interest expense and amortization of debt discount and expenses	20,383	17,546	18,819
Discount on sale of receivables (Note 4)	3,992	3,963	3,979
Other income (expense), net	2,125	1,827	(21,225)
Income before provision for income taxes and extraordinary item	83,398	108,919	74,824

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Accounts Receivable

The Company is engaged in a program to sell, without recourse, up to $100,000,000 in fractional ownership interest in a defined pool of eligible trade accounts receivable. Under the current program there is an automatic yearly renewal of the facility. As of June 30, 1997 $85,000,000 had been sold, reflecting an additional sale of $15,000,000 during fiscal 1997. The amounts sold are presented as reductions in accounts receivable on the accompanying Consolidated Balance Sheets. The costs associated with this program are reported as "Discount on sale of receivables." The purchasers' level of investments is subject to change based on the level of eligible accounts receivable.

Equity in Investee Losses

HARMON INDUSTRIES, INC. (DEC)

(Dollars in thousands)	1997	1996	1995
Net sales	$213,530	$175,440	$136,780
Cost of sales	156,224	126,997	96,094
Research and development expenditures	7,664	6,331	5,218
Gross profit	49,642	42,112	35,468
Selling, general and administrative expenses	30,298	25,990	23,200
Amortization of cost in excess of fair value of net assets acquired	697	587	547
Equity in net loss of affiliate (note 8)	330	—	—
Miscellaneous income - net	63	43	66
Operating income	18,380	15,578	11,787

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Affiliates

The Company has an investment of 20% in an unconsolidated affiliate which is accounted for under the equity method. Equity in earnings (losses) of this affiliate was not significant for the years ended December 31, 1997, 1996 and 1995. The Company had sales to this related entity totaling $253,000, $559,000 and $934,000 for 1997, 1996 and 1995, respectively. The Company had receivables due from this entity of $69,000 and $144,000 as of December 31, 1997 and 1996, respectively.

As of December 31, 1996 the Company also had an investment of 38% in a formerly unconsolidated affiliate, Vale Harmon, which was accounted for under the equity method. During 1997 the Company acquired the remaining interest in this subsidiary company (See note 11). Equity in losses of this affiliate prior to acquisition amounted to $330,000 in 1997. Equity in earnings (losses) of this affiliate was not significant for the years ended December 31, 1996 and 1995. The Company had sales to this related entity totaling $27,000 in 1997 prior to acquisition and $282,000 and $543,000 in 1996 and 1995, respectively. The Company had receivables due from this entity of $79,000 as of December 31, 1996.

Purchased R&D

BAKER HUGHES INCORPORATED (SEP)

(In millions)	1997	1996	1995
Revenues:			
Sales	$2,466.7	$2,046.8	$1,805.1
Services and rentals	1,218.7	980.9	832.4
Total	3,685.4	3,027.7	2,637.5
Costs and expenses:			
Cost of sales	1,573.3	1,278.1	1,133.6
Costs of services and rentals	682.9	559.5	475.1
Selling, general and administrative	966.9	814.2	743.0
Amortization of goodwill and other intangibles	32.3	29.6	29.9
Unusual charge	52.1	39.6	
Acquired in-process research and development	118.0		
Total	3,425.5	2,721.0	2,381.6
Operating income	259.9	306.7	255.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (In Part): Acquisitions and Dispositions

Petrolite

In July 1997, the Company acquired Petrolite Corporation ("Petrolite") and Wm. S. Barnickel & Company ("Barnickel"), the holder of 47.1% of Petrolite's common stock, for 19.3 million shares of the Company's common stock having a value of $730.2 million in a three-way business combination accounted for using the purchase method of accounting. Additionally, the Company assumed Petrolite's outstanding vested and unvested employee stock options which were converted into the right to acquire 1.0 million shares of the Company's common stock. Such assumption of Petrolite options by the Company had a fair market value of $21.0 million resulting in total consideration in the acquisitions of $751.2 million. Petrolite, previously a publicly held company, is a manufacturer and marketer of specialty chemicals used in the petroleum and process industries. Barnickel was a privately held company that owned marketable securities, that were sold after the acquisition, in addition to its investment in Petrolite.

The purchase price has been allocated to the assets purchased and the liabilities assumed based on their estimated fair market values at the date of acquisition as follows:

Working capital	$ 64.5
Property	170.1
Prepaid pension cost	80.3
Intangible assets	126.0
Other assets	89.6
In-process research and development	118.0
Goodwill	263.7
Debt	(31.7)
Deferred income taxes	(106.7)
Other liabilities	(22.6)
Total	$751.2

In accordance with generally accepted accounting principles, the amount allocated to in-process research and development, which was determined by an independent valuation, has been recorded as a charge to expense in the fourth quarter of 1997 because its technological feasibility had not been established and it had no alternative future use at the date of acquisition.

E.I. DU PONT DE NEMOURS AND COMPANY (DEC)

(Dollars in millions)	1997	1996	1995
Sales	$45,079	$43,810	$42,163
Other income	1,574	1,340	1,059
Total	46,653	45,150	43,222
Cost of goods sold and other operating charges	26,377	25,144	23,363
Selling, general and administrative expenses	2,711	2,856	2,995
Depreciation, depletion and amortization	2,385	2,621	2,722
Exploration expenses, including dry hole costs and impairment of unproved properties	457	404	331
Research and development expense	1,116	1,032	1,067
Interest and debt expense	642	713	758
Taxes other than on income	6,300	6,399	6,596
Purchased in-process research and development (Note 5)	1,478	—	—
Write-down of assets and other related costs	507	—	—
Total	41,973	39,169	37,832
Earnings before income taxes	4,680	5,981	5,390

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

5. Purchased In-process Research and Development

Purchased in-process research and development represents the value assigned in a purchase business combination to research and development projects of the acquired business that were commenced but not yet completed at the date of acquisition and which, if unsuccessful, have no alternative future use in research and development activities or otherwise. In accordance with Statement of Financial Accounting Standards No. 2 "Accounting for Research and Development Costs," as interpreted by FASB Interpretation No. 4, amounts assigned to purchased in-process research and development meeting the above criteria must be charged to expense at the date of consummation of the purchase business combination. In this regard, a charge of $903 was recorded in conjunction with the purchase of a 20 percent interest in Pioneer Hi-Bred International, Inc. based on an independent appraisal. In addition, charges of $500 and $75 were recorded in conjunction with the purchase of Protein Technologies International and the polyester intermediates and resins businesses of Imperial Chemical Industries PLC, respectively, based on preliminary allocations of purchase price which are subject to revision upon completion of purchase accounting allocations and/or obtaining independent valuations by an outside appraisal firm. See Note 23.

Royalty Payments

THE ESTEE LAUDER COMPANIES INC. (JUN)

(In millions)	1997	1996	1995
Net Sales	$3,381.6	$3,194.5	$2,899.1
Cost of sales	765.1	731.0	674.8
Gross Profit	2,616.5	2,463.5	2,224.3
Selling, general and administrative expenses:			
Selling, general and administrative	2,224.6	2,116.0	1,957.7
Related party royalties (Note 1)	32.8	37.2	35.7
	2,257.4	2,153.2	1,993.4
Operating income	359.1	310.3	230.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Trademarks

Under agreements covering the purchase by the Company of trademarks for a percentage of related sales, royalty payments totaling $15.1 million, $26.1 million and $35.7 million in fiscal 1997, 1996 and 1995, respectively, have been charged to income. Such payments are made to stockholders of the Company. During fiscal 1996, the Company purchased a stockholder's rights to receive certain U.S. royalty payments for $88.5 million, which amount is being amortized over a five-year period. In fiscal 1997 and 1996, $17.7 million and $11.1 million, respectively, of this amount was amortized as a charge to income.

Exploration Costs

PHILLIPS PETROLEUM COMPANY

(Millions of dollars)	1997	1996	1995
Revenues			
Sales and other operating revenues	$15,210	$15,731	$13,368
Equity in earnings of affiliated companies	126	4	127
Other revenues	88	72	26
Total Revenues	15,424	15,807	13,521
Cost and Expenses			
Purchased crude oil and products	9,127	9,896	8,182
Production and operating expenses	2,199	2,079	2,143
Exploration expenses	242	254	198
Selling, general and administrative expenses	631	508	500
Depreciation, depletion and amortization	863	941	871
Taxes other than income taxes	263	264	266
Interest expense	198	217	265
Preferred dividend requirements of subsidiary and capital trusts	82	47	32
Total costs and expenses	13,605	14,206	12,457
Income, before income taxes and Kenai LNG tax settlement	1,819	1,601	1,064

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Exploratory Costs
Geological and geophysical costs and the costs of carrying and retaining undeveloped properties are expensed as incurred. Exploratory drilling costs are capitalized when incurred. If, based on Management's judgment, exploratory wells are determined to be commercially unsuccessful or dry holes, applicable costs are expensed.

Business Combination Costs

SOLECTRON CORPORATION (AUG)

(In thousands)	1997	1996	1995
Net sales	$3,694,385	$2,817,191	$2,065,559
Cost of sales	3,266,106	2,534,813	1,863,729
Gross profit	428,279	282,378	201,830
Operating expenses:			
Selling, general and administrative	172,872	100,260	73,554
Research and development	14,985	6,693	4,842
Acquisition costs	4,000	—	—
Operating income	236,422	175,425	123,434

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Acquisitions

On November 26, 1996, the Company exchanged approximately 6.2 million shares of common stock for all of the outstanding stock of Force Computers, Inc. (Force), and assumed all of the outstanding options of Force after giving effect to the exchange ratio. Force is a designer and provider of computer platforms for the embedded market. This transaction was accounted for under the pooling of interests method. The results of operations of Force prior to its acquisition were not material to the Company's consolidated results of operations. Accordingly, the Company's historical financial statements have not been restated to reflect the financial position and results of operations of Force, and pro forma financial information has not been disclosed. The Company incurred transaction expenses of $4.0 million directly related to the acquisition of Force.

Nonrecurring/Unusual Losses

AMERICAN HOME PRODUCTS CORPORATION (DEC)

(In thousands)	1997	1996	1995
Net Sales	$14,196,026	$14,088,326	$13,376,089
Cost of goods sold	4,101,309	4,449,783	4,534,320
Selling, general and administrative expenses	5,292,585	5,232,830	4,974,253
Research and development expenses	1,558,035	1,429,056	1,354,963
Interest expense, net	370,696	433,034	514,920
Other income, net	(121,306)	(96,159)	(98,184)
Gains on sales of businesses	—	(813,532)	(959,845)
Special charges	180,000	697,854	436,724
Restructuring charge	—	—	180,240
	11,381,319	11,332,866	10,937,391
Income before federal and foreign taxes	2,814,707	2,755,460	2,438,698

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Restructuring and Special Charges

On September 15, 1997, the Company announced the voluntary market withdrawal of fenfluramine HCl, manufactured and sold under the name *Pondimin,* and dexfenfluramine HCl, marketed under the name *Redux*. The Company took this action and withdrew the products on the basis of new, preliminary information regarding heart valve abnormalities in patients using these medications. The 1997 results of operations included special charges aggregating $180,000,000 ($117,000,000 after-tax or $0.18 per share - basic) to record the one-time costs associated with the voluntary market withdrawal. The special charges included provisions for product returns, notification and administrative handling fees, the writedown of inventory and supplies, and other related costs. These costs did not include provisions for any subsequent charges which may result from legal actions related to these products (see Note 10).

10 (In Part): Contingencies

The Company is involved in various legal proceedings, including product liability and environmental matters of a nature considered normal to its business. It is the Company's policy to accrue for amounts related to these legal matters if it is probable that a liability has been incurred and an amount is reasonably estimable.

The Company has been named as a defendant in numerous legal actions, many of which are purported class actions, relating to *Pondimin* and/or *Redux,* which the Company estimates were used in the United States prior to their voluntary market withdrawal by approximately 6 million people. It is likely that additional legal actions, including purported class actions, will be filed. These actions typically allege, among other things, that the use of *Pondimin* and/or *Redux,* independently or in combination with the prescription drug phentermine (which the Company does not manufacture, distribute or market), causes certain serious conditions, including valvular heart disease. The Company believes that it has meritorious defenses to these actions and that it has acted properly at all times in dealing with *Pondimin* and *Redux* matters.

APPLE COMPUTER, INC. (SEP)

(Dollars in millions)	1997	1996	1995
Net sales	$7,081	$9,833	$11,062
Costs and expenses:			
Cost of sales	5,713	8,865	8,204
Research and development	485	604	614
Selling, general and administrative	1,286	1,568	1,583
Special charges:			
In-process research and development	375	—	—
Restructuring costs	217	179	(23)
Termination of license agreement	75	—	—
	8,151	11,216	10,378
Operating income (loss)	(1,070)	(1,383)	684

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Termination of License Agreement

In August 1997, the Company agreed to acquire certain assets of Power Computing Corporation (PCC), a company which Apple had licensed to distribute Macintosh operating systems. In addition to the acquisition of certain assets such as PCC's customer database and the license to distribute Macintosh operating systems, the Company also has the right to retain certain key employees of PCC. The agreement with PCC also includes a release of claims between the parties.

The Company anticipates it will complete its acquisition of the assets of PCC in the first quarter of 1998 once all regulatory approvals are received. The total purchase price, which is comprised of shares of the Company's common stock valued at $100 million; the Company's forgiveness of receivables from PCC; the assumption of certain PCC obligations; and closing and related costs, is expected to be approximately $110 million. The total purchase price is expected to require total cash expenditures of approximately $5 million over the next 12 months. The acquisition will be treated as a purchase for accounting purposes. The difference between the total purchase price and the amount expensed as "Termination of License Agreement" on the accompanying consolidated statement of operations will be capitalized in the first quarter of 1998, and then amortized over a period of two years.

THE HOME DEPOT, INC. (JAN)

(Amounts in millions)	1998	1997	1996
Net Sales	$24,156	$19,535	$15,470
Cost of merchandise sold	17,375	14,101	11,184
Gross profit	6,781	5,434	4,286
Operating Expenses:			
Selling and store operating	4,287	3,521	2,784
Pre-opening	65	55	52
General and administrative	413	324	270
Non-recurring charge (note 9)	104	—	—
Total operating expenses	4,869	3,900	3,106
Operating Income	1,912	1,534	1,180

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Lawsuit Settlements.

On September 19, 1997, the Company, without admitting any wrongdoing, entered into a settlement agreement with plaintiffs in the class action lawsuit *Butler et. al. v. Home Depot, Inc.,* in which the plaintiffs had asserted claims of gender discrimination. The Company subsequently reached agreements to settle three other individual lawsuits, each of which involved claims of gender discrimination.

As a result of these agreements, the Company recorded a pre-tax non-recurring charge of $104 million in fiscal 1997. The non-recurring charge includes expected payments of $65 million to the plaintiff class members and $22.5 million to the plaintiff's attorneys in *Butler,* and

approximately $17 million for other related internal costs, including implementation or enhancement of certain human resources programs, as well as the settlement terms of the three other lawsuits. Excluding the non-recurring charge, diluted earnings per share for fiscal 1997 were $1.64 compared to $1.55 as reported.

PEPSICO, INC. (DEC)

(In millions)	1997	1996	1995
Net sales	$20,917	$20,337	$19,067
Costs and expenses, net			
Cost of sales	8,525	8,452	8,054
Selling, general and administrative expenses	9,241	9,063	8,133
Amortization of intangible assets	199	206	208
Unusual items	290	576	66
Operating Income	2,662	2,040	2,606

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

Note 2. Unusual Items Affecting Comparability of Income from Continuing Operations

	1997	1996	1995
Dispose and write down assets	$ 183	$ 454	$ —
Improve productivity	94	122	—
Strengthen the international bottler structure	13	—	—
Initial adoption of SFAS 121	—	—	66
Net loss	$ 290	$ 576	$ 66
After-tax	$ 239	$ 527	$ 64
Per share	$0.15	$0.33	$0.04

The 1997 and 1996 unusual items include impairment charges of $200 million and $373 million, respectively (see Note 3). The 1997 net charge to strengthen the international bottler structure includes proceeds of $87 million associated with a settlement related to a previous Venezuelan bottler agreement, which were partially offset by related costs.

The 1995 initial, noncash charge reflects the early adoption of SFAS 121 (see Note 3).

Note 3. Impairment of Long-Lived Assets

Impairment charges included in unusual items

	1997	1996	1995
Held and Used in the Business			
Investments in unconsolidated affiliates	$ —	$ 190	$ —
Concentrate-related assets	5	116	—
Disposal of assets			
Investments in unconsolidated affiliates	21	20	—
Other businesses/assets	174	47	—
Initial adoption of SFAS 121	—	—	66
Total	$ 200	$ 373	$ 66
After-tax	$ 169	$ 356	$ 64
Per share	$0.11	$0.22	$0.04
By Segment			
Beverages	$ 162	$ 373	$ 62
Snack foods	38	—	4
	$ 200	$ 373	$ 66

The charges associated with assets to be held and used in the business reflect a reduction in forecasted cash flows attributable to increased competitive activity and weakened macroeconomic factors in various geographic regions. The net charges for disposal of assets primarily reflect strategic decisions to realign the international bottling system, restructure certain Snack Foods operations and exit certain businesses. We anticipate the disposal of assets to be completed in 1998.

PepsiCo early adopted SFAS 121 as of the beginning of the fourth quarter of 1995. The initial, noncash charge resulted from PepsiCo grouping assets at a lower level than under its previous accounting policy for evaluating and measuring impairment.

PENSION PLANS

Statement of Financial Standards No. 132 supersedes *SFAS Nos. 87* and *88* as the authoritative pronouncement on pension disclosure. Paragraph 5 of *SFAS No. 132* enumerates the disclosure requirements for an employer sponsoring a defined benefit pension plan. These disclosure requirements include, but are not limited to, a reconciliation of beginning and ending balances of the benefit obligation, a reconciliation of beginning and ending balances of the fair value of plan assets, the discount rate, the rate of compensation increase used to determine the projected benefit obligation and the expected rate of return on plan assets. Tables 3-8, 3-9, and 3-10 list the rates used by the survey companies for the actuarial assumptions.

Since *SFAS No. 132* is effective for fiscal years beginning after December 15, 1997, the disclosure requirements of *SFAS No. 132* were not mandatory for the 1997 financial statements of the survey companies. One survey company did adopt *SFAS No. 132* and is included in the following examples of pension plan disclosures.

TABLE 3-8: ASSUMED DISCOUNT RATE

%	1997	1996	1995	1994
4.5 or less	—	—	—	—
5	1	—	—	—
5.5	—	—	—	—
6	1	2	3	—
6.5	10	5	10	4
7	229	67	188	24
7.5	159	256	155	61
8	43	113	75	168
8.5	7	10	30	187
9	—	—	5	27
9.5	—	—	—	1
10	—	—	—	—
10.5	—	—	—	—
11	—	—	—	—
11.5 or greater	—	—	—	—
Not disclosed	3	7	5	5
Companies Disclosing Defined Benefit Plans	**453**	**460**	**471**	**477**

TABLE 3-9: ASSUMED RATE OF COMPENSATION INCREASE

%	1997	1996	1995	1994
4.5 or less	219	201	189	118
5	139	154	158	182
5.5	32	46	49	88
6	23	21	28	42
6.5	2	3	6	10
7	2	5	3	4
7.5	—	—	—	2
8	1	1	—	—
8.5	—	—	—	—
9	—	—	—	—
9.5	—	—	—	—
10	—	—	—	—
10.5	—	—	—	—
11	—	—	—	—
11.5 or greater	—	—	—	—
Not disclosed	35	29	38	31
Companies Disclosing Defined Benefit Plans	**453**	**460**	**471**	**477**

TABLE 3-10: EXPECTED RATE OF RETURN

%	1997	1996	1995	1994
4.5 or less	—	—	—	—
5	—	—	—	1
5.5	—	—	—	—
6	2	—	2	2
6.5	1	3	—	—
7	5	4	8	4
7.5	7	9	14	17
8	37	44	42	54
8.5	54	56	62	72
9	143	150	158	146
9.5	105	99	92	87
10	66	59	62	62
10.5	18	17	13	13
11	7	7	6	7
11.5 or greater	2	2	2	4
Not disclosed	6	10	10	8
Companies Disclosing Defined Benefit Plans	**453**	**460**	**471**	**477**

Defined Benefit Plans

THE COASTAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Benefit Plans

The Company has non-contributory pension plans covering substantially all U.S. employees. These plans provide benefits based on final average monthly compensation and years of service. The Company's funding policy is to contribute the amount necessary for the plan to maintain its qualified status under the Employee Retirement Income Security Act of 1974, as amended. The pension benefit for 1997, 1996 and 1995 is shown in the following table (millions of dollars):

Year Ended December 31,	1997	1996	1995
Service cost - benefit earned during the period	$ 17.2	$ 18.3	$ 15.8
Interest cost on projected benefit obligation	47.5	45.6	42.2
Actual return on assets	(263.5)	(175.8)	(223.7)
Net amortization and deferral	146.5	90.3	152.3
Net periodic pension benefit	$ (52.3)	$(21.6)	$(13.4)

The discount rate used in determining the actuarial present value of the projected benefit obligation was 7.00% in 1997, 7.50% in 1996 and 7.25% in 1995. The expected increase in future compensation levels was 4% in 1997, 1996 and 1995 and the expected long-term rate of return on assets was 10% in 1997, 1996 and 1995.

The following table sets forth the funded status of the plans and the amounts recognized in the Company's Consolidated Balance Sheet (millions of dollars):

December 31,	1997	1996
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $614.0 million and $544.1 million, respectively	$(635.7)	$(583.8)
Projected benefit obligation for service rendered to date	$(729.3)	$(658.2)
Plan assets, primarily equity securities, at fair value	1,298.7	1,078.7
Plan assets in excess of projected benefit obligation	569.4	420.5
Unrecognized net assets at January 1, 1997 and 1996, being recognized over average remaining service lives	(37.1)	(45.7)
Prior service cost, not yet recognized	3.0	3.4
Unrecognized net gain from past experience different from that assumed	(200.7)	(96.6)
Prepaid pension cost	$334.6	$281.6

Plan assets include common stock and Class A common stock of the Company amounting to a total of 3.75 million shares at December 31, 1997 and 1996.

The Company also participates in several multi-employer pension plans for the benefit of its employees who are union members. Company contributions to these plans were $0.5 million for 1997, $0.7 million for 1996 and $6.4 million for 1995. The data available from administrators of the multi-employer pension plans is not sufficient to determine the accumulated benefit obligations, nor the net assets attributable to the multi-employer plans in which Company employees participate. The decrease in 1996 results from the Company's trucking operations being merged into a new company effective November 3, 1995, in which Coastal has a 50% interest.

The Company also makes contributions to a thrift plan, which is a trusteed, voluntary and contributory plan for eligible employees of the Company. The Company's contributions, which are based on matching employee contributions, amounted to $18.9 million, $18.5 million and $17.6 million in 1997, 1996 and 1995, respectively.

The Company provides certain health care and life insurance benefits for retired employees. Substantially all U.S. employees are provided these benefits. The estimated costs of retiree benefit payments are accrued during the years the employee provides services. Certain costs have been deferred by the rate regulated subsidiaries and were amortized through October 31, 1996. Effective November 1, 1996, these costs are no longer being deferred as a result of the Company's discontinued application of FAS 71.

The following tables set forth the accumulated postretirement benefit obligation recognized in the Company's Consolidated Balance Sheet as of December 31, 1997 and 1996, and the benefit cost for the years ended December 31, 1997, 1996 and 1995 (millions of dollars):

December 31,	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	$(70.4)	$(76.8)
Fully eligible plan participants	(1.4)	(1.4)
Other active plan participants	(36.2)	(31.9)
	(108.0)	(110.1)
Plan assets at fair value	24.1	26.0
Accumulated postretirement benefit obligation in excess of plan assets	(83.9)	(84.1)
Unrecognized net transition obligation	89.7	98.6
Unrecognized net gain from past experience different from that assumed	(36.3)	(36.8)
Unrecognized prior service cost	3.9	4.7
Postretirement benefit obligation included in balance sheet	$(26.6)	$(17.6)

Year Ended December 31,	1997	1996	1995
Net postretirement benefit cost consisted of the following components:			
Service cost - benefits earned during the period	$2.3	$2.5	$2.2
Interest cost on accumulated postretirement benefit obligation	7.0	7.6	8.8
Actual return on assets	(1.2)	(1.2)	(.8)
Amortization of transition obligation	6.0	6.2	6.6
Deferred regulatory amounts	3.5	3.6	2.0
Other amortization and deferral	(1.8)	(.9)	(1.5)
Net postretirement benefit cost	$15.8	$17.8	$17.3

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 9.7% in 1997, declining gradually to 6.0% by the year 2004. The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 10.4% in 1996 and 11.2% in 1995. A one percentage point increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation as of December 31, 1997 by approximately 4.5% and the net postretirement health care cost by approximately 4.3%. The assumed discount rate used in determining the accumulated postretirement benefit obligation was 7.25%.

HERCULES INCORPORATED (DEC)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pensions and Other Postretirement Benefit Plans

Effective December 31, 1997, the company adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The provisions of SFAS No. 132 revise employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of these plans. It standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable.

NOTES TO FINANCIAL STATEMENTS

10. Pension and Other Postretirement Benefits

The company provides defined benefit pension and postretirement benefit plans to employees. The following provides a reconciliation of benefit obligations, plan assets, and funded status of the plans.

(Dollars in millions)	Pension Benefits		Other Postretirement Benefits	
	1997	1996	1997	1996
Change in benefit obligation				
Benefit obligation at January 1	$1,046	$1,058	$141	$183
Service cost	17	19	1	1
Interest cost	78	77	10	11
Amendments	6	—	—	(29)
Assumption change	77	(44)	10	(5)
Divestiture	(4)	—	—	—
Translation difference	(13)	(7)	—	—
Actuarial loss	12	23	—	—
Benefits paid from plan assets	(105)	(78)	(2)	(2)
Benefits paid by company	—	(2)	(19)	(18)
Benefit obligation at December 31	$1,114	$1,046	$141	$141

(Dollars in millions)	Pension Benefits		Other Postretirement Benefits	
	1997	1996	1997	1996
Change in plan assets				
Fair value of plan assets at January 1	$1,168	$1,098	$ 9	$ 9
Actual return on plan assets	187	139	2	2
Divestiture	(2)	—	—	—
Company contributions	4	5	—	—
Asset transfers and receivables	—	6	—	—
Translation difference	(15)	(2)	—	—
Benefits paid from plan assets	(105)	(78)	(2)	(2)
Fair value of plan assets at December 31	$1,237	$1,168	$ 9	$ 9
Funded status of the plans	$124	$122	$(132)	$(132)
Unrecognized actuarial loss	93	89	22	13
Unrecognized prior service cost (benefit)	39	35	(50)	(55)
Unrecognized net transition obligation	(40)	(53)	—	—
Amount included in accrued expenses—other	—	—	21	20
Prepaid (accrued) benefit cost	$216	$193	$(139)	$(154)
Assumptions as of December 31				
Discount rate (weighted average)	7.25%	7.75%	7.25%	7.75%
Expected return on plan assets	9.25%	9.25%	9.25%	9.25%
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%

Net periodic pension and other postretirement benefit costs include the following components:

(Dollars in millions)			Pension Benefits			Other Postretirement Benefits
	1997	1996	1995	1997	1996	1995
Service cost	$ 17	$ 19	$18	$1	$1	$ 1
Interest cost	78	77	80	10	11	15
Return on plan assets (expected)	(103)	(99)	(94)	(1)	(1)	(1)
Amortization and deferrals	5	6	3	(5)	(5)	(4)
Amortization of transition asset	(14)	(14)	(15)	—	—	—
Benefit cost (credit)	$ (17)	$(11)	$ (8)	$ 5	$6	$11

Pension

During 1997, the company recognized a charge of approximately $8 million for special termination benefits. In March 1995, the company transferred plan assets and liabilities to Alliant Techsystems in connection with the Aerospace divestiture, resulting in curtailment and settlement losses of $16 million and $42 million, respectively, which were reflected in the gain on the sale of the Aerospace segment. (See Note 17).

Other Postretirement Benefits

The postretirement benefit plans are contributory health care and life insurance plans. In August 1993, a Voluntary Employees' Beneficiary Association (VEBA) Trust was established and funded with $10 million of company funds. The company periodically obtains reimbursement from the Trust for union retiree claims, while other claims are paid from company assets. The participant contributions are immediately used to cover claim payments and, for this reason, do not appear as contributions to plan assets.

In 1996, Medicare Risk HMOs were offered to certain retiree groups. This initiative was expanded in 1997 and is expected to continue. This plan change reduced the accumulated postretirement benefit obligation by $29 million, which will be amortized over the average remaining service lives of the company's active employees and has the effect of reducing net periodic benefit costs.

The assumed health care cost trend rate at December 31, 1997, was 5% for those under age 65 and 4.75% for those over age 65, decreasing to 4.5% in 1999 and thereafter. The assumed health care cost trend rate at December 31, 1996, was 6% for those under age 65 and 5% for those over age 65, decreasing to 4.5% in 1999 and thereafter.

A one percentage point change in the assumed health care cost trend rate would change the postretirement benefit obligation by $5 million and would not have a material effect on aggregate service and interest cost components.

NAVISTAR INTERNATIONAL CORPORATION (OCT)

NOTES TO FINANCIAL STATEMENTS

2 (In Part): Postretirement Benefits

The company provides postretirement benefits to substantially all of its employees. Costs associated with postretirement benefits include pension expense for employees, retirees and surviving spouses, and postretirement health care and life insurance expense for employees, retirees, surviving spouses and dependents. In addition, as part of the 1993 restructured retiree health care and life insurance plans, profit sharing payments to an independent retiree trust are required. The cost of postretirement benefits is segregated as a separate component in the Statement of Income and is as follows:

(Millions of dollars)	1997	1996	1995
Pension expense	$129	$160	$110
Health/life insurance	66	60	70
Profit sharing provision to trust	20	—	26
Total postretirement benefits expense	$215	$220	$206

In the Statement of Financial Condition, the postretirement benefits liability of $1,186 million in 1997 and $1,351 million in 1996 includes $445 million and $607 million, respectively, for pension and $741 million and $744 million, respectively, for postretirement health care and life insurance benefits. Included in investments and other assets in the Statement of Financial Condition is a prepaid pension cost of $120 million in 1997 and $38 million in 1996.

Pension Benefits

Generally, the pension plans are noncontributory with benefits related to an employee's length of service and compensation rate. The company's policy is to fund its pension plans in accordance with applicable United States and Canadian government regulations and to make additional payments as funds are available to achieve full funding of the vested accumulated benefit obligation. The pension plans vary in the extent to which they are funded, but, for plan years which ended during the current year, all legal funding requirements have been met. Plan assets are invested primarily in dedicated portfolios of long-term fixed income securities with more recent contributions invested in equity securities.

Pension Expense

Net pension expense included in the Statement of Income is composed of the following:

(Millions of dollars)	1997	1996	1995
Service cost for benefits earned during the period	$ 34	$ 34	$ 24
Interest on projected benefit obligation	238	231	232
Net amortization costs and other	99	104	57
Less expected return on assets	(242)	(209)	(203)
Net pension expense	$129	$160	$110
Actual return on assets	$505	$188	$398

"Amortization costs" include amortization of cumulative gains and losses over the expected remaining service life of employees, amortization of the initial transition liability over 15 years, the expense related to yearly lump-sum payments to retirees required by negotiated labor contracts and amortization of plan amendments, recognized over the remaining service life of employees, except for those plan amendments arising from negotiated labor contracts, which are amortized over the length of the contract.

Pension Assets and Liabilities

Included in the Statement of Financial Condition is the minimum pension liability for certain unfunded pension plans. The adjustment for the minimum pension liability in the amounts of $504 million and $623 million are offset by intangible pension assets of $212 million and $314 million and accumulated reductions in shareowners' equity of $195 million and $206 million at October 31, 1997 and October 31, 1996, respectively. The changes in shareowners' equity are net of deferred income taxes of $97 million at October 31, 1997 and $103 million at October 31, 1996. The minimum pension liability will change from year to year as a result of revisions to actuarial assumptions, experience gains or losses and settlement rate changes.

The funded status of the company's plans as of October 31, 1997 and 1996 and a reconciliation with amounts recognized in the Statement of Financial Condition are provided below.

	Plans in Which Assets Exceed Accumulated Benefits		Plans in Which Accumulated Benefits Exceed Assets	
(Millions of dollars)	1997	1996	1997	1996
Actuarial Present Value Of:				
Vested benefits	$(1,122)	$ (59)	$(1,857)	$(2,672)
Nonvested benefits	(80)	(7)	(207)	(270)
Accumulated benefit obligation	(1,202)	(66)	(2,064)	(2,942)
Effect of projected future compensation levels	(30)	(3)	(3)	(23)
Projected benefit obligation	(1,232)	(69)	(2,067)	(2,965)
Plan assets at fair value	1,279	91	1,621	2,336
Funded status at October 31	47	22	(446)	(629)
Unamortized Pension Costs:				
Net losses	29	11	293	332
Prior service costs	12	6	77	113
(Asset) liability at date of transition	32	(1)	135	200
Adjustment for the minimum liability	—	—	(504)	(623)
Net asset (liability)	$ 120	$ 38	$ (445)	$ (607)

The weighted average rate assumptions used in determining pension costs and the projected benefit obligation were:

	1997	1996	1995
Discount rate used to determine present value of projected benefit obligation at end of year	7.3%	8.1%	7.8%
Expected long-term rate of return on plan assets for the year	9.8%	9.0%	9.9%
Expected rate of increase in future compensation levels	3.5%	3.5%	3.5%

PHELPS DODGE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Pension Plans. The Corporation has trusteed, non-contributory pension plans covering substantially all of its U.S. employees and in some cases employees of international subsidiaries. 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. The Corporation's funding policy provides that payments to the pension trusts shall be at least equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974 for U.S. plans or, in the case of international subsidiaries, the minimum legal requirements in that particular country. Additional payments may also be provided by the Corporation from time to time.

Note 16. Pension Plans

The Corporation has several non-contributory employee defined benefit pension plans covering substantially all U.S. employees (the U.S. pension plans). Employees covered under the salaried defined benefit pension plans are eligible to participate upon 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 generally eligible to participate either at the time of employment or after one year of service, and benefits are generally based on a fixed amount for each year of service. Employees are vested in the plans after five years of service. In a number of these plans, the plan assets exceed the accumulated benefit obligations (overfunded plans) and in the remainder of the plans, the accumulated benefit obligations exceed the plan assets (underfunded plans). The Corporation also maintains pension plans for certain employees of international subsidiaries following the legal requirements in those countries.

The status of employee pension benefit plans at December 31 is summarized below (in millions):

	Overfunded Plans		Underfunded Plans	
	1997	1996	1997	1996
Actuarial present value of projected benefit obligation, based on employment service to date and current salary levels:				
Vested employees	$ 561	507	27	41
Non-vested employees	45	34	2	6
Accumulated benefit obligation	606	541	29	47
Additional amounts related to projected salary increases	59	43	5	6
Total projected benefit obligation	665	584	34	53
Plan assets at fair value	774	681	4	22
Projected pension benefit obligation in excess of (less than) plan assets	(109)	(97)	30	31
Unamortized net asset (liability) existing at January 1, 1985	3	5	(1)	—
Unrecognized prior service cost	(42)	(22)	(2)	(5)
Unrecognized net gain (loss) from actuarial experience	66	23	(7)	(9)
Accrued (prepaid) pension cost	$ (82)	(91)	20	17

The Corporation's pension plans were valued between December 1, 1995, and January 1, 1996, and between December 1, 1996, and January 1, 1997. The obligations were projected to and the assets were valued as of the end of 1996 and 1997. Of its ten U.S. pension plans at December 31, 1997, eight were overfunded while two were underfunded. Effective November 30, 1997, two non-bargained hourly pension plans were merged into an existing plan, and one salaried plan of an acquired company was terminated and participants were provided future benefits under an existing Corporate plan. Of the Corporation's 13 U.S. pension plans at December 31, 1996, nine were overfunded while four were underfunded. The majority of plan assets are invested in a diversified portfolio of stocks, bonds and cash or cash equivalents. A small portion of the plan assets is invested in pooled real estate and other private corporate investment funds.

The components of net periodic pension cost were as follows (in millions):

	1997	1996	1995
Benefits earned during the year	$ 17.5	14.2	11.2
Interest accrued on projected benefit obligation	46.8	43.4	42.9
Return on assets			
—actual	(117.3)	(108.4)	(119.6)
—unrecognized gain	56.3	51.8	66.6
Net amortization	3.0	1.5	1.0
Net periodic pension cost for the year	$ 6.3	2.5	2.1

Assumptions used to develop the net periodic pension cost included a 7.25 percent discount rate in 1997 and 1996, compared with 8.5 percent in 1995. An expected long-term rate of return on assets of 9.5 percent and a rate of increase in compensation levels of 4 percent were used for 1997, 1996 and 1995. For the valuation of pension obligations, the discount rate at the end of 1997 was 7.25 percent, equivalent to the discount rate at the end of 1996 and 1995.

The Corporation recognizes a minimum liability in its financial statements for its underfunded plans. "Other liabilities and deferred credits" at December 31, 1997, included $7 million relating to this minimum liability, compared with $10 million at December 31, 1996. This amount was offset by a $2 million intangible asset, a $3 million reduction in "Common Shareholders' Equity" and a $2 million deferred tax benefit at December 31, 1997, compared with a $4 million intangible asset, a $4 million reduction in "Common Shareholders' Equity" and a $2 million deferred tax benefit at December 31, 1996.

The Corporation intends to fund at least the minimum amount required under the Employee Retirement Income Security Act of 1974 for U.S. plans or, in the case of international subsidiaries, the minimum legal requirements in that particular country. The excess of amounts accrued over minimum funding requirements, together with such excess amounts accrued in prior years, have been included in "Other liabilities and deferred credits." The anticipated funding for the current year is included in "Accounts payable and accrued expenses."

PIONEER HI-BRED INTERNATIONAL, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Pension Plans: The Company's domestic and Canadian operations have defined benefit pension plans covering substantially all their employees. The plans provide benefits that are based on average monthly earnings of the employees. The funding policy is to contribute annually an amount to fund pension cost as actuarially determined by an independent pension consulting firm.

Note 5 (In Part): Pension Plans and Other Postretirement Benefits

Qualified Pension Plans: The components of pension expense relating to qualified defined benefit pension plans for the years ended August 31, 1997, 1996, and 1995, consisted of the following:

(In millions)	1997	1996	1995
Service cost	$ 8	$ 7	$ 7
Interest cost on projected benefit obligation	12	11	11
Actual return on plan assets	(16)	(14)	(12)
Net amortization and deferral	(1)	(1)	(1)
Pension expense	$ 3	$ 3	$ 5

The following table sets forth the plans' funded status as of August 31, 1997 and 1996, respectively:

(In millions)	1997	1996
Actuarial present value of benefit obligations:		
Vested benefit obligation	$121	$101
Accumulated benefit obligation	$129	$108
Plan assets at fair value, primarily stocks and bonds	$214	$179
Projected benefit obligation	187	153
Plan assets in excess of projected benefit obligation	$ 27	$ 26
Unrecognized net gain	(16)	(11)
Unrecognized prior service cost	2	2
Unrecognized transition asset, net (recognized over 16 years)	(7)	(8)
Pension asset	$ 6	$ 9

Plan assets include common stock of the Company totaling $21 million and $14 million at August 31, 1997 and 1996, respectively.

In determining the present value of benefit obligations, a discount rate of 8 percent was used in 1997 and 1996. The expected long-term rate of return on plan assets was 9 percent and the assumed rate of increase in compensation levels was 6.5 percent in both years.

Non-qualified pension plans: The components of pension expense relating to non-qualified pension plans for the years ended August 31, 1997, 1996, and 1995, consisted of the following:

(In millions)	1997	1996	1995
Service cost	$2	$1	$2
Interest cost on projected benefit obligation	3	3	3
Net amortization and deferral	1	1	1
Pension expense	$6	$5	$6

The following table sets forth the plans' funded status as of August 31, 1997 and 1996, respectively:

(In millions)	1997	1996
Actuarial present value of benefit obligations:		
Vested benefit obligation	$17	$16
Accumulated benefit obligation	$17	$16
Plans' assets at fair value	$—	$—
Projected benefit obligation	50	37
Plans' assets less than projected benefit obligation	$(50)	$(37)
Unrecognized net loss	13	4
Unrecognized prior service cost	11	11
Unrecognized transition asset, net	1	1
Accrued pension liabilities	$(25)	$(21)

In determining the present value of benefit obligations, a discount rate of 8 percent was used in 1997 and 1996. The assumed rate of increase in compensation levels used was 8 percent in both years.

ROHR, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Employee Benefit Plans

a. Pension Plans

The Company has non-contributory pension plans covering substantially all of its employees. Benefits for the salaried employees' plan are based on age and years of service plus interest at specified levels. Benefits under the pension plan covering certain union employees are based on a negotiated amount per year of service. The Company has made contributions to independent trusts in excess of the minimum funding requirements of these plans under IRS regulations. The Company also has supplemental retirement plans which are generally unfunded.

Defined benefit plans expense consists of the following components (in thousands):

	Year ended July 31,		
	1997	1996	1995
Service cost	$ 8,031	$ 8,336	$ 9,574
Interest cost on projected benefit obligation	40,201	38,726	36,462
Actual gain on plan assets	(69,809)	(90,646)	(43,245)
Net amortization and deferral	33,791	59,373	12,118
Total	$12,214	$15,589	$14,909

The following table summarizes the funded status of these plans and the amounts recognized in the Consolidated Balance Sheets (in thousands):

	July 31,	
	1997	1996
Actuarial present value of benefit obligations:		
Vested	$528,905	$507,659
Non-vested	19,364	20,714
Accumulated benefit obligation	548,269	528,373
Effect of projected future salary increases	5,777	5,545
Projected benefit obligation for service rendered to date	554,046	533,918
Plan assets at fair value, primarily stocks, bonds, other fixed income obligations and real estate	554,135	475,343
Plan assets greater (less) than projected benefit obligation	89	(58,575)
Unrecognized net loss	42,601	52,937
Unrecognized net asset from initial application of SFAS No. 87 being recognized over plans' average remaining service life	(6,814)	(9,816)
Unrecognized prior service cost	29,037	31,859
Additional minimum liability		(72,735)
Net pension asset (liability) recognized in the consolidated balance sheets	$64,913	$(56,330)

In fiscal 1997, the Company's defined benefit pension plans' assets exceeded the accumulated benefit obligation primarily due to its contribution of $48 million of common stock and $10.3 million cash in addition to market gain on plan assets, and therefore no additional minimum liability was recorded. The amounts recorded in fiscal 1996 relating to the plans' underfunded position were reversed in fiscal 1997. At July 31, 1996, the plans' accumulated benefit obligations exceeded plan assets and the additional minimum liability for the Company's defined benefit plans was in excess of the unrecognized prior service costs and net transition obligation and was recorded as a reduction of $26.4 million to shareholders' equity, net of tax benefits of $17.8 million, in accordance with SFAS No. 87, "Employers' Accounting for Pensions."

The weighted-average discount rate used in determining the present value of the projected benefit obligation was 8.25 percent, 7.75 percent, and 8.25 percent for the years ended July 31, 1997, 1996, and 1995, respectively. For compensation-based plans, the rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation and service cost was based upon an experience-related table and approximated 5.0 percent on current salaries through January 1, 1997, in accordance with plan terms. The expected long-term rate of return on plan assets was 9 percent for the periods presented. Plan assets are invested primarily in stocks, bonds, and real estate.

The Company also has certain defined contribution plans covering most employees. Expenses for these plans amounted to $3.8 million, $3.5 million, and $2.8 million in fiscal 1997, 1996, and 1995, respectively.

THE SHERWIN-WILLIAMS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Thousands of dollars)

Note 6. Pension Benefits

Substantially all employees of the Company participate in noncontributory defined benefit or defined contribution pension plans. Defined benefit plans covering salaried employees provide benefits that are based primarily on years of service and employees' compensation. The defined benefit plans covering hourly employees generally provide benefits of stated amounts for each year of service. Multi-employer plans are primarily defined benefit plans which provide benefits of stated amounts for union employees. The Company's funding policy for defined benefit pension plans is to fund at least the minimum annual contribution required by applicable regulations. Plan assets consist primarily of cash, equity investments and fixed-income securities. There were 1,938,800 shares of the Company's stock included in these assets at December 31, 1997, 1996 and 1995.

The assumed discount rate used to determine the actuarial present value of benefit obligations was lowered at December 31, 1997 due to decreased rates of high-quality, long-term investments, thereby increasing the projected benefit obligation. The net effect of the change in the assumed discount rate and the increased plan asset earnings resulted in a decrease to the unrecognized net loss at December 31, 1997. A previous decrease to the assumed discount rate at December 31, 1995 caused a net decrease to the unrecognized net loss at that date, thereby increasing the net pension credit in 1996.

The net pension credit for defined benefit plans and its components was as follows:

	1997	1996	1995
Service cost	$ 2,570	$ 3,516	$ 2,401
Interest cost	11,859	10,933	8,929
Actual return on lan assets	(60,143)	(49,923)	(53,926)
Net amortization and deferral	25,541	20,176	34,984
Net pension credit	$(20,173)	$(15,298)	$(7,612)

Based on the latest actuarial information available, the following table sets forth the funded status and amounts recognized in the Company's consolidated balance sheets for the defined benefit pension plans. Certain defined benefit plans formerly sponsored by Pratt & Lambert United, Inc. and its subsidiaries are included beginning in 1996, and certain defined benefit plans formerly sponsored by Thompson Minwax Holding Corp. are included beginning in 1997.

	1997	1996	1995
Actuarial present value of benefit obligations:			
Vested benefit obligation	$(163,152)	$(148,534)	$(116,335)
Accumulated benefit obligation	$(166,577)	$(151,376)	$(118,585)
Projected benefit obligation (PBO)	$(175,204)	$(158,876)	$(128,335)
Plan assets at fair value in:			
Plans with assets in excess of the PBO	434,730	391,865	323,216
Plans with assets less than the PBO	11,541		
	446,271	391,865	323,216
Excess (deficient) plan assets in:			
Plans with assets in excess of the PBO	276,427	232,989	194,881
Plans with assets less than the PBO	(5,360)		
	271,067	232,989	194,881

	1997	1996	1995
Unrecognized net asset at January 1, 1986, net of amortization	(4,304)	(6,943)	(9,865)
Unrecognized prior service cost	808	858	393
Unrecognized net loss	3,903	27,472	48,165
Adjustment required to recognize minimum liability	(708)		
Net pension assets	$270,766	$254,376	$233,574
Net pension assets recognized in the consolidated balance sheets:			
Deferred pension assets	$276,086	$254,376	$233,574
Minimum liability included in long-term liabilities	(708)		
Accrued pension liability included in current liabilities	(4,612)		
	$270,766	$254,376	$233,574
Assumptions used in determining actuarial present value of benefit obligations:			
Discount rate	7.00%	7.25%	7.25%
Weighted-average rate of increase in future compensation levels	5.00%	5.00%	5.00%
Long-term rate of return on plan assets	8.50%	8.50%	8.50%

The Company's annual contribution for its defined contribution pension plans, which is based on a level percentage of compensation for covered employees, offset the pension credit by $28,255 for 1997, $24,730 for 1996 and $20,326 for 1995. The cost of multi-employer and foreign plans charged to income was immaterial for the three years ended December 31, 1997.

Defined Contribution Plans

ACME METALS INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Retirement Benefit Plans (In Part):

The Company has various retirement benefit plans covering substantially all salaried and hourly employees. Certain salaried employees with one full calendar quarter of service are eligible to participate in the Company's defined contribution plan and employee stock ownership plan ("ESOP"). Company contributions to the defined contribution plan and the ESOP are based upon 7.5 percent and 3.5 percent, respectively, of eligible compensation. Contributions were suspended during the last four months of 1997 and were restored early in 1998. Amounts charged to operations under these plans were $2.5 million in 1997, $3.7 million and $3.5 million in 1996 and 1995, respectively.

ALLIANT TECHSYSTEMS INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

8 (In Part): Employee Benefit Plans

The Company also sponsors a number of defined contribution plans. Participation in one of these plans is available to substantially all employees. The two principal defined contribution plans are Company-sponsored 401(k) plans to which employees may contribute up to 18 percent of their pay. The Company contributes in Company stock or cash amounts equal to 50 percent of employee contributions up to 4 or 6 percent of the employee's pay. The amount expensed for the Company match provision of the plans was $5,881, $5,780, and $3,606 in fiscal 1997, 1996, and 1995, respectively. The significant increase in fiscal 1996 over amounts expensed in fiscal 1995 reflects the addition of the Aerospace employees on March 15, 1995. The Company employs approximately 1,975 employees (29 percent of its total employees) covered by collective bargaining agreements, 220 of whom are covered under agreements expected to be renegotiated during fiscal 1998 due to current agreement expirations.

TWIN DISC, INCORPORATED (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

L (In Part): Retirement Plans

The Company sponsors defined contribution plans covering substantially all domestic employees. These plans provide for employer contributions based primarily on employee participation. The total expense under the plans was $1,281,000, $1,056,000 and $906,000 in 1997, 1996 and 1995, respectively.

Supplemental Retirement Plans

DOVER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Employee Benefit Plans

The Company also provides, through nonqualified plans, supplemental pension payments in excess of qualified plan limits imposed by Federal tax law. These plans cover officers and certain key employees and serve to restore the combined pension amount to original benefit levels. The plans are unfunded apart from the general assets of the Company. The pension benefit obligation and pension expense under these plans follow:

(In thousands)	1997	1996	1995
Pension benefit obligation	$20,175	$14,509	$12,143
Pension expense	3,928	2,089	2,404

For measurement purposes a discount rate of 8% was used together with an average wage increase of 6%.

ETHYL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

15 (In Part): Pension Plans & Other Postretirement Benefits

One of the Company's U.S. pension plans is the supplemental executive retirement plan ("SERP"), which is an unfunded defined benefit plan. The actuarial present value of accumulated benefit obligations related to the Company's SERP totaled $17,612,000 and $12,451,000 at December 31, 1997 and 1996, respectively. In December 1997, the Company established a Rabbi Trust into which it invested $15,192,000, an amount equivalent to the accumulated benefit obligation of the already retired beneficiaries of the SERP. The prepaid pension asset in the table above is net of an accrued pension liability of $12,495,000 and $11,164,000 related to the SERP at December 31, 1997 and 1996, respectively. Pension expense for the SERP totalled $2,093,000, $1,410,000 and $1,456,000 for 1997, 1996 and 1995, respectively.

THE MCGRAW-HILL COMPANIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Retirement Plans

The company also has an unfunded supplemental benefits plan to provide senior management with supplemental retirement, disability and death benefits. Supplemental retirement benefits are based on final monthly earnings. Pension cost was approximately $2 million for 1997, 1996 and 1995. The accumulated benefit obligation as of December 31, 1997 was $18.7 million, including vested benefits of $173 million, and the projected benefit obligation was $19.8 million.

Multiemployer Plans

HARRAH'S ENTERTAINMENT, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Employee Benefit Plans

Multi-Employer Pension Plans. Approximately 3,000 of Harrah's employees are covered by union sponsored, collectively bargained multi-employer pension plans. Harrah's contributed and charged to expense $2.4 million, $2.1 million and $1.9 million in 1997, 1996 and 1995, respectively, for such plans. The plans' administrators do not provide sufficient information to enable Harrah's to determine its share, if any, of unfunded vested benefits.

LEGGETT & PLATT, INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in millions)

H (In Part): Employee Benefit Plans

Contributions to union sponsored, defined benefit, multiemployer pension plans were $.2 in 1997, 1996 and 1995. These plans are not administered by the Company and contributions are determined in accordance with provisions of negotiated labor contracts. As of 1997, the actuarially computed values of vested benefits for these plans were primarily equal to or less than the net assets of the plans. Therefore, the Company would have no material withdrawal liability. However, the Company has no present intention of withdrawing from any of these plans, nor has the Company been informed that there is any intention to terminate such plans.

Net pension (expense) income, including Company sponsored defined benefit plans, multiemployer plans and other plans, was $(.8), $(.4) and $.2 in 1997, 1996 and 1995, respectively.

STONE CONTAINER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Pension Plans and Other Postretirement Benefits

Certain domestic operations of the Company participate in various multi-employer union-administered defined benefit pension plans that principally cover production workers. Pension expense under these plans was $5.4 million, $5.2 million and $5.5 million for 1997, 1996 and 1995, respectively.

WORLD COLOR PRESS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

11 (In Part): Employee Benefit Plans

Certain union employees of the Company participate in multiemployer plans. Amounts charged to benefit expense relating to the multiemployer plans for 1997, 1996 and 1995 totaled $3,352, $3,285 and $3,049, respectively. In addition, the Company has various deferred savings and profit sharing plans for certain employees who meet eligibility requirements. Amounts charged to benefit expense related to these plans for 1997, 1996 and 1995 totaled $1,977, $1,044 and $1,186, respectively.

Amendment Of Plan

DATA GENERAL CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Benefit Plans

The Company has a noncontributory defined benefit pension plan which covers substantially all U.S. employees. The Company also has a supplemental retirement benefit plan, which covers certain U.S. employees. Benefits under the plans are based on an employee's regular base pay and creditable years of service, as defined in the plans. Certain of the Company's foreign subsidiaries also have retirement plans covering substantially all of their employees. Benefits under these plans are generally based on either career average or final average salaries and creditable years of service, as defined in the plans. The annual cost for these plans is determined using the projected unit credit actuarial cost method which includes significant actuarial assumptions and estimates which are subject to change in the near term. Prior service cost is amortized over the average remaining service period of employees expected to receive benefits under the plan. Funds contributed to the plans are invested primarily in common stocks, mutual funds, global bond funds, and cash equivalent securities.

The components of net pension expense are as follows:

(In thousands)	Year Ended Sept. 27,1997	Sept. 28,1996	Sept. 30,1995
Service cost	$ 7,886	$ 7,468	$ 7,806
Interest on projected benefit obligation	14,127	12,736	11,504
Actual return on plan assets	(32,325)	(14,362)	(17,460)
Deferral of net actuarial gains and amortization of transition surplus and prior service cost	17,261	2,283	7,850
Curtailment loss, net of settlement gain	316	(50)	817
Net pension expense	$ 7,265	$ 8,075	$ 10,517

The funded status of the plans is as follows:

(In thousands)	As Of Sept. 27, 1997	Sept. 28, 1996
Actuarial Present Value of Benefit Obligations		
Vested benefit obligation	$174,673	$150,779
Accumulated benefit obligation	$183,164	$158,683
Projected benefit obligation	$203,070	$178,353
Market value of plan assets	192,424	150,096
Excess of projected benefit obligation over plan assets	10,646	28,257
Unrecognized actuarial gain	15,560	5,871
Unrecognized prior service cost	(16,561)	(17,995)
Unrecognized transition surplus, net	6,236	7,062
Net pension liability included in current and other liabilities	$ 15,881	$ 23,195
Assumptions Used in Computing the Funded Status of the Plans		
Weighted average discount rate	7.63%	8.00%
Expected long-term weighted average rate of return of assets	9.41%	9.65%
Weighted average rate of increase in compensation levels	4.16%	4.31%

As of October 1, 1997, the U.S. plan was amended to change the benefit for creditable service prior to October 1, 1997 to 1½% of a participant's average base pay on October 1, 1997. The benefit formula for future service did not change. The update will generally result in increased benefits to participants with creditable service prior to October 1, 1997. The amendment resulted in increases of approximately $11.8 million, $13.1 million, and $7.8 million in the fiscal 1998 vested benefit obligation, accumulated benefit obligation, and projected benefit obligation, respectively.

As a result of the Company's restructuring and cost containment programs, pension curtailment losses of $0.9 million were recognized in fiscal 1995. This amount was previously accrued as part of the fiscal 1994 and 1993 restructuring charges.

The Company also has foreign defined contribution pension plans. Total pension costs charged to expense for these plans was $1.6 million in both fiscal years 1997 and 1996, and $1.7 million in fiscal 1995.

The Company's post-retirement benefit plan provides certain medical and life insurance benefits for retired employees. Substantially all U.S. employees of the Company may become eligible for these benefits if they remain employed until normal retirement age and fulfill other eligibility requirements as specified by the plan. With the exception of certain participants who retired prior to 1986, the medical benefit plan requires monthly contributions by retired participants in amounts equal to insured equivalent costs less a fixed Company contribution which is dependent on the participant's length of service and Medicare eligibility. Benefits are continued to dependents of eligible retiree participants for 39 weeks after the death of the retiree. The life insurance benefit plan is noncontributory. Funds contributed to the plan are invested primarily in common stocks, mutual funds, and cash equivalent securities.

The components of net periodic post-retirement benefit cost are as follows:

(In thousands)	Year Ended Sept. 27,1997	Sept. 28, 1996	Sept. 30, 1995
Service cost	$296	$293	$308
Interest on projected benefit obligation	687	655	657
Accrual return on plan assets	(26)	(56)	(150)
Deferral of net actuarial gains and amortization of transition surplus and prior service cost	247	282	344
Net pension expense	$1,204	$1,174	$1,159

The funded status of the plan is as follows:

(In thousands)	As Of Sept. 27, 1997	Sept. 28, 1996
Accumulated Post-retirement Benefit Obligation		
Retirees	$4,273	$3,989
Fully eligible active plan participants	1,206	1,088
Other active plan participants	4,085	3,683
Total accumulated post-retirement benefit obligation	9,564	8,760
Market value of plan assets	88	66
Excess of accumulated post-retirement benefit obligation over plan assets	9,476	8,694
Unrecognized transition obligation	(2,292)	(2,468)
Unrecognized prior service cost	(719)	(791)
Unrecognized actuarial gain	1,293	1,118
Net post-retirement benefit liability included in current and other liabilities	$7,758	$6,553
Assumptions Used in Computing the Funded Status of the Plan		
Weighted average discount rate	7.75%	8.00%
Expected long-term weighted average rate of return of assets	10.00%	10.00%

For participants who receive full retiree medical benefits, the medical premium rates were assumed to increase at 7% for fiscal 1997 and thereafter. A 1% increase in the medical trend rate would not have a significant impact on the accumulated post-retirement benefit obligation as of September 28, 1997.

Curtailment Gains/Losses

BORG-WARNER SECURITY CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Retirement Benefits

The Company has various defined benefit and contribution plans which cover eligible employees.

Retirement benefit expense (income) amounted to ($0.8) million, $4.5 million and $4.7 million in 1997, 1996 and 1995, respectively. This expense includes post retirement life insurance and medical benefits of $0.3 million for 1997, 1996 and 1995, respectively, as well as defined contribution plan expenses of $1.5 million, $1.5 million and $1.7 million in 1997, 1996 and 1995, respectively. Also, under the provisions of SFAS No. 88, "Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," benefit freezes resulted in the recognition of $3.7 million of net curtailment gains in 1997. This gain resulted from the net decrease in the Company's benefit obligation for employees affected by the armored services unit combination with Loomis Armored Inc., the treatment of the courier services unit as a discontinued operation and other benefit freezes.

The following table sets forth the funded status of the defined benefit plans:

Funded Status (Millions of dollars)	Dec. 31, 1997 Over	Dec. 31, 1996 Over	Under
Actuarial present value of benefit obligations:			
Vested benefits	$102.0	$60.6	$25.7
Non-vested benefits	2.6	2.6	0.1
Accumulated benefit obligations	104.6	63.2	25.8
Effect of projected future compensation levels	2.0	5.0	—
Projected benefit obligation	106.6	68.2	25.8
Plan assets at fair value	124.4	81.4	20.5
Assets in excess of (less than) projected benefit obligation	17.8	13.2	(5.3)
Unrecognized net loss (gain)	(6.5)	(4.9)	3.1
Unrecognized prior service cost	0.8	0.8	—
Net asset (liability) before minimum liability	12.1	9.1	(2.2)
Adjustment required to recognize minimum liability	—	—	(3.1)
Net asset (liability) on balance sheet	$ 12.1	$ 9.1	($ 5.3)

Assets held in trust for the defined benefit plans are comprised primarily of marketable equity and fixed income securities.

Provisions of FASB Statement No. 87 require the Company, under certain circumstances, to record a minimum pension liability relating to unfunded accumulated benefit obligations and reduce shareholders' equity, net of future tax benefits. During 1997, minimum pension liability recorded in prior years was eliminated as a result of the merger of several plans and performance of invested assets.

Net periodic pension expense for the defined benefit plans was comprised as follows:

(Millions of dollars)	Year ended December 31, 1997	1996	1995
Service cost	$ 2.4	$ 3.3	$ 2.4
Interest cost	7.6	7.0	6.9
Actual return on assets	(25.7)	(12.5)	(20.4)
Net amortization and deferrals	16.8	4.9	13.8
Net periodic pension cost	$ 1.1	$ 2.7	$ 2.7

The Company's assumptions used as of December 31, 1997, 1996 and 1995 in determining the pension cost and pension liability shown above were as follows:

(percent)	1997	1996	1995
Discount rate	7.5	8.0	7.5
Rate of salary progression	4.0	4.0	4.0
Long-term rate of return on assets	10.0	10.0	9.5

The Company also has postemployment benefits covering certain existing and former employees, including employees of businesses which have been divested by the Company. The liabilities on the Company's balance sheet for these benefits as of December 31, 1997 and 1996 were $10.7 million and $11.5 million, respectively, and are included in "Other long-term liabilities". The discount rate used in determining this liability was 7.5% in 1997 and 8.0% in 1996. Medical expense increases are projected to be 6.25% in 1998 grading to 5.25% in 1999.

Adoption Of Plan

WHX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C (In Part): Pensions, Other Postretirement and Postemployment Benefits

Pension Programs

The Company provides defined contribution pension programs for both hourly and salaried employees and prior to August 12, 1997 also provided a defined contribution pension program for USWA represented employees. Tax qualified defined contribution plans provide, in the case of hourly employees, an increasing company contribution per hour worked based on the age of its employees. A similar tax qualified plan for salaried employees provides defined company contributions based on a percentage of compensation.

On August 12, 1997 the Company established a defined benefit pension plan for USWA represented employees pursuant to a new labor agreement. The plan includes individual participant accounts of USWA represented employees from the hourly defined contribution plan and merges the assets of those accounts into the defined benefit plan.

As of December 31, 1997, $127.0 million of fully vested funds are held in trust for benefits earned under the hourly defined contribution pension plan. Approximately 59% of the trust assets are invested in equities and 41% in fixed income investments.

As of December 31, 1997, $35.0 million of fully vested funds are held in trust for benefits earned under the salaried employees defined contribution plan. Approximately 57% of the assets are invested in equities and 43% are in fixed income investments. All plan assets are invested by professional investment managers.

All pension provisions charged against income totaled $10.8 million, $9.3 million and $12.6 million in 1995, 1996 and 1997, respectively. In 1997, the Company also recorded a $66.7 million charge for enhanced retirement benefits paid under the defined benefit pension plan, pursuant to a new labor agreement.

The Defined Benefit Plan

The plan was established pursuant to a collective bargaining agreement ratified on August 12, 1997. Prior to that date, benefits were provided through a defined contribution plan, the Wheeling-Pittsburgh Steel Corporation Retirement Security Plan ("Retirement Security Plan").

The defined benefit pension plan covers employees represented by the USWA. The plan also includes individual participant accounts from the Retirement Security Plan. The assets of the Retirement Security Plan were merged into the defined benefit pension plan as of December 1, 1997.

Since the plan includes the account balances from the Retirement Security Plan, the plan includes both defined benefit and defined contribution features. The gross benefit, before offsets, is calculated based on years of service and the current benefit multiplier under the plan. This gross amount is then offset for benefits payable from the Retirement Security Plan and benefits payable by the Pension Benefit Guaranty Corporation from previously terminated plans. Individual employee accounts established under the Retirement Security Plan are maintained until retirement. Upon retirement, the account balances are converted into monthly benefits that serve as an offset to the gross benefit, as described above. Aggregate account balances held in trust in individual employee accounts, which will be available upon retirement to offset the gross benefit, totaled $121.3 million at December 31, 1997.

As part of the new labor agreement, the Company offered a limited program of Retirement Enhancements. The Retirement Enhancement program provides for unreduced retirement benefits to the first 850 employees who retire after October 1, 1996. In addition, each retiring participant can elect a lump sum payment of $25,000 or a $400 monthly supplement payable until age 62. More than 850 employees applied for retirement under this program by December 31, 1997.

The Retirement Enhancement program represented a Curtailment and Special Termination Benefits under SFAS No. 88. The Company recorded a charge of $66.7 million in 1997 to cover the retirement enhancement program.

The Company's funding policy is to contribute annually an amount that satisfies the minimum funding standards of ERISA.

The following table sets forth the reconciliation of the projected benefit obligation ("PBO") to the accrued obligation included in the Company's consolidated balance sheet at December 31, 1997.

	December 31, 1997 (Dollars in Thousands)
Vested benefit obligation	$(127,457)
Non-vested benefit	(44,974)
Projected benefit obligation	(172,431)
Plan assets at fair value	5,179
Obligations in excess of plan assets	(167,252)
Unrecognized prior service cost	76,714
Accrued pension costs	(90,538)
Additional minimum pension liability	(76,714)
Total pension liability	$(167,252)
Net periodic pension cost:	
Service cost	$2,278
Interest cost	4,172
Return on assets	—
Amortization of prior service cost	2,877
Net periodic pension cost	9,327
Recognition of retirement enhancement program	66,676
Total pension cost	$76,003
Assumptions and methods	
Discount rate:	7%
Long term rate of return on plan assets:	8%
Assets:	Market Value
Participant census:	Projected from January 1, 1997

POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Paragraph 74 of *Statement of Financial Accounting Standards. No. 106* specifies the information that should be disclosed for postretirement health care and life insurance benefits. Effective for fiscal years beginning after December 15, 1997, paragraphs 5 and 8 of *Statement of Financial Accounting Standards No. 132* replace paragraph 74.

One of the disclosures required by both *SFAS No. 106* and *SFAS No. 132* is the assumed health care cost trend rate used to calculate the expected cost of benefits. Of the 376 survey companies disclosing the health care cost trend rate used to measure the expected cost of postretirement benefits, 325 disclosed one rate for all employees and 51 disclosed two rates—the rate for employees under age 65 and the rate for employees age 65 and over. Table 3-11 shows the rates used by the survey companies in 1997.

Examples of postretirement benefit disclosures follow.

TABLE 3-11: HEALTH CARE COST TREND RATE-1997

%	All Employees	Employees Under Age 65	Employees Age 65 And Over
5.5 or less	28	4	8
6-6.5	31	1	12
7-7.5	76	8	17
8-8.5	87	13	9
9-9.5	65	11	3
10-10.5	25	7	2
11-11.5	6	5	—
12-12.5	5	2	—
13-13.5	—	—	—
14 or greater	2	—	—
Companies Disclosing Rate	**325**	**51**	**51**

ALLIEDSIGNAL INC. (DEC)

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

Note 23. Postretirement Benefits Other Than Pensions

The Company's U.S. retiree medical programs cover employees who retire with pension eligibility for hospital, professional and other medical services. Most of the programs require deductibles and copayments and virtually all are integrated with Medicare. Retiree contributions are generally required based on coverage type, plan and Medicare eligibility. The Company also sponsors retiree life insurance programs which generally provide a flat benefit of at least two thousand dollars or a benefit as a percent of pay.

The retiree medical and life insurance programs are not funded. Claims and expenses are paid from the general assets of the Company.

For most non-union employees retiring after July 1, 1992, the Company has implemented an approach which bases the Company's contribution to retiree medical premiums on years of service and also establishes a maximum Company contribution in the future at approximately twice the current level at the date of implementation. Effective July 1, 1997, the Company adopted a plan amendment that will encourage Medicare eligible non-union retirees to join Company sponsored Medicare managed care programs. The Company uses the services of an enrolled actuary to calculate postretirement benefit costs.

For measurement purposes, the assumed annual rates of increase in the per capita cost of covered health care benefits for 1997 were 6.75% to 8% for indemnity programs and 6% to 8% for managed care programs, which reduce to 6% for all programs in the year 2000 and remain at that level thereafter (except for Medicare managed care programs which continue at 8%). The health care cost trend rate assumptions have a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1997 by $129 million and the aggregate of the service and interest cost component of net periodic postretirement benefit cost for the year then ended by $12 million. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 7.25% and 7.75% at December 31, 1997 and 1996, respectively.

Net periodic postretirement benefit cost for 1997, 1996 and 1995 included the following components:

Years ended December 31	1997	1996	1995
Service cost-benefits attributed to service during the period	$ 21	$ 24	$ 29
Interest cost on accumulated postretirement benefit obligation	110	110	133
Net amortization	(24)	(14)	(12)
	107	120	141
Foreign plans	1	1	1
Net periodic postretirement benefit cost	$108	$121	$142

Presented below are the plans' status and amounts recognized in the Company's Consolidated Balance Sheet at December 31, 1997 and 1996:

December 31	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	$1,012	$1,054
Fully eligible active plan participants	186	126
Other active plan participants	436	353
	1,634	1,533
Unrecognized prior service cost	221	115
Unrecognized net gain	77	274
Accrued postretirement benefit cost	$1,932	$1,922

ATLANTIC RICHFIELD COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Other Postretirement Benefits

ARCO and its subsidiaries sponsor defined postretirement benefit plans which provide other postretirement benefits to substantially all ARCO employees who retire having rendered the required years of service, and to their spouses and eligible dependents. Health care benefits are provided primarily through comprehensive indemnity plans or health maintenance organizations (HMOs), as chosen by the employee. Beginning January 1, 1997, ARCO paid for the cost of the benchmark HMO with employees responsible for the differential cost, if any, of their selected option. Previously, ARCO paid approximately 80% of the cost of a comprehensive indemnity plan. This change resulted in an unrecognized prior service benefit. Life insurance benefits are based primarily on the employee's final compensation and are partially paid for by retiree contributions, which vary based upon coverage chosen by the retiree. ARCO has the right to modify the plans at any time.

ARCO's current policy is to fund the cost of postretirement health care and life insurance plans on a pay-as-you-go basis.

The significant assumptions used in determining postretirement benefit cost and the accumulated postretirement benefit obligation (APBO) were as follows:

Percent	1997	1996	1995
Discount rate	7.0	7.25	7.0
Rate of salary progression	4.0	5.0	5.0

ARCO accrues postretirement benefit costs based on actuarial calculations for each plan. Net postretirement benefit costs for the years ended December 31 included the following:

	1997			1996			1995		
(In Millions)	Health Care	Life Insurance	Total	Health Care	Life Insurance	Total	Health Care	Life Insurance	Total
Service cost-benefits earned during the period	$ 8	$ 3	$11	$ 7	$ 3	$10	$ 8	$ 2	$10
Interest cost on APBO	30	13	43	32	13	45	49	13	62
Net amortization	(15)	—	(15)	(13)	—	(13)	—	(1)	(1)
Net postretirement benefit cost	$23	$16	$39	$26	$16	$42	$57	$14	$71

The weighted average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care trend rate) for the health plans is 9% for 1995 and 1996, 7% for 1997 to 2001, and 5% thereafter. The effect of a one-percentage-point increase in the assumed trend rate would increase the APBO as of December 31, 1997, by approximately $52 million, and the aggregate of the service and interest cost components of net annual postretirement benefit cost by approximately $5 million.

The plans' combined postretirement benefit liability at December 31 was as follows:

	1997			1996		
(In Millions)	Health Care	Life Insurance	Total	Health Care	Life Insurance	Total
Accumulated postretirement benefit obligation (APBO):						
Retirees	$(345)	$(156)	$(501)	$(370)	$(153)	$(523)
Employees fully eligible	(18)	(7)	(25)	(16)	(7)	(23)
Other active participants	(98)	(31)	(129)	(88)	(33)	(121)
Total APBO	(461)	(194)	(655)	(474)	(193)	(667)
Unrecognized prior service (benefit) cost	(217)	2	(215)	(233)	2	(231)
Unrecognized net (gain) loss	46	(14)	32	65	(13)	52
Accrued postretirement benefit cost recognized in the balance sheet	$(632)	$(206)	$(838)	$(642)	$(204)	$(846)

CABOT CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H (In Part): Pension Plans & Postretirement Benefits

Postretirement Benefits

The Company has defined benefit postretirement plans that provide certain health care and life insurance benefits for retired employees. Substantially all U.S. employees become eligible for these benefits if they have met certain age and service requirements at retirement. The Company funds the plans as claims or insurance premiums are incurred.

Net periodic postretirement benefit cost was comprised of the following elements:

Years Ended September 30	1997	1996	1995
(Dollars in thousands)			
Current year service cost	$ 880	$ 848	$ 672
Interest accrued on postretirement benefit obligations	5,584	5,261	5,301
Net amortization	221	185	—
Net periodic postretirement benefit cost	$6,685	$6,294	$5,973

The following table sets forth the funded status of the postretirement benefit plans:

Years Ended September 30	1997	1996
(Dollars in thousands)		
Accumulated postretirement benefit obligations:		
Retirees	$61,861	$58,303
Fully eligible active plan participants	6,324	6,660
Other active plan participants	12,060	14,302
	80,245	79,265
Plan assets at fair value	—	—
Excess of accumulated postretirement benefit obligations over plan assets	(80,245)	(79,265)
Unrecognized net loss (gain)	10,834	10,875
Unrecognized prior service cost	(1,146)	82
Accrued postretirement benefit cost	$(70,557)	$(68,308)

Health care cost trend rate assumptions have a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of September 30, 1997 and 1996 by approximately $8.4 million and $6.9 million, respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the years then ended by approximately $775 thousand and $700 thousand, respectively.

The following rates were used in the calculations:

Years Ended September 30	1997	1996
Discount rate	7.3%	7.3%
Assumed rate of increase in compensation	5.3%	5.3%
Assumed annual rate of increase in health care benefits	5.5%	9.5%
Annual decrease in assumed rate of increase in health care benefits	—	1.0%
Assumed ultimate trend rate	5.5%	5.3%
Assumed ultimate trend rate to be reached in year	1997	2001

EATON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Postretirement Benefit Plans Other Than Pensions

Generally, United States employees become eligible for postretirement benefits other than pensions, primarily health care and life insurance, upon retirement. These benefits are payable for life, although the Company retains the right to modify or terminate the plans providing these benefits. The plans are contributory, with retiree contributions adjusted annually, and contain other cost-sharing features, including deductibles and co-payments. Certain plans limit the annual amount of the Company's future contributions towards employees' postretirement health care benefits. Company policy is to pay claims as they are incurred since, unlike pensions, there is no effective method to obtain a tax deduction for prefunding of these benefits under existing United States income tax regulations.

Expense for postretirement benefits other than pensions for the years ended December 31 follows (in millions):

	1997	1996	1995
Service cost—benefits earned during year	$(13)	$(12)	$(12)
Interest cost on projected benefit obligation	(49)	(47)	(49)
Amortization	3	5	8
	(59)	(54)	(53)
Curtailment gain	16		
Settlement loss	(12)		
	$(55)	$(54)	$(53)

The curtailment gain and settlement loss relate primarily to the sales of AIL Systems Inc. and the Appliance Controls business.

The liability for postretirement benefit plans other than pensions at December 31 follows (in millions):

	1997	1996
Accumulated postretirement benefit obligation		
Retirees	$470	$465
Eligible plan participants	90	58
Non-eligible plan participants	177	182
Unamortized		
Prior service cost	29	53
Net loss	(184)	(136)
	$582	$620

Actuarial assumptions used in the calculation of the liability for postretirement benefits other than pensions are as follows:

	1997	1996	1995
Discount rate	7.00%	7.25%	7.25%
Projected health care cost trend rate	8%	9%	10%
Ultimate trend rate	4.75%	5%	5%
Year ultimate trend rate is achieved	2002	2001	2001

The changes in assumed rates had the effect of increasing the accumulated postretirement benefit obligation (APBO) by $13 million with an offsetting increase in the unamortized net loss. These changes will have an immaterial effect on future expense. An increase of 1% in assumed health care cost trend rates would increase the accumulated postretirement benefit obligation as of December 31, 1997 by $37 million and the net periodic cost for 1997 by $3 million.

EMERSON ELECTRIC CO. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

7. Postretirement Plans and Postemployment Benefits

The Company sponsors unfunded postretirement benefit plans (primarily health care) for U.S. retirees and their dependents. Net postretirement plan expense for the years ended September 30, 1997, 1996 and 1995 follows:

	1997	1996	1995
Service cost	$ 3.6	4.0	4.1
Interest cost	19.0	18.4	19.6
Net amortization and deferral	(4.2)	(4.4)	(3.5)
	$18.4	18.0	20.2

The actuarial present value of accumulated postretirement benefit obligations as of September 30, 1997 and 1996 follows:

	1997	1996
Retirees	$167.0	152.1
Fully eligible active plan participants	18.7	17.2
Other active plan participants	74.3	68.4
Accumulated postretirement benefit obligation	260.0	237.7
Unrecognized net gain	39.9	61.1
Unrecognized prior service benefit	9.6	11.0
Postretirement benefit liability recognized in the balance sheet	$309.5	309.8

The assumed discount rate used in measuring the obligation as of September 30, 1997, was 7.75 percent; the initial assumed health care cost trend rate was 8.0 percent, declining to 5.0 percent in the year 2004. The assumed discount rate used in measuring the obligation as of September 30, 1996, was 7.75 percent; the initial assumed health care cost trend rate was 8.5 percent, declining to 5.0 percent in the year 2004. A one-percentage-point increase in the assumed health care cost trend rate of each year would increase the obligation as of September 30, 1997, by approximately 5 percent and increase the 1997 postretirement plan expense by approximately 6 percent.

Effective October 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," which establishes accounting standards for workers' compensation, disability and severance benefits. The Company recognized the obligation in the first year of 1995 as a cumulative effect of change in accounting principle of $21.3 (net of $13.7 in related income tax benefits). The adoption of the statement does not have a material impact on the Company's ongoing results of operations.

FORD MOTOR COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 8 (In Part): Employee Retirement Benefits

Postretirement Health Care and Life Insurance Benefits

The company and certain of its subsidiaries sponsor unfunded plans to provide selected health care and life insurance benefits for retired employees. The company's U.S. and Canadian employees may become eligible for these benefits if they retire while working for the company; however, benefits and eligibility rules may be modified from time to time. The estimated cost for these benefits is accrued over periods of employee service on an actuarially determined basis. In June 1997, the company prepaid certain 1998 and 1999 hourly health benefits by contributing $1,590 million to a Voluntary Employees' Beneficiary Association (VEBA) trust; $736 million of this amount applies to retirees.

Net postretirement benefit expense, including Financial Services, was as follows (in millions):

	1997	1996	1995
Benefits attributed to employee service	$ 242	$ 268	$ 223
Interest on accumulated benefit obligation	1,161	1,195	1,160
Net amortization and other	(31)	(69)	(68)
Net postretirement benefit expense	$1,372	$1,394	$1,315
Retiree benefit payments	$ 793	$ 730	$ 698

The status of these plans at December 31 was as follows (in millions):

	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	$10,098	$ 8,614
Active employees eligible to retire	3,027	3,047
Other active employees	4,397	4,842
Total accumulated obligation	17,522	16,503
Unamortized prior service cost*	162	256
Unamortized net losses**	(757)	(438)
Less VEBA assets at fair value	(736)	—
Accrued liability	$16,191	$16,321
Assumptions:		
Discount rate	7.0%	7.5%
Present health care cost trend rate	6.6%	6.6%
Ultimate trend rate in ten years	5.0%	5.0%
Weighted-average trend rate	5.5%	5.7%

* The prior service effect of plan amendments deferred for recognition over remaining service to retirement eligibility

** The deferred gain or loss resulting from experience and changes in assumptions deferred for recognition over remaining service to retirement

Changing the assumed health care cost trend rates by one percentage point is estimated to change the aggregate service and interest cost components of net postretirement benefit expense for 1997 by about $190 million and the accumulated postretirement benefit obligation at December 31, 1997 by about $2 billion.

KIMBERLY-CLARK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Postretirement Health Care and Life Insurance Benefits

Substantially all retired employees of the Corporation and its North American subsidiaries and certain international employees are covered by health care and life insurance benefit plans. Benefits are based on years of service and age at retirement. The plans are principally noncontributory for retirees prior to 1993, and are contributory for most employees retiring after 1993. Certain U.S. plans place a limit on the Corporation's cost of future annual per capita retiree medical benefits at no more than 200 percent of the 1992 annual per capita cost. Certain other U.S. plans place a limit on the Corporation's future cost for retiree medical benefits to a defined annual per capita medical cost.

The components of postretirement health care and life insurance benefit cost were as follows:

	Year Ended December 31		
(Millions of dollars)	1997	1996	1995
Benefits earned	$10.7	$12.0	$10.3
Interest on accumulated postretirement benefit obligation	44.9	48.0	54.6
Amortization and other	(8.8)	(4.4)	(.8)
Net postretirement benefit cost (of which $52.4 million, $54.3 million and $49.9 million were paid in 1997, 1996 and 1995, respectively)	$46.8	$55.6	$64.1

The components of the postretirement health care and life insurance benefit obligation are presented below:

	December 31	
(Millions of dollars)	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	$426.3	$438.7
Fully eligible active plan participants	50.5	62.2
Other active plan participants	161.2	130.9
Total	638.0	631.8
Unrecognized actuarial gain	98.1	119.0
Unrecognized prior service gain	19.8	22.3
Total accrued postretirement benefit liability	755.9	773.1
Less current portion	56.6	56.5
Noncurrent portion	$699.3	$716.6

Weighted-average discount rates used to determine the accumulated postretirement benefit obligation for all plans were 7.0% and 7.8% at December 31, 1997 and 1996, respectively. The rates used for the U.S. plans were 7.0% and 7.75% at December 31, 1997 and 1996, respectively.

The December 31, 1997, accumulated postretirement benefit obligation for the U.S. plans was determined using an assumed health care cost trend rate of 8.6% in 1998, declining gradually to an ultimate rate of 6.0% for certain plans and to zero by 2009 and thereafter for others, which reflects the previously described limit on the Corporation's cost of annual per capita retiree medical benefits for certain plans. The December 31, 1996, accumulated postretirement benefit obligation was determined using an assumed health care cost trend rate of 9.2% in 1997, declining gradually to an ultimate rate of 6.0% for certain plans and to zero by 2007 and thereafter for others.

A one-percentage point increase in the health care cost trend rate would increase the accumulated postretirement benefit obligation by $22.5 million at December 31, 1997, and expense by $1.8 million for the year then ended.

In connection with certain business dispositions occurring in the last three years, the Corporation transferred certain postretirement benefit obligations to the respective buyers. These dispositions resulted in immediate recognition of gains of $7.5 million and $2.1 million in 1997 and 1996, respectively, and a loss of $14.9 million in 1995.

LAFARGE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Postretirement Benefits

The Company provides certain retiree health and life insurance benefits to eligible employees who retire in the U.S. or Canada. Salaried participants generally become eligible for retiree health care benefits when they retire from active service at age 55 or later, although there are some variances by plan or unit in Canada and the U.S. Benefits, eligibility and cost-sharing provisions for hourly employees vary by location and/or bargaining unit. Generally, the health plans pay a stated percentage of most medical/dental expenses reduced for any deductible, co-payment and payments made by government programs and other group coverage. These plans are unfunded. An eligible retiree's health care benefit coverage is coordinated in Canada with Provincial Health and Insurance Plans and in the U.S., after attaining age 65, with Medicare. Certain retired employees of businesses acquired by the Company are covered under other care plans that differ from current plans in coverage, deductibles and retiree contributions.

In the U.S., salaried retirees and dependents under age 65 have a $1,000,000 health care lifetime maximum benefit. At age 65 or over, the maximum is $50,000. Lifetime maximums for hourly retirees are governed by the location and/or bargaining agreement in effect at the time of retirement. In Canada some units have maximums, but in most cases there are no lifetime maximums. In some units in Canada, spouses of retirees have lifetime medical coverage.

In Canada, both salaried and nonsalaried employees are generally eligible for life insurance benefits. In the U.S., life insurance is provided for a number of hourly retirees as stipulated in their hourly bargained agreements but not for salaried retirees except those of certain acquired companies.

The following table sets forth the plans' combined status reconciled with the accrued postretirement benefit cost included in the Company's Consolidated Balance Sheets (in thousands):

December 31	1997	1996
Accumulated postretirement benefit obligation		
Retirees	$ 86,336	$ 74,832
Fully eligible active participants	14,090	13,417
Other active participants	20,131	19,646
Total accumulated postretirement benefit obligation	120,557	107,895
Unrecognized net gain	2,871	13,320
Unrecognized prior service cost	3,047	3,652
Accrued postretirement benefit cost	$126,475	$124,867

Net periodic postretirement benefit cost includes the following components (in thousands):

Years Ended December 31	1997	1996	1995
Service cost of benefits earned during the period	$1,624	$1,412	$1,285
Interest cost on accumulated postretirement benefit obligation	7,989	7,683	8,046
Net amortization	(846)	(1,109)	(1,390)
Net periodic postretirement benefit cost	$8,767	$7,986	$7,941

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation differs between U.S. and Canadian plans. For plans in both the U.S. and Canada, the pre-65 assumed rate was 9.5 percent, decreasing to 5.5 percent over 10 years. For post-65 retirees in the U.S., the assumed rate was 7.5 percent, decreasing to 5.5 percent over 10 years with a Medicare assumed rate for the same group of 6.9 percent, decreasing to 5.5 percent over 10 years. For post-65 retirees in Canada the assumed rate was 9.2 percent, decreasing to 5.5 percent over 10 years. If the health care cost trend rate assumptions were increased by one percent, the accumulated postretirement benefit obligation as of December 31, 1997 would be increased by 8.4 percent. The effect of this change on the net periodic postretirement benefit cost for 1997 would be an increase of 11.4 percent.

For 1997 and 1996 the weighted average discount rates used to determine the accumulated postretirement benefit obligations were 7.0 and 7.5 percent, respectively, for U.S. plans and 6.75 and 7.5 percent, respectively, for Canadian plans.

ELI LILLY AND COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

Note 13 (In Part): Retirement Benefits

Retiree Health Benefits: The company's noncontributory defined benefit postretirement plans provide health benefits for the majority of the United States retirees and their eligible dependents. Certain of the company's non-U.S. subsidiaries have similar plans for retirees. Eligibility for these benefits is based upon retirement from the company. An eligible employee's credited service period begins when the combination of an employee's age and years of service equals 60.

The company's funding practice for all plans is consistent with local governmental and tax funding regulations. Plan assets consist primarily of equity and fixed income instruments.

Net postretirement benefit expense from continuing operations included the following components:

	1997	1996	1995
Service cost—benefits earned during the year	$11.2	$11.7	$9.8
Interest cost on accumulated postretirement benefit obligations	31.6	28.8	24.7
Actual return on assets	(30.1)	(29.7)	(20.4)
Net amortization and deferral	5.2	6.0	(4.9)
Net periodic postretirement benefit cost	$17.9	$16.8	$9.2

The funded status and amounts recognized in the consolidated balance sheets for the company's defined benefit postretirement plans at December 31 were as follows:

	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	$339.3	$308.4
Fully eligible active plan participants	66.7	35.9
Other active plan participants	71.5	67.8
	477.5	412.1
Plan assets at fair value	228.1	200.1
Accumulated postretirement benefit obligation in excess of plan assets	249.4	212.0
Unrecognized benefit of plan amendment	3.1	11.0
Unrecognized net loss	(134.2)	(86.6)
Accrued postretirement benefit cost	$118.3	$136.4

The assumptions used to develop the net postretirement benefit expense from continuing operations and the present value of the accumulated postretirement benefit obligations are shown below:

(Percents)	1997	1996	1995
Weighted-average discount rate	7.5	8.0	7.5
Expected long-term rate of return	10.5	10.5	10.5
Health care cost trend rate for participants:			
Under age 65	7.0	7.0	7.0
Over age 65	5.0	5.0	5.0

If these trend rates were to be increased by one percentage point each future year, the December 31, 1997, accumulated postretirement benefit obligation would increase by 10 percent and the aggregate of the service and interest cost components of 1997 annual expense from continuing operations would increase by 14 percent. The decrease in the discount rate at December 31, 1997, increased the accumulated postretirement benefit obligation by approximately $27.5 million.

MORTON INTERNATIONAL, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Benefit Plans (In Part):

Postretirement Benefits Other than Pensions

The company currently provides postretirement health care and life insurance benefits to most U.S., Canadian and French retirees. In general, the terms of the plans provide that U.S. employees who retire after attaining age 55 with five years of service are eligible for continued health care and life insurance coverage. Dependent health care and life insurance coverage are also available. Most retirees contribute toward the cost of health care coverage, with the contributions generally varying based on service. In June 1993, a provision was adopted which caps the level of subsidy at the amount in effect as of the year 2000 for most U.S. employees who retire after December 31, 1992. In general, most Canadian employees who retire after attaining age 55 and are entitled to a pension benefit are eligible for continued retiree health and life insurance coverage. Dependent health insurance is also generally available. The benefits are provided on a noncontributory basis. In France, the company pays a portion of retiree insurance premiums to cover health care costs in excess of those reimbursed by social security.

Net periodic postretirement benefit cost included the following components:

(In millions)	1997	1996	1995
Service cost-benefits earned during the year	$1.8	$1.9	$1.8
Interest cost on accumulated postretirement benefit obligation	10.4	10.6	10.8
Net amortization	(1.2)	(.8)	(.8)
Net periodic postretirement benefit cost	$11.0	$11.7	$11.8

At present, there is no prefunding of the postretirement benefits recognized under FASB Statement No. 106. The following table presents the status of the plans reconciled with amounts recognized in the consolidated balance sheet for the company's postretirement benefits:

	June 30	
(In millions)	1997	1996
Accumulated postretirement benefit obligation:		
Retirees and dependents	$ 97.2	$ 94.2
Fully eligible active plan participants	11.5	10.9
Other active plan participants	36.9	35.5
	145.6	140.6
Unrecognized prior period gain	7.6	4.8
Unamortized plan amendment	11.5	12.3
Postretirement benefit liability recognized in the consolidated balance sheet	$164.7	$157.7

For measurement purposes, the assumed weighted average annual rate of increase per capita cost of health care benefits was 8.5 percent for 1998 and assumed to decrease one percent per year to 5.5 percent in 2001 and remain constant thereafter. As noted above, for U.S. employees retiring after December 31, 1992, the company's policy is to increase retiree contributions so that the company's annual per capita cost contribution remains constant at the level incurred in the year 2000. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.4 percent at June 30, 1997, and 7.8 percent at June 30, 1996. The rate of increase on compensation levels assumed was 4.8 percent at June 30, 1997 and 1996.

A one percent increase in the annual health care cost trend rates would have increased the accumulated postretirement benefit obligation at June 30, 1997, by approximately $8.6 million and increased postretirement benefit expense for fiscal 1997 by approximately $.8 million.

POSTEMPLOYMENT BENEFITS

Statement of Financial Accounting Standards No. 112 requires that entities providing postemployment benefits to their employees accrue the cost of such benefits. *SFAS No. 112* does not require that the amount of postemployment benefits be disclosed. Accordingly, many of the survey companies make little or no disclosure about postemployment benefits in the years following the year of adopting *SFAS No. 112*.

Examples of disclosures for postemployment benefits follow.

BAKER HUGHES INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Employee Benefit Plans

Postemployment Benefits

The Company provides certain postemployment benefits to substantially all former or inactive U.S. employees following employment but before retirement. Disability income benefits ("Disability Benefits"), available at the date of hire, are provided through a qualified plan which has been funded by contributions from the Company and employees. The primary asset of the plan is a guaranteed insurance contract with an insurance company which currently earns interest at 7%. The actuarially determined obligation is calculated at a discount rate of 7%. Disability Benefits expense was $1.1 million in 1997 and Disability Benefits income was $.1 million and $1.5 million in 1996 and 1995, respectively.

The continuation of medical, life insurance and Thrift Plan benefits while on disability and service related salary continuance benefits ("Continuation Benefits") were provided through a nonqualified, unfunded plan until April 1997. The continuation of the medical benefit portion of the plan was merged into the disability income benefits plan beginning in April 1997. Expense for Continuation Benefits include the following components:

	1997	1996	1995
Cost of benefits earned	$1.2	$1.0	$1.0
Interest cost on projected benefit obligation	2.1	1.9	1.8
Postemployment benefit expense	$3.3	$2.9	$2.8

The following table sets forth the funded status and amounts recognized in the Company's consolidated statements of financial position for Disability Benefits and Continuation Benefits:

	1997	1996
Actuarial present value of accumulated benefit obligation	$(39.9)	$(40.1)
Plan assets at fair value	15.8	18.6
Accumulated benefit obligation in excess of plan assets	(24.1)	(21.5)
Unrecognized net loss	5.6	3.2
Postemployment liability	$(18.5)	$(18.3)

Health care cost assumptions used to measure the Continuation Benefits obligation are similar to the assumptions used in determining the obligation for postretirement health care benefits. Additional assumptions used in the accounting for Continuation Benefits in 1997 and 1996 were a discount rate of 7% and increases in compensation of 5%.

THE ESTEE LAUDER COMPANIES INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Postemployment Benefits Other Than To Retirees

The Company provides certain postemployment benefits to eligible former or inactive employees and their dependents during the period subsequent to employment but prior to retirement. These benefits include certain disability and health care coverage and severance benefits. The cost of providing these benefits was not material to the Company's consolidated financial position or results of operations.

THE PERKIN-ELMER CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Retirement and Other Benefits

Postemployment Benefits. The Company provides certain postemployment benefits to eligible employees. These benefits generally include severance, disability, and medical-related costs paid after employment but before retirement.

EMPLOYEE COMPENSATORY PLANS

Effective for fiscal years beginning after December 15, 1995, *Statement of Financial Accounting Standards No. 123* establishes accounting and reporting standards for stock-based compensation plans. *SFAS No. 123* encourages entities to use a "fair value based method" in accounting for employee stock-based compensation plans but allows the "intrinsic value based method" prescribed by *APB Opinion No. 25. SFAS No. 123* amends *Opinion No. 25* to require pro forma disclosures of net income and earnings per share as if the "fair value based method" was used.

Table 3-12 lists the types of employee compensatory plans, both stock based and cash awards, disclosed by the survey companies. The "stock award" caption in Table 3-12 represents restricted stock awards, performance awards, and bonuses paid by issuing stock. Examples of disclosures for employee compensatory plans follow.

TABLE 3-12: EMPLOYEE COMPENSATORY PLANS

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Stock options	591	584	577	572
Stock award	302	298	269	260
Savings/investment	257	248	232	230
Stock purchase	132	108	103	93
Employee stock ownership	124	132	141	149
Profit-sharing	104	105	123	109
Incentive compensation	67	70	69	75
Deferred compensation	53	50	47	45

Stock Option Plans

THE CLOROX COMPANY (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Stock-Based Compensation. The Company continues to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Compensation cost for stock options, if any, is measured as the excess of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. Restricted stock is recorded as compensation cost over the requisite vesting periods based on the market value on the date of grant. Compensation cost for shares issued under performance share plans is recorded based upon the current market value of the Company's stock at the end of each period.

Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. The Company has elected to remain on its current method of accounting as described above, and has adopted the disclosure requirements of SFAS No. 123.

Note 12. Stock Compensation Plans

The Company has three stock option plans that provide for the granting of stock options to officers and key employees. The objectives of these plans include attracting and retaining the best personnel, providing for additional performance incentives, and promoting the success of the Company by providing employees the opportunity to acquire common stock. The 1996 Stock Incentive Plan ("1996 Plan") is the only plan with stock option awards available for grant; prior plans have shares exercisable at June 30, 1997. The Company is authorized to grant options for up to 7,000,000 common shares under the 1996 Plan, of which 2,000 have been granted. Options outstanding under the Company's three stock option plans have been granted at prices which are either equal to or above the market value of the stock on the date of grant, vest over a three-, four-, or five-year period, and expire ten years after the grant date.

The status of the Company's stock option plans is summarized below as of June 30:

	Number of Shares (in thousands)	Weighted Average Exercise Price
Outstanding at June 30, 1994	4,716	$22
Granted	774	26
Exercised	(660)	17
Canceled	(70)	26
Outstanding at June 30, 1995	4,760	23
Granted	2,958	41
Exercised	(834)	19
Canceled	(116)	30
Outstanding at June 30, 1996	6,768	32
Granted	646	48
Exercised	(1,064)	23
Canceled	(374)	41
Outstanding (held by 215 optionees) at June 30, 1997	5,976	$34
Options exercisable at:		
June 30, 1997	2,760	$26
June 30, 1996	2,848	23
June 30, 1995	2,658	20

The Company continues to account for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation cost for stock options is recognized for stock option awards granted at or above fair market value. Had compensation expense for the Company's three stock-based compensation plans been determined based upon fair values at the grant dates for awards under those plans in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," the

Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below. The pro forma effects of applying SFAS 123 are not indicative of future amounts because this statement does not apply to awards granted prior to fiscal year 1996. Additional stock option awards are anticipated in future years.

	1997	1996
Net earnings (in thousands)		
As reported	$249,442	$222,092
Pro forma	244,357	220,576
Earnings per share		
As reported	$2.41	$2.14
Pro forma	2.37	2.13

The weighted average fair value of options granted during 1997 and 1996 estimated on the date of grant using the Black-Scholes option-pricing model was $11.46 and $9.92, respectively. The fair value of 1997 and 1996 options granted is estimated on the date of grant using the following assumptions: dividend yield of 3%, expected volatility of 19%, risk-free interest rate range of 5.9% to 6.3% depending on grant date, and an expected life ranging from 4 to 9 years.

Summary information about the Company's stock options outstanding at June 30, 1997:

Range of Exercise Price	Outstanding at 6/30/97 (in thousands)	Weighted Average Contractual Periods in Years	Weighted Average Exercise Price	Exercisable at 6/30/97 (In thousands)	Weighted Average Exercise Price
$16 - $21	544	1.8	$19	544	$19
21 - 29	1,650	6.2	25	1,450	25
29 - 38	1,148	7.5	33	764	32
41 - 49	2,602	9.2	44	2	48
49 - 61	32	9.3	52	—	—
$16 - $61	5,976	7.0	$34	2,760	$26

DRESSER INDUSTRIES, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H. Employee Incentive Plans

Stock Compensation Plan

Dresser's 1992 Stock Compensation Plan includes a Stock Option Program, a Restricted Incentive Stock Program and a Performance Stock Unit Program.

The Stock Option Program provides for the granting of options to officers and key employees for purchase of the Company's common shares. The Plan is administered by the Executive Compensation Committee of the Board of Directors, whose members are not eligible for grants under the Plan. No option can be for a term of more than ten years from date of grant. The option price is recommended by the committee, but cannot be less than 100% of the average of the high and low prices of the shares on the New York Stock Exchange on the day the options are granted. The option price for 550,391 shares granted from 1993 through 1995 and still out-

standing include prices that increase on the annual anniversary dates of grants.

Changes in outstanding options under the Stock Option Program during the three years ended October 31, 1997 and options exercisable at October 31, 1997 are as follows:

Outstanding at October 31, 1994	3,052,952
Granted at $19.313 to $23.00	474,737
Exercised at $3.57 to $23.04	(414,082)
Canceled or expired	(29,470)
Outstanding at October 31, 1995	3,084,137
Granted at $21.75 to $28.375	768,423
Exercised at $3.57 to $23.88	(730,458)
Outstanding at October 31, 1996	3,122,102
Granted at $30.6875 to $45.4063	1,049,799
Exercised at $3.57 to $28.437	(1,020,154)
Canceled or expired	(70,260)
Outstanding at October 31, 1997	3,081,487
Exercisable at October 31, 1997 at $3.57 to $35.875	2,061,245

At October 31, 1997 a total of 6.3 million Dresser common shares were reserved for granting of future options under the 1992 plan.

The Company applies APB 25 in accounting for its Stock Option Program described above. The option price under the Stock Option Program equals or exceeds the fair market value of the common shares on the date of grant and, accordingly, no compensation cost has been recognized under the provisions of APB 25 for stock options. Under SFAS 123, compensation cost is measured at the grant date based on the value of the award and is recognized over the service (or vesting) period. Had compensation cost for the Company's Stock Option Program been determined under SFAS 123, based on the fair market value at the grant dates, the Company's pro forma net earnings and net earnings per share would have been reflected as follows:

(In millions, except per share amounts)	1997	1996
Net earnings		
As reported	$318.0	$257.5
Pro forma	$312.7	$254.7
Net earnings per share		
As reported	$ 1.81	$ 1.44
Pro forma	$ 1.78	$ 1.42

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumption used for those options granted in 1997 and 1996, respectively: dividend yield of 2.72%, expected volatility of 22.8% and 23.1%, risk-free interest rates of 6.38% and 5.84%, and expected lives of 6.5 years.

GTI CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share data)

Note 10. Stock-Based Compensation Plans

Stock Option Plans

The Company has five stock option plans that provide for the granting of either incentive stock options or non-qualified stock options to key employees and non-employee members of the Company's Board of Directors. All current outstanding options are non-qualified stock options. The options granted under these plans are to purchase common stock at not less than fair-market value at the date of grant. Employee options are generally exercisable one year from date of grant in cumulative annual installments of 25% and they generally fully vest upon a change of control of GTI. Non-employee director options are exercisable in full at the date of grant. The options have terms of five to ten years.

The following summarizes stock options activity for 1997:

	Shares	Exercise Price Range
Outstanding as of December 31, 1996	826,250	$5.25 - $35.00
Granted	461,750	$5.50 - $6.38
Exercised	—	—
Forfeited	(261,625)	$5.25 - $35.00
Outstanding as of December 31, 1997	1,026,375	$5.25 - $28.75
Number of shares exercisable as of December 31, 1997	246,561	$5.25 - $28.75
Weighted average fair value of options granted	$ 5.69	

The outstanding options expire at various dates through December 2007. As of December 31, 1997, 147,925 shares were available for future grant under all plans.

Additionally, as of December 31, 1997, a warrant was outstanding for 150,000 shares of common stock at an exercise price of $6 per share. This warrant, issued to an affiliated party, expires 30 days after the note payable to said affiliated party is paid in full. The anticipated retirement of said note is February 1999.

As permissible under Statement of Financial Accounting Standards No. 123, the Company accounts for stock options granted as per the methodology prescribed under Accounting Principles Board Opinion No. 25, which recognizes compensation cost based upon the intrinsic value of the equity award. Accordingly, no compensation expense was recognized in the consolidated statement of operations for any equity awards granted during 1997, 1996 and 1995.

The following table represents pro forma net income (loss) and pro forma earnings (loss) per share had the Company elected to account for equity awards using the fair-value-based method beginning with all equity award grants commencing on January 1, 1995. In estimating the pro forma compensation expense for each equity award granted during the years ended December 31, 1997, 1996 and 1995, the Company used the Black

Scholes option pricing model, a risk-free interest rate of 6.5%, expected dividend yield of zero, expected option lives of 6.5 years, and expected volatility of 83.2%. The estimated pro forma compensation cost resulting in the pro forma net income (loss) and earnings (loss) per share may not be representative of actual results had the Company accounted for equity awards using the fair-value-based method.

	1997	1996	1995
Net income (loss) as reported	$(3,133)	$(21,471)	$1,946
Pro forma net income (loss)	$(3,470)	$(21,777)	$1,838
Basic EPS as reported	$(0.38)	$(2.42)	$0.19
Pro forma Basic EPS	$(0.42)	$(2.46)	$0.17
Diluted EPS as reported	$(0.38)	$(2.42)	$0.18
Proforma Diluted EPS	$(0.42)	$(2.46)	$0.17

JOHNSON & JOHNSON (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Common Stock, Stock Option Plans and Stock Compensation Agreements

At December 28, 1997, the Company had stock option plans that may grant options to employees and non-employee directors. Under the 1995 Employee Stock Option Plan and the 1997 Non-Employee Directors' Plan, the Company may grant up to 56 million shares of common stock to its employees. The shares outstanding are from the Company's 1986, 1991 and 1995 Employee Stock Option Plans, the 1997 Non-Employee Directors' Plan and the Mitek, Cordis, Biosense and Gynecare Stock Option Plans.

Stock options expire in ten years from the date granted and vest over service periods that range from two to six years. Shares available for future grants amounted to 22.7 million, 32.9 million and 40.1 million in 1997, 1996 and 1995, respectively.

A summary of the status of the Company's stock option plans as of December 28, 1997, December 29, 1996 and December 31, 1995 and changes during the years ending on those dates is presented below:

(Shares in thousands)	Options Outstanding*	Weighted Average Exercise Price
Balance at January 1, 1995	72,544	$19.50
Options granted	16,902	41.76
Options exercised	(8,184)	12.43
Options canceled/forfeited	(2,638)	23.46
Balance at December 31, 1995	78,624	24.89
Options granted	10,120	43.81
Options exercised	(7,442)	16.13
Options canceled/forfeited	(2,231)	29.27
Balance at December 29, 1996	79,071	28.01
Options granted	12,564	60.62
Options exercised	(10,597)	16.80
Options canceled/forfeited	(2,193)	36.36
Balance at December 28, 1997	78,845	$34.48

* Adjusted to reflect the 1996 two-for-one stock split.

In January 1996, the Company adopted the provisions of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," that calls for companies to measure employee stock compensation expense based on the fair value method of accounting. However, as allowed by the Statement, the Company elected the continued use of Accounting Principle Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," with pro forma disclosure of net income and earnings per share determined as if the fair value method had been applied in measuring compensation cost. Had the fair value method been applied, net income would have been reduced by $30 million or $.02 basic earnings per share in 1997 and $16 million or $.01 basic earnings per share in 1996. In 1995, net income would have been reduced by $2 million with no change to basic earnings per share. These calculations only take into account the options issued since January 1, 1995. The average fair value of options granted during 1997, 1996 and 1995 was $17.50, $13.37 and $10.96, respectively. The fair value was estimated using the Black-Scholes option pricing model based on the weighted average assumptions of: risk-free interest rate of 5.89% for 1997, 6.11% for 1996 and 5.65% for 1995; volatility of 21.5% for 1997, 18.2% for 1996 and 17.8% for 1995; expected life of 5.3 years for 1997, 7 years for 1996 and 1995; and dividend yield of 1.43% for 1997, 1.48% for 1996 and 1.90% for 1995.

The following table summarizes stock options outstanding and exercisable at December 28, 1997:

(Shares in thousands)	Outstanding			Exercisable	
Exercise Price Range	Options	Average Life[a]	Average Exercise Price	Options	Average Exercise Price
\$8.00 - \$17.86	12,341	2.2	\$13.83	12,340	\$13.83
\$18.28 - \$36.85	33,156	5.7	24.23	18,906	23.97
\$37.70 - \$52.00	21,833	8.2	46.02	3,499	42.94
\$52.13 - \$65.59	11,515	9.9	64.28	3	65.70
\$8.00 - \$65.59	78,845	6.5	\$34.48	34,748	\$22.28

(a) Average contractual life remaining in years

MEREDITH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Common Stock and Stock Option Plans

Stock Option Plans. The company has two broad-based stock compensation plans (1992 and 1996 plans), under which nonqualified stock options may be granted to certain employees to purchase shares of common stock at a price not less than market price at the date of grant. All options granted under these plans expire at the end of 10 years. Most of these option grants vest one-third each year over a three-year period. Others have "cliff-type" vesting after either three- or five-year periods. Some option grants in fiscal 1995 were tied to attaining ROE goals. These options vested 25 and 75 percent based on fiscal 1997 and 1996 performance, respectively. The company also has a nonqualified stock option plan for nonemployee directors (1993 Plan). Options vest either 40, 30, and 30 percent in each successive year or one-third each year over a three-year period. No options can be issued under the 1993 Plan after July 31, 2003, and options expire 10 years after issuance.

A summary of stock option activity and weighted average exercise prices follows:

Years ended June 30	1997		1996		1995	
(Options in thousands)	Options	Exercise Price	Options	Exercise Price	Options	Exercise Price
Outstanding, beginning of year	3,571	\$11.27	3,221	\$ 9.55	1,680	\$ 7.61
Granted at market price	1,280	\$21.64	742	\$16.75	1,590	\$11.57
Granted at price exceeding market	233	\$29.21	70	\$19.95	—	—
Exercised	(380)	\$ 7.10	(193)	\$ 7.55	(11)	\$ 7.32
Forfeited	—	—	(269)	\$11.07	(38)	\$ 9.61
Outstanding, end of year	4,704	\$15.32	3,571	\$11.27	3,221	\$ 9.55
Exercisable, end of year	2,182	\$10.50	1,458	\$ 8.10	912	\$ 7.42

A summary of stock options outstanding and exercisable as of June 30, 1997, follows:

(Options in thousands)

		Options outstanding		Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$6.61 - $8.53	1,032	5.53	$7.88	1,032	$7.88
$10.22 - $11.85	1,361	7.11	$11.55	881	$11.54
$16.75 - $21.10	1,794	8.65	$18.97	269	$17.18
$25.39 - $32.54	517	9.32	$27.45	—	—

The maximum number of shares reserved for use in all company restricted stock and stock incentive plans totals approximately 10.6 million. The total number of restricted stock shares and stock options which has been awarded under these plans as of June 30, 1997, is approximately 5.7 million. No stock options have expired to date.

The company applies Accounting Principles Board Opinion No. 25 (APB No. 25) in accounting for its plans. Accordingly, no compensation cost has been recognized in the Consolidated Statements of Earnings from options issued under company stock options plans. Effective January 1, 1996, SFAS No. 123, "Accounting for Stock-Based Compensation," encourages adoption of a fair value-based method for valuing the cost of stock-based compensation. However, it allows companies to continue to use the intrinsic value method under APB No. 25 and disclose pro forma net earnings and earnings per share in accordance with SFAS No. 123. Had compensation cost for the company's stock-based compensation plans been determined consistent with SFAS No. 123, the company's net earnings and earnings per share would have been as follows:

Years ended June 30	1997	1996
(In thousands, except per share amounts)		
Net earnings as reported	$95,285	$53,940
Pro forma net earnings	$93,046	$52,819
Earnings per share as reported	$ 1.72	$ .96
Pro forma earnings per share	$ 1.68	$ .94

The effects of applying SFAS No. 123 for the pro forma disclosures are not representative of the effects expected on reported net earnings and earnings per share in future years, since the disclosures do not reflect compensation expense for options granted prior to fiscal 1996. In addition, valuations are based on highly subjective assumptions above the future, including stock price volatility and exercise patterns.

The company used the Black-Scholes option pricing model to determine the fair value of grants made in fiscal 1997 and 1996. The following assumptions were applied in determining the pro forma compensation cost:

Years ended June 30	1997	1996
Risk-free interest rate	6.42%	6.29%
Expected dividend yield	1.13%	1.13%
Expected option life	6.8 yrs.	6.6 yrs.
Expected stock price volatility	17.0%	17.0%
Fair value of options:		
Granted at market prices	$6.74	$5.08
Granted at prices exceeding market	$5.14	$3.62

THE PROCTER & GAMBLE COMPANY (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Millions of dollars except per share amounts)

6. Stock Options

The Company has stock-based compensation plans under which stock options are granted annually to key employees and directors at the market price on the date of grant. The grants are fully exercisable after one year and have a ten-year life.

Pursuant to FASB Statement No. 123 "Accounting for Stock-Based Compensation," the Company has elected to account for its employee stock option plan under APB Opinion No. 25 "Accounting for Stock Issued to Employees." Accordingly, no compensation cost has been recognized for this plan. Had compensation cost for the plan been determined based on the fair value at the grant date consistent with FASB Statement No. 123, the Company's net earnings and earnings per share would have been as follows:

Years Ended June 30	1997	1996
Net earnings		
As reported	$3,415	$3,046
Pro forma	3,305	2,961
Net earnings per common share		
As reported	2.43	2.14
Pro forma	2.35	2.10
Fully diluted net earnings per common share		
As reported	2.28	2.01
Pro forma	2.20	1.97

The fair value of each option grant is estimated on the date of grant using the Binomial option-pricing model with the following weighted average assumptions:

Years Ended June 30	1997	1996
Interest rate	6.6%	6.1%
Dividend yield	2%	2%
Expected volatility	22%	20%
Expected life in years	6	6

Stock option activity was as follows:

Options in Thousands	1997	1996	1995
Outstanding, July 1	66,657	63,384	61,112
Granted	10,409	9,605	7,852
Exercised	(8,357)	(6,110)	(5,278)
Canceled	(195)	(222)	(302)
Outstanding, June 30	68,514	66,657	63,384
Exercisable	58,098	57,048	55,554
Available for grant	28,538	24,418	19,510
Average price			
Outstanding, beginning of year	$24.79	$21.36	$19.12
Granted	58.72	40.87	33.11
Exercised	16.02	14.52	12.59
Outstanding, end of year	31.00	24.79	21.36
Exercisable, end of year	26.03	22.09	19.70
Weighted average grant date fair value of options	17.14	10.88	

The following table summarizes information about stock options outstanding at June 30, 1997:

	Options Outstanding		Weighted-Avg
Range of Prices	Number Outstanding (Thousands)	Weighted-Avg Exercise Price	Remaining Contractual Life
$8 to 21	19,942	$15.92	2.4 years
25 to 30	21,511	26.56	5.5
33 to 46	17,645	37.85	8.1
57 to 69	9,416	60.24	9.5

The following table summarizes information about stock options exercisable at June 30, 1997:

	Options Exercisable	
Range of Prices	Number Exercisable (Thousands)	Weighted-Avg Exercise Price
$8 to 21	19,942	$15.92
25 to 30	21,498	26.56
33 to 46	16,658	37.46
57 to 69	—	—

Stock Award Plans

BADGER METER, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Restricted Stock and Stock Option Plans

A. Restricted Stock Plan

The company's Restricted Stock Plan (The Plan) provided for the award of up to 200,000 shares of the company's Common Stock to certain officers and key employees and for the reimbursement to certain participants for the personal income tax liability resulting from such awards. The company provides for any income tax liability ratably throughout the restricted period. Plan participants are entitled to cash dividends and to vote their respective shares. The sale or transfer of the shares is limited during the restricted period, not exceeding eight years. All eligible shares have been issued. The value of such stock was established by the market price on the date of grant. Restrictions on 32,000 shares expired during 1997.

Unearned compensation was charged for the market value of the restricted shares as these shares were issued in accordance with The Plan. The unearned compensation is shown as a reduction of shareholders' equity in the accompanying Consolidated Balance Sheets and is being amortized ratably over the restricted period.

During 1997, 1996 and 1995, $35,000, $43,000 and $82,000 was charged to expense relating to The Plan.

BROWNING-FERRIS INDUSTRIES, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Common Stock

Stock Incentive Plans

The Company presently maintains six stock option plans affording employees, directors and other persons affiliated with the Company the right to purchase shares of its common stock. At September 30, 1997, options were available for future grants only under five plans, the Company's 1987, 1990, both 1993 plans and the 1996 plan. At September 30, 1997, all of the options outstanding were non-qualified stock options. The exercise price, term and other conditions applicable to each option granted under the Company's plans are generally determined by the Compensation Committee at the time of the grant of each option and may vary with each option granted. The stock options generally vest 25% per year over a four-year period and expire after 10 years. The options are granted at a price equal to the stock's fair market value on the date of the grant.

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Under the 1993 and 1996 Stock Incentive Plans, restricted common stock of the Company may be granted to officers, other key employees and certain non-employee directors. Shares granted are subject to certain restrictions on ownership and transferability. Such restrictions on current restricted stock grants lapse two years from the date of grant for officers, two to three years for key employees and three years for non-employee directors. The deferred compensation expense related to restricted stock grants is amortized to expense on a straight-line basis over the period of time the restrictions are in place and the unamortized portion is classified as a reduction of additional paid-in capital in the Company's Consolidated Balance Sheet. Additionally, the 1993 and 1996 Stock Incentive Plans provide for common stock awards. Restricted stock grants and common stock awards reduce stock options otherwise available for future grant. Of the 2,000,000 shares which may be awarded to officers and key employees as restricted stock grants or stock awards, 5,750 restricted shares were issued during the current year and 109,842 restricted shares were outstanding as of September 3, 1997. In addition, 5,232 restricted shares issued to non-employee directors were outstanding as of September 30, 1997. Common stock awards totaling 2,552 shares were granted to non-employee directors during fiscal 1997. Shares of restricted stock granted for the two years ended September 30, 1997 were as follows:

Year Ended September 30,	1997	1996
Restricted stock granted	5,750	94,655
Weighted average fair value of restricted stock granted	$31.82	$31.12

During fiscal 1997, 1,028,500 performance share awards were granted to officers and certain key employees pursuant to the Company's Long-Term Incentive Plan. After considering cancellations of 91,125 of these awards, 937,375 of the performance share awards remained outstanding as of September 30, 1997. These performance shares will vest in increments of 25% based upon the attainment of performance goals as described in the Long-Term Incentive Plan. The performance shares are earned only if the market price of the Company's common stock exceeds specific price targets while attaining certain levels of cash returns on gross assets in excess of the Company's weighted average cost of capital. No compensation expense has been recorded to date related to these awards.

The Company accounts for all stock incentive plans related to employees under Accounting Principle Board Opinion No. 25, "Accounting for Stock Issued to Employees." Compensation expense related to these plans during fiscal years 1997, 1996 and 1995 was $1,662,000, $1,771,000 and $413,000, respectively.

CHAMPION INTERNATIONAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 8 (In Part): Stock-Based Compensation

Other Stock-Based Compensation

The Company granted an aggregate of 450,000 restricted share units on August 15, 1996 to certain officers and key employees at the market price per share on that date ($44.25). Each unit represents one share of common stock to be issued upon vesting (unless the issuance is deferred), provided that the awardee remains in the company's employ until the vesting date. The units vest over a six-year period as follows: 135,000 on August 15, 1998; 135,000 on August 15, 2000; and 180,000 on August 15, 2002.

In March 1997, the company adopted a performance share plan under which share units were awarded to officers and key employees. These units entitle the recipients, upon earn-out, to receive shares of common stock. The earn-out of shares is dependent on the company's stock price appreciation plus dividend yield (i.e., total shareholder return or "TSR") increasing, at any time within three years from the date of grant, to a value equivalent to approximately 15% per annum compounded for three years. If the TSR goal is achieved, the amount of the payout will depend on the company's TSR, during the performance period, relative to an industry peer group. If the TSR goal is not achieved, there will be no payout. Based on the current dividend rate, the shares would be earned if the common stock price reaches $67.25 per share. The number of shares that could be earned ranges from 340,000 shares to 720,000 shares.

Total compensation expense recognized for stock appreciation rights and other stock-based compensation for 1997, 1996 and 1995 was $35 million, $3 million and $25 million, respectively.

EKCO GROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Stockholders' Equity

Restricted Stock Purchase Plans

Under the Company's restricted stock purchase plans, the Company may offer to sell shares of common stock to employees of the Company and 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 other terms as deemed appropriate. Shares are awarded in the name of the employee, who has all rights of a stockholder, subject to certain repurchase provisions. Restrictions on the disposition of shares for the shares purchased expire annually, over a period not to exceed five years, if certain performance targets are achieved, otherwise they lapse on the tenth anniversary. Common stock reserved for future grants under these plans aggregated approximately 700,000 shares at December 28, 1997. 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 1997		Fiscal 1996		Fiscal 1995	
(Amounts in thousands)	Number of shares	Fair market value	Number of shares	Far market value	Number of shares	Fair market value
Unvested shares outstanding, beginning of year	132	$827	257	$1,660	51	$312
Shares issued	3	19	40	232	288	1,824
Shares repurchased	—	—	(13)	(61)	(45)	(297)
Shares vested	(7)	(61)	(152)	(1,004)	(37)	(179)
Unvested shares outstanding, end of year	128	$785	132	$ 827	257	$1,660

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 amortized to expense over the lapsing of restrictions. During Fiscal 1997, Fiscal 1996 and Fiscal 1995, unearned compensation charged to operations was $78,000, $1.0 million (including a special charge of $482,000 pursuant to a severance arrangement with the Company's former chief executive officer), and $270,000, respectively. To the extent the amount deductible for 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. The pro forma net income impact under FASB 123 is not material.

1996 Performance Unit Rights Award Plan

In September 1996, the Company's Board of Directors approved the 1996 Performance Unit Rights Award Plan whereby selected key employees and directors may receive performance unit rights ("Rights") which are rights to receive an amount based on the appreciated value of the Company's common stock over an established base price. The maximum number of Rights that may be granted under the plan as amended is 2,000,000. On December 4, 1996 the Company issued 525,718 Rights at a weighted average base price of $4.26 per Right with a cap on the value of the common stock underlying the Rights on the exercise date of $6.63 per Right under a severance arrangement with the Company's former CEO. A provision of $256,000 for Fiscal 1996 was included in special charges for these Rights. The pro forma net income impact under FASB 123 for Fiscal 1996 was estimated to be $507,000 in additional compensation expense. During Fiscal 1997 the Rights were fully exercised and a provision of $783,000 was included in special charges.

JOSTENS INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shareholders' Investment (In Part):

Stock Options and Restricted Stock

In fiscal 1995, certain members of the Jostens senior management team were granted performance share units as part of a long-term management incentive plan. Performance share units were tied directly to attaining specific financial performance targets. Performance units that were awarded were converted into a restricted stock award, which was subject to transfer and vesting restrictions based upon continuous employment of the recipi-

ent. In addition, holders of restricted shares had voting, liquidation and other rights with respect to these shares and received dividends paid on common stock. A portion of these performance share units were to be converted into restricted shares in each of fiscal years 1995 and 1996 and the year ended January 3, 1998, contingent upon achieving the financial performance targets established under the plan. Performance share unit and restricted share activity under this plan are summarized as follows:

In thousands	Performance Share Units	Restricted Shares
Balances, June 30, 1994	—	—
Granted	171,573	—
Converted	(53,290)	53,290
Balances, June 30, 1995	118,283	53,290
Granted	13,807	—
Canceled	(77,144)	—
Redeemed	—	(5,141)
Balances, June 30, 1996	54,946	48,149
Canceled	(5,333)	—
Balances, December 28, 1996	49,613	48,149
Canceled	(49,613)	—
Lapse of restriction	—	48,149
Balances, January 3, 1998	—	—

In fiscal 1995, restricted shares were awarded under this plan as a result of achieving 1995 performance share unit targets, resulting in $1.2 million in expense in fiscal 1995. The company did not achieve the fiscal 1996 and calendar 1997 financial targets. As a result, the remaining outstanding performance share units under this plan were canceled. In addition, certain participating employees terminated their employment with the company in fiscal 1996, resulting in the cancellation of additional performance share units and the redemption of previously issued restricted shares.

In July 1997, a new management incentive plan was approved. Under the plan, certain members of the senior management team will receive the market value of up to 56,400 shares of Jostens common stock upon achieving specific financial targets for the year ending January 2, 1999. If all or part of the award is earned, participants will be paid 50 percent of the value of the award in cash and 50 percent in unrestricted common stock of the company.

MEDTRONIC, INC. (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars)

Note 7 (In Part): Stock Purchase and Award Plans

1994 Stock Award Plan
Effective April 29, 1994, the Board of Directors and shareholders approved the 1994 stock award plan which replaced the stock option, stock award, and non-employee director restricted stock plans. The 1994 stock award plan provides for the grant of nonqualified and incentive stock options, stock appreciation rights, performance shares, restricted stock in lieu of the annual retainer to non-employee directors, and other stock-based awards. These were 8,046,128 shares available under this plan for future grants at April 30, 1997.

Under the provisions of the 1994 stock award plan, nonqualified stock options and other stock awards are granted to officers and key employees at prices not less than fair market value at the date of grant. In addition, awards granted under the previous nonqualified stock option and stock award plans as well as stock options assumed as a result of acquisition transactions remain outstanding though no additional awards will be made under these plans.

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Restricted stock and performance share awards are dependent upon continued employment and, in the case of performance shares, achievement of certain performance objectives. In 1997, 88,789 restricted shares were issued and 87,012 shares of common stock were issued pursuant to previous performance share grants. At April 30, 1997, total restricted shares outstanding under both the 1994 stock award plan and the previous restricted stock and performance share award plans were 863,446. Performance share awards for up to 337,161 shares, assuming maximum performance payout, were outstanding under the two plans at April 30, 1997. The actual number of performance shares awarded may vary depending on the degree to which the performance objectives are met. The cost of the restricted stock is generally expensed over five years from the date of issuance ($4,761 in 1997, $4,375 in 1996, and $3,797 in 1995). The estimated cost of the performance shares is expensed over the three year performance period from the date of grant ($7,582 in 1997, $10,313 in 1996, and $8,840 in 1995).

Savings/Investment Plans

CAMPBELL SOUP COMPANY (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Millions of dollars)

7 (In Part): Pension Plans and Retirement Benefits

Savings Plans. The company sponsors employee savings plans which cover substantially all U.S. employees. After one year of continuous service, the company generally matches 50% of employee contributions up to 5% of compensation. In 1997, 1996 and 1995, the company increased its contribution to 60% because earnings goals were achieved. Amounts charged to Costs and expenses were $17 in 1997, $15 in 1996 and $14 in 1995.

HARTMARX CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Employee Benefits (In Part):

Savings Investment and Employee Stock Ownership Plans

The Company offers a qualified defined contribution plan, the Hartmarx Savings-Investment Plan ("SIP"), which is a combined salary reduction plan under Section 401(k) of the Internal Revenue Code and an after-tax savings plan. Eligible participants in SIP can invest from 1% to 16% of earnings among several investment alternatives, including a Company stock fund. Employees participating in this plan automatically participate in the ESOP. Participation in SIP is required to earn retirement benefits under the Company's principal pension plan. An employer contribution is made through the ESOP, based on the employee's level of participation, and invested in common stock of the Company, although participants age 55 and over can elect investments from among several investment alternatives. While employee contributions up to 16% of earnings are permitted, contributions in excess of 6% are not subject to an employer contribution. The employer contribution is one-fourth of the first 1% of earnings contributed by the employee plus one-twentieth thereafter. The Company's expense related to the ESOP is based upon the principal and interest payments on the ESOP loan, the dividends, if any, on unallocated ESOP shares, and the cost and market value of shares allocated to employees' accounts.

The Company's annual expense was $1.2 million in 1997, $1.3 million in 1996 and $2.1 million in 1995. The Company's annual contributions were $2.1 million in each of the respective years. At November 30, 1997, the assets of SIP and ESOP funds had a market value of approximately $63.1 million, of which approximately $16.2 million was invested in 1,966,985 shares of the Company's common stock.

THE PERKIN-ELMER CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (In Part): Retirement and Other Benefits

Savings Plan. Effective October 1, 1995, the Company's domestic profit sharing and savings plan was reconfigured to form a Company matched 401(k) savings plan. The amended plan provides for automatic Company contributions of 2% of eligible compensation and a dollar-for-dollar matching contribution of up to 4% of eligible compensation. The Company's contributions to this plan were $9.6 million and $7.4 million for fiscal 1997 and 1996, respectively.

Prior to the amendment, the profit sharing and savings plan allowed for Company contributions in an amount equal to 8% of consolidated income before income taxes, as defined by the plan, provided the Company's contribution did not reduce earnings below $.3125 per share of common stock. The profit sharing payment by the Company was allocated among its domestic employees in direct proportion to their earnings. The Company's contribution to this plan was $7.6 million for fiscal 1995.

WOOLWORTH CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18 (In Part): Retirement Plans and Other Benefits

401(k) Plan

In January 1996, the Company established a savings plan under Section 401(k) of the Internal Revenue Code. This savings plan allows eligible employees to contribute up to 15 percent of their compensation on a pre-tax basis. The Company matches 25 percent of the first 4 percent of the employees' contribution. Effective January 1, 1998, such matching Company contributions are vested incrementally over 5 years. The charge to operations for the Company's matching contribution was $1.3 million and $1.5 million in 1997 and 1996, respectively.

Stock Purchase Plans

BOWNE & CO. INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Employee Benefit Plans

Stock Purchase Plan

Under the Employees' Stock Purchase Plan, participating subsidiaries match 50% of amounts contributed by employees. All contributions are invested in the common stock of the Company. The plan acquired 115,255 shares in the year ended December 31, 1997, and 88,453 shares and 102,049 shares in the years ended October 31, 1996 and 1995, respectively, of the Company's common stock on the open market. At December 31, 1997 and 1996, the Stock Purchase Plan held 547,262 shares and 483,513 shares of the Company's common stock, respectively. Charges to income amounted to $1,138,000, $603,000 and $500,000 for the year ended December 31, 1997 and the years ended October 31, 1996 and 1995, respectively. The shares held by the plan are considered outstanding in computing the Company's earnings per share, and dividends paid to the plan are charged to retained earnings.

DANA CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS
(In millions)

Note 12. Stock Purchase Plan

All full-time U.S. and certain non-U.S. employees are eligible to participate in Dana's Employees' Stock Purchase Plan (SPP). The SPP provides that participants may authorize Dana to withhold up to 15% of their earnings and deposit such amounts with an independent custodian. The custodian, as nominee for the participants,

causes Dana common stock to be purchased at prevailing market prices. The shares purchased are allocated to the participants' accounts and upon request are distributed to the participants.

Under the SPP, Dana contributes on behalf of each participant up to 50% of the participant's contributions. The Company's contributions will accumulate over a five-year period, provided that the shares are left in the SPP. If any shares are withdrawn by a participant before the end of five years, the amount of the Company match toward those shares will depend on the period of time that the shares have been in the SPP. The custodian has caused to be purchased 1,025,354 shares in 1995, 1,069,720 shares in 1996 and 947,950 shares in 1997 of Dana's common stock on behalf of the participants and the Company's charge to expense amounted to $5.2 in 1995, $6.3 in 1996 and $7.4 in 1997.

MURPHY OIL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H (In Part): Incentive Plans

Employee Stock Purchase Plan (ESPP). In 1997, the Company's shareholders approved the ESPP, under which 50,000 shares of the Company's Common Stock could be sold to employees. Each quarter, an eligible U.S. employee may elect to withhold up to 10 percent of his or her salary to purchase shares of the Company's stock at a price equal to 90 percent of the fair value of the stock as of the first day of the quarter or, if appropriate, the last business day prior to such date. The ESPP will terminate at the earlier of the date that all 50,000 shares have been sold or June 30, 2002. In 1997, 4,326 shares of the Company's stock were sold under the ESPP at $44.44 a share, and at year-end 45,674 shares remained available for sale. Compensation costs related to the ESPP were immaterial.

SCHLUMBERGER LIMITED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Compensation Plans (In Part):

Employee Stock Purchase Plan

Under the Schlumberger Discounted Stock Purchase Plan, the Company is authorized to issue up to 10,012,245 shares of Common Stock to its employees. On January 21, 1998, the Board, subject to stockholder approval, amended the Plan to increase the aggregate number of shares available for purchase to 22,012,245. Under the terms of the Plan, employees can choose each year to have up to 10% of their annual earnings withheld to purchase the Company's Common Stock. The purchase price of the stock is 85% of the lower of its beginning or end of the plan year market price. Under the Plan, the Company sold 1,399,623, 1,483,494 and 1,449,588 shares to employees in 1997, 1996 and 1995, respectively. Compensation cost has been computed for the fair value of the employees' purchase rights, which was estimated using the Black-Scholes model with the following assumptions for 1997, 1996 and 1995: dividend of $0.75; expected life of one year; expected volatility of 28% for 1997 and 20% for 1996 and 1995; and risk-free interest rates of 5.64% for 1997, 5.71% for 1996 and 5.61% for 1995. The weighted-average fair value of those purchase rights granted in 1997, 1996 and 1995, was $17.845, $9.73 and $7.21, respectively.

Employee Stock Ownership Plans

ANHEUSER-BUSCH COMPANIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Employee Stock Ownership Plans

In 1989, the company added Employee Stock Ownership Plans (ESOPs) to its existing Deferred Income Stock Purchase and Savings Plans. Most regular employees are eligible for participation in the ESOPs. The ESOPs initially borrowed $500 million for a term of 15 years at an interest rate of 8.3% and used the proceeds to buy approximately 22.7 million shares of common stock from the company at market price. The debt is guaranteed by the company and the shares are being allocated to participants over 15 years as contributions are made to the plans.

ESOP cash contributions and expense accrued during the calendar year are determined by several factors, including the market price and number of shares allocated to participants, debt service, dividends on unallocated shares and the company's matching contribution. Over the 15-year life of the ESOPs, total expense recognized will equal total cash contributions made by the company.

ESOP cash contributions are made in March and September in accordance with debt service requirements. A summary of cash contributions and dividends on unallocated ESOP shares for the three years ended December 31 is presented below (in millions):

	1997	1996	1995
Cash contributions	$15.2	$21.8	$45.8
Dividends	$ 9.9	$10.4	$10.8

Total ESOP expense is allocated to operating expense and interest expense based on the ratio of principal and interest payments on the debt. Total ESOP expense for the three years ended December 31 is presented below (in millions):

	1997	1996	1995
Operating expense	$ 8.6	$14.3	$19.6
Interest expense	8.7	11.6	18.0
Total expense	$15.3	$25.9	$37.6

BETZDEARBORN INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Employee Stock Ownership (ESOP) and 401(k) Plan

In 1989, the Company established an ESOP and a related trust as a long-term benefit for substantially all of its U.S. employees. This plan supplements the Company's employee retirement plan. Under this plan, the Company sold 500,000 shares of a new Series A ESOP Convertible Preferred Stock to the trust for $100 million. This series of preferred stock has one vote per share with cumulative dividends at a rate of 8% and is stated at the aggregate liquidation preference on the Consolidated Balance Sheets. The Company arranged for and guaranteed a loan of $100 million (see Note 6) to the trust for the purchase of the preferred stock. Proceeds of the loan were primarily used for the purchase of common treasury stock to be used for future conversion and redemption of the preferred stock, which is presently convertible into 2,648,671 shares of common stock. The loan and guarantee are recorded in the Company's Consolidated Balance Sheets as long-term debt and a reduction in shareholders' equity.

Effective January 1, 1990, the Company's 401(k) program was integrated into the Employee Stock Ownership Plan. Employees may invest 2 to 15 percent of eligible compensation. Company matches, equal to 25 percent of the first 4 percent of employees' investments, fully vest to employees upon the completion of 5 years of service. The Company's matching contributions, which are included in ESOP expense, are made in the form of the ESOP Convertible Preferred Stock. The value of such matching contributions amounted to $1.7 million in 1997, $1.5 million in 1996 and $1.4 million in 1995.

After satisfying the 401(k) matching contributions, the remaining shares of ESOP stock are allocated to each participant based on the ratio of the participant's compensation to total compensation of all participants. During 1997, 6,409 shares of the Preferred Stock were converted to Common Shares by plan participants and permanently retired. The number of shares allocated and unallocated at December 31 are as follows:

	1997	1996
Allocated	134,355	121,911
Unallocated	341,016	359,869
Total shares held by ESOP	475,371	481,780

The Company is required to make quarterly contributions to the Plan which enable the trust to service its indebtedness. Net ESOP cost for the Company is comprised of the following elements (in millions):

	1997	1996	1995
ESOP expense	$9.5	$9.3	$9.2
Preferred dividends (charged to retained earnings)	(7.7)	(7.7)	(7.8)
ESOP expense charged to earnings	$1.8	$1.6	$1.4
ESOP contributions	$9.1	$9.0	$8.8

The ESOP expense is calculated using the 80-percent-of-shares-allocated method. To the extent that this expense exceeds the ESOP's annual debt service requirements, an adjustment is made to the shareholders' equity reduction to reflect the cumulative effect of the excess charges.

THE MAY DEPARTMENT STORES COMPANY (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Profit Sharing

The company has a qualified profit-sharing plan that covers substantially all associates who work 1,000 hours or more in a year and have attained age 21. The plan is a defined-contribution program that provides for discretionary matching allocations at a variable matching rate generally based upon changes in the company's annual earnings per share, as defined in the plan. The plan's matching allocation value totaled $48 million for 1997, which represents a record effective match rate of 104%. The matching allocation value was $43 million and $33 million in 1996 and 1995, respectively.

The company's Profit Sharing Plan includes an Employee Stock Ownership Plan (ESOP) under which the Profit Sharing Plan borrowed $400 million in 1989, guaranteed by the company, at an average rate of 8.5% with an average maturity of 12 years. The proceeds were used to purchase $400 million (788,955 shares) of convertible preference stock of the company (ESOP preference shares). Each share is convertible into 22.525 shares of common stock and has a stated value of $22.51 per common share equivalent. The annual dividend rate on the ESOP preference shares is 7.5%.

The $342 million outstanding portion of the guaranteed ESOP debt is reflected on the consolidated balance sheet as long-term debt because the company will ultimately fund the required debt service. The company's contributions to the ESOP, along with the dividends on the ESOP preference shares, are used to repay the loan principal and interest. Interest expense associated with the ESOP debt was $29 million in 1997, $31 million in 1996, and $32 million in 1995. ESOP preference shares' dividends were $26 million in 1997 and 1996, and $28 million in 1995. ESOP debt principal payments began in 1993. The release of ESOP preference shares is based upon debt-service payments. Upon release, the shares are allocated to participating associates' accounts. Unearned compensation, initially an equal, offsetting amount to the $400 million guaranteed ESOP debt, has been adjusted for the difference between the expense related to the ESOP and cash payments to the ESOP. It is reduced as principal is repaid.

The company's expense related to the Profit Sharing Plan was $24 million, $22 million, and $17 million in 1997, 1996, and 1995, respectively.

At January 31, 1998, the Profit Sharing Plan beneficially owned 11.0 million shares of the company's common stock and 100% of the company's ESOP preference shares. These holdings represent 10.6% of the company's common stock.

KERR-MCGEE CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

20. Employee Stock Ownership Plan

In 1989, the company's Board of Directors approved a leveraged Employee Stock Ownership Plan (ESOP) into which is paid the company's matching contribution for the employees' contributions to the Kerr-McGee Corporation Savings Investments Plan (SIP). Most of the company's employees are eligible to participate in both the ESOP and the SIP. Although the ESOP and the SIP are separate plans, matching contributions to the ESOP are contingent upon participants' contributions to the SIP.

In 1989, the ESOP trust borrowed $125 million from a group of lending institutions and used the proceeds to purchase 2.7 million shares of the company's treasury stock. The company used the $125 million in proceeds from the sale of the stock to acquire shares of its common stock in open-market and privately negotiated transactions. In 1996, a portion of the third-party borrowings was replaced with a note payable to the company (sponsor financing). The third-party borrowings are guaranteed by the company and are reflected in the Consolidated Balance Sheet as Long-Term Debt, while the sponsor financing does not appear in the company's balance sheet. Deferred compensation, representing the unallocated ESOP shares discussed in the following paragraph, is reflected as a reduction of stockholders' equity.

The company stock acquired by the ESOP trust is held in a loan suspense account. The company's matching contribution and dividends on the shares held by the ESOP trust are used to repay the loan, and stock is released from the loan suspense account as the principal and interest are paid. The stock is then allocated to participants' accounts at market value as the participants' contributions are made to the SIP. Deferred compensation reflected in the company's Consolidated Balance Sheet is reduced as shares are allocated to participants' accounts. Long-term debt is reduced as payments are made on the third-party financing. Dividends paid on the common stock held in participants' accounts are also used to repay the loans, and stock with a market value equal to the amount of dividends is allocated to participants' accounts.

At December 31, 1997 and 1996, the ESOP trust held shares of stock allocated to participants' accounts and in the loan suspense account as follows:

(Thousands of shares)	1997	1996
Participants' accounts	1,343	1,251
Loan suspense account	1,110	1,290

The shares allocated to participants at December 31, 1997, included approximately 15,000 shares released in January 1998. The shares allocated to participants at December 31, 1996, included approximately 14,000 shares released in January 1997.

All ESOP shares are considered outstanding for earnings-per-share calculations. Dividends on ESOP shares are charged to retained earnings.

Compensation expense is recognized using the cost method and is reduced for dividends paid on the unallocated ESOP shares. The company recognized ESOP-related expense of $10 million, $12 million and $14 million in 1997, 1996 and 1995, respectively. These amounts include interest expense incurred on the third-party ESOP debt of $5 million, $6 million and $8 million in 1997, 1996 and 1995, respectively. The company contributed $1 million, $9 million and $15 million to the ESOP in 1997, 1996 and 1995, respectively. The cash contributions are net of $4 million for the dividends paid on the company stock held by the ESOP trust in each of the years 1997, 1996 and 1995.

THE J. M. SMUCKER COMPANY (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note F (In Part): Stock Benefit Plans

ESOP

The Company sponsors an Employee Stock Ownership Plan and Trust (ESOP) for domestic, non-represented employees. The Company has entered into loan agreements with the Trustee of the ESOP for purchases by the Trustee in amounts not to exceed a total of 1,200,000 unallocated Common Shares of the Company at any one time. These shares are to be allocated to participants over a period of not less than 20 years. ESOP loans bear interest at ½% over prime and are payable as shares are allocated to participants. Contributions to the plan are made annually in amounts sufficient to fund ESOP debt repayment. Dividends on unallocated shares are used to reduce expense and were $377,000, $398,000, and $406,000 in 1997, 1996, and 1995, respectively. The principal payments received from the ESOP in 1997, 1996, and 1995 were $224,000, $190,000, and $229,000, respectively.

Effective May 1, 1994, the Company adopted Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans* (SOP 93-6). This statement requires that compensation expense be measured based upon the fair value of shares committed to be released to plan participants. Under the "grandfather" provision of SOP 93-6, the Company did not apply the statement to shares purchased prior to the transition date of December 31, 1992. Since all shares currently held by the ESOP were acquired prior to 1993, the Company will continue to recognize future compensation expense using the cost basis. At April 30, 1997, the ESOP held 725,048 unallocated shares consisting of 244,124 Class A and 480,924 Class B Common Shares. All shares held by the ESOP were considered outstanding in earnings per share calculations for all periods presented.

Profit Sharing Plans

DEAN FOODS COMPANY (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Employee Benefit Plans

The Company has various profit sharing and retirement plans covering certain salaried and hourly employees. Amounts charged to operations under all plans were $19,318, $18,876 and $16,312 in 1997, 1996 and 1995, respectively.

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Profit Sharing Plans
The Company maintains noncontributory profit sharing plans for certain employees. Company contributions under these plans are made at the discretion of the Board of Directors. Expense for these plans was $7,147, $6,012 and $4,965 in 1997, 1996 and 1995, respectively.

FURON COMPANY (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Employee Benefit Plans

Profit-Sharing/Retirement Plan
The company has a Profit Sharing/Retirement Plan which provides for an employee salary deferral contribution and Company contributions. Employees are permitted to contribute a percentage of their compensation as defined by the Plan Documents. Contributions made by the Company are based on the Company's performance and are at the discretion of the Board of Directors. Total Company contributions for fiscal 1998, 1997 and 1996 were $2.8 million, $2.2 million and $1.9 million, respectively, and combined Company and employee contributions were $8.2 million, $6.3 million and $5.4 million, respectively. At January 31, 1998, the Company has committed to fund at least $5.8 million of combined Company and employee contributions to the Profit Sharing/Retirement Plan.

ROUGE INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Postretirement Benefit and Other Plans

Profit Sharing Plans
The Company maintains profit sharing plans for hourly and salaried employees which cover substantially all employees. Hourly and salaried profit sharing expense amounted to $3,031,000, $4,173,000 and $12,306,000 in 1997, 1996 and 1995, respectively.

Incentive Compensation Plans

CHEVRON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Millions of Dollars

Note 17 (In Part): Employee Benefit Plans

Management Incentive Plans. The company has two incentive plans, the Management Incentive Plan (MIP) and the Long-Term Incentive Plan (LTIP) for officers and other regular salaried employees of the company and its subsidiaries who hold positions of significant responsibility. The MIP is an annual cash incentive plan that links awards to performance results of the prior year. The cash awards may be deferred by conversion to stock units or, beginning with awards deferred in 1996, stock units or other investment fund alternatives. Awards under the LTIP may take the form of, but are not limited to, stock options, restricted stock, stock units and nonstock grants. Charges to expense for the combined management incentive plans, excluding expense related to LTIP stock options, which is discussed in Note 18, "Stock Options," were $55, $36 and $45 in 1997, 1996 and 1995, respectively.

Chevron Success Sharing. In January 1995, the company established a program that provides eligible employees with an annual cash bonus if the company achieves certain financial and safety goals. The total maximum payout under the program is 8 percent of the employee's annual salary. Charges for the program were $116 and $72 in 1997 and 1996, respectively. There were no expenses accrued for the program in 1995.

FLOWERS INDUSTRIES, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part): Other Employee Benefit Plans

Under the Company's bonus plan, approved annually by the Compensation Committee, certain key employees may receive bonus compensation based on attainment of specified income goals. Total compensation under the bonus plan was approximately $6,969,000, $877,000 and $6,157,000 for fiscal 1997, 1996 and 1995, respectively.

HARSCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Employee Benefit Plans

Executive Incentive Compensation Plan
Under the 1995 Executive Incentive Compensation Plan, the Management Development and Compensation Committee awards 60% of the value of any earned performance to be paid to participants in the form of cash and 40% in the form of restricted shares of the Company's common stock. Upon the request of the participant, the Committee may make the incentive award payable all in

cash, subject to a 25% reduction in the total amount of the award. Awards are made in February of the following year. The Company accrues amounts based on performance reflecting the value of cash and common stock which is anticipated to be earned for the current year. Compensation expense relating to these awards was (in millions) $5.1, $5.5, and $5.2 in 1997, 1996, and 1995, respectively.

HUGHES SUPPLY, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

Note 6 (In Part): Employee Benefit Plans

Bonus Plans
The Company has bonus plans, based on profitability formulas, which provide incentive compensation for key employees. Amounts charged to expense for bonuses to executive officers were $1,539, $1,544 and $1,354 for fiscal 1998, 1997 and 1996, respectively.

Deferred Compensation Plans

AMERON INTERNATIONAL CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note Ten (In Part): Employee Benefit Plans

The Company has a deferred compensation plan providing key executives with the opportunity to participate in an unfunded, deferred compensation program. Under the program, participants may defer base compensation and bonuses and earn interest on their deferred amounts. The program is not qualified under Section 401 of the Internal Revenue Code. The total of participant deferrals, which is reflected in long-term liabilities, was $6,297,000 at November 30, 1997, and $4,668,000 at November 30, 1996. The participant deferrals earn interest at a rate based on U.S. Government Treasury rates. The interest expense related to this plan was $550,000 in 1997, $392,000 in 1996 and $340,000 in 1995.

JACOBS ENGINEERING GROUP INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Savings, Deferred Compensation and Pension Plans

Deferred Compensation Plans
The Company's Executive Security Plan ("ESP") and Executive Deferral Plans ("EDP") are nonqualified deferred compensation programs that provide benefits payable to directors, officers and certain key employees or their designated beneficiaries at specified future dates, upon retirement or death. Benefit payments under both plans are funded by a combination of contributions from participants and the Company, and most of the participants are covered by life insurance policies with the Company designated as the beneficiary. Amounts charged to expense relating to these programs for the years ended September 30, 1997, 1996, and 1995 were $1,672,000, $1,781,200 and $1,601,000, respectively. Included in other deferred liabilities in the accompanying consolidated balance sheets at September 30, 1997 and 1996 was $23,446,800 and $19,092,700, respectively, relating to the ESP and EDP plans.

NINE WEST GROUP INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Employee Benefit Plans (In Part):

The Company also maintains a non-qualified deferred compensation plan (the "Executive Deferred Compensation Plan"). The purpose of the Executive Deferred Compensation Plan is to provide to certain eligible employees of the Company the opportunity to: (1) defer elements of their compensation (including any investment income thereon) which might not otherwise be deferrable under the Savings Plans; and (2) receive the benefit of additions to their deferral comparable to those obtainable under the Savings Plans in the absence of certain restrictions and limitations in the Code. The Executive Deferred Compensation Plan is unfunded; benefits are paid from the general assets of the Company. The Company's liability under the Executive Deferred Compensation Plan as of January 31, 1998 and February 1, 1997 was $9.5 million and $4.9 million, respectively.

O'SULLIVAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Benefit Plans

Deferred Compensation Plan
The Corporation has a deferred compensation program for key employees of the Corporation. Under this program, the Corporation agrees to pay each covered employee a certain sum annually for fifteen years upon their retirement or, in the event of their death, to their designated beneficiary. A benefit is also paid if the employee terminates employment (other than by his voluntary action or discharge for cause) before they attain age 65. In that event, the amount of the benefit depends on the employee's years of service with the Corporation. Full benefits are paid only if the employee completes 25 years of service. The Corporation has purchased individual life insurance contracts with respect to each employee covered by this program. The Corporation is the owner and beneficiary of the insurance contracts. The employees are general creditors of the Corporation with respect to these benefits. The expense associated with the Deferral Compensation Plan was $2,503,375 for 1997, $493,773 for 1996 and $397,798 for 1995. The expense for 1997 included an additional charge of $1,975,747 resulting from a change in the estimated costs for deferred compensation payable to several employees who prematurely separated from service with the Corporation.

Stock Bonus Plan

ARDEN GROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Retirement Plans

The Company has a noncontributory, trusteed stock bonus plan which is qualified under Section 401 of the Internal Revenue Code of 1986, as amended. All nonunion employees over 18 years of age who complete 1,000 hours of service within the year ending on the anniversary date of employment are eligible to become participating employees in the plan. Contributions to the plan for any fiscal year, as determined by the Board of Directors, are discretionary, but in no event will they exceed 15% of the annual aggregate salaries of those employees eligible for participation in the plan. Contributions must be invested in the Company's Class A common stock with excess cash being invested in certain government-backed securities. Contributions to the plan are allocated among eligible participants in the proportions of their salaries to the salaries of all participants. Contributions accrued for the plan in 1997, 1996 and 1995 were $135,000, $133,000 and $130,000, respectively.

ShareValue Trust

THE BOEING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions except per share data)

Note 14. ShareValue Trust

In July 1996, the Company established a self-sustaining irrevocable 12-year trust, the ShareValue Trust, designed to allow substantially all employees to share in the results of increasing shareholder value over the long term. As of December 31, 1997, the Trust had acquired 26,025,460 shares of the Company's common stock, equivalent to $1,150 of market value based upon a stock price of $44 3⁄16, which was the average price per share on June 28, 1996, plus 359,800 shares acquired from reinvested dividends. Shares of common stock held by the Trust are legally outstanding and entitled to receive dividends. Dividends received by the Trust are reinvested in additional shares of common stock. If the term of the Trust is not extended beyond the initial irrevocable 12-year period, any residual trust balance will revert to the Company

Two investments periods began on July 1, 1996. One period has a duration of two years and the other has a duration of four years. Each period was allocated a fund of one-half of the total shares. Distributions from the ShareValue Trust to employees in the form of Common stock will be made to the extent the market value of the ShareValue Trust has increased above a pre-defined threshold amount of 3% per annum at the end of that fund's investment period. The ShareValue Trust bears its own nominal administrative costs paid out of the Trust assets. At the end of each investment period, a new four-year investment period will begin, resulting in over-lapping periods with potential distributions every two years. The Trust fund market value after distribution will be the base from which the distributable market value appreciation over the threshold for the succeeding investment period will be determined.

Although the obligation to make these distributions is solely that of the Trust and no assets of the Company will be required in the future to satisfy the Trust distribution obligations, the change in Trust appreciation above the threshold amounts for the respective investment periods is charged or credited to earnings based on the Trust valuation as of the end of the reporting period. ShareValue Trust charges and credits reflected in earnings will not impact the Company's current or future cash flow. As of December 31, 1997, the total increased value of both current funds exceeded the thresholds by $34.

The shares held by the ShareValue Trust, recorded in the contra equity account "ShareValue Trust," are legally outstanding and receive dividend payments. The ShareValue Trust is adjusted to market value at each reporting period, with an offsetting adjustment to additional paid-in capital.

An additional $550 of funding will be made effective January 1, 1998, as a result of the merger with McDonnell Douglas Corporation.

Deferred Stock Rights

JOHNS MANVILLE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Stock Compensation Plans

The Company's stock compensation plans grant eligible employees deferred stock rights, restricted stock and options to purchase shares of the Company's common stock. During 1996, an additional 7.9 million shares of the Company's common stock were registered and reserved for issuance. On July 1, 1997, the Company introduced a noncompensatory Johns Manville employee stock ownership plan for its worldwide employees. The plan enables employees to purchase stock directly from the market and through Company savings plans. In addition, the Company granted approximately 1.6 million options to employees at $12.19 per share. These options vest through July 1, 2002 and expire on December 31, 2002. In connection with the noncompensatory plan, the Company has registered and reserved for issuance, 5.3 million shares of its common stock. At December 31, 1997, approximately 6.6 million shares were available for issuance under stock compensation and noncompensatory plans.

The amount of compensation expense recognized for stock-based compensation was $2.7 million, $2.8 million and $1.8 million for the years ended December 31, 1997, 1996 and 1995, respectively.

Deferred and Restricted Stock
Deferred stock rights entitle participants to the receipt of shares of common stock upon vesting and dividend equivalents, but no voting rights prior to vesting, and are restricted as to disposition and are subject to forfeiture prior to vesting upon certain circumstances. During 1997, 128,000 deferred stock rights were issued at a weighted average market value at grant date of $11.36 per share. During 1996, 1.1 million deferred stock rights were issued at a weighted average market value at grant date of $10.48 per share. These deferred stock rights, of which 1.0 million were outstanding at December 31, 1997, vest through December 31, 2000.

Phantom Performance Units

OWENS CORNING (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19 (In Part): Stock Compensation Plans

The Company has four stock-based compensation plans. The Company's Stock Performance Incentive Plan ("SPIP") grants stock options, restricted stock, performance restricted stock and phantom performance units. The Owens Corning 1995 Stock Plan ("95 Stock Plan") grants options, restricted stock and performance stock awards. The SPIP and the 95 Stock Plan (collectively, the "Plans"), permit up to two percent and one percent, respectively, of common shares outstanding at the beginning of each calendar year to be awarded as stock options and restricted stock (with 25% of this amount as the maximum permitted number of restricted stock awards). The Company may carry forward, independently for each plan, unused shares from prior years and may increase the shares available for awards in any calendar year through an advance of up to 25% of the subsequent year's allocation (determined by using 25% of the current year's allocation). These shares are also subject to the 25% limit for restricted stock awards. During 1997 the maximum number of shares available under the Plans for stock awards was 2,236,576 shares. The following are descriptions of the awards granted under the Plans:

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Phantom Performance Units
Under the Plans, certain officers are awarded phantom performance units. Each unit provides the holder the opportunity to earn a cash award equal to the fair market value of the Company's common stock upon the attainment of certain performance goals. Officers, other than the Chief Executive Officer, earn any portion of their award not earned during the performance period seven years after the end of the performance period, if their employment continues until that time. Compensation expense is measured based on market price of the Company's common stock and is amortized over the performance period, approximately three years. At December 31, 1997, the Company had 184,250 phantom performance units outstanding. During 1997, 1996 and 1995, 77,850, 79,600 and 56,000 units, respectively, were awarded.

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The Company applies Financial Accounting Standards Board Statement No. 123 (SFAS 123) in accounting for its stock based compensation plans. In accordance with SFAS 123 the Company applies Accounting Principles Board Opinion No. 25 and related Interpretations for expense recognition. All stock options issued by the Company are exercisable at a price equal to the market price at the date of grant. Accordingly, no compensation cost has been recognized for any of the options granted under the Plans. The compensation cost that has been recorded for awards other than options was $12 million, $17 million and $3 million in 1997, 1996 and 1995, respectively.

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 *Accounting Research Bulletin 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."

Table 3-13 summarizes the methods of depreciation used to allocate the cost of productive facilities. Examples of depreciation expense disclosures follow.

TABLE 3-13: DEPRECIATION METHODS

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Straight-line	578	575	572	573
Declining-balance	26	28	27	27
Sum-of-the-years'-digits	10	12	12	9
Accelerated method-not specified	50	48	49	49
Units-of-production	39	42	38	49
Other	10	12	11	11

Straight-Line Method

NACCO INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in millions)

Note 2. (In Part): Accounting Policies

Property, Plant and Equipment: Property, plant and equipment are recorded at cost. Depreciation, depletion and amortization are provided in amounts sufficient to amortize the cost of the assets, including assets recorded under capital leases, over their estimated useful lives using the straight-line method. The units-of-production method is used to amortize certain coal-related assets based on estimated recoverable tonnages.

Note 7. Property, Plant and Equipment

Property, plant and equipment includes the following:

	December 31	
	1997	1996
Coal lands and real estate:		
NMHG	$ 9.7	$ 6.6
HB PS	2.4	1.6
NACoal	15.5	16.1
Project mining subsidiaries (Note 10)	80.2	77.9
KCI	—	—
NACCO and Other	.2	.2
	108.0	102.4
Plant and equipment:		
NMHG	298.6	289.3
HB PS	137.9	123.7
NACoal	27.8	20.7
Project mining subsidiaries (Note 10)	448.0	438.4
KCI	7.8	7.4
NACCO and Other	4.8	4.8
	924.9	884.3
Property, plant and equipment at cost	1,032.9	986.7
Less allowances for depreciation, depletion and amortization	491.2	436.4
	$541.7	$550.3

Total depreciation, depletion and amortization expense on property, plant and equipment was $70.9 million, $67.7 million and $63.9 million during 1997, 1996 and 1995, respectively.

Proven and probable coal reserves approximated 2.0 billion and 2.1 billion tons at December 31, 1997 and 1996, respectively.

WOOLWORTH CORPORATION (JAN)

(In millions)	1998	1997	1996
Sales	$6,624	$7,017	$7,031
Costs and Expenses			
Cost of sales	4,568	4,783	4,863
Selling, general and administrative expenses	1,535	1,712	1,801
Depreciation and amortization	168	171	216
Interest expense	44	59	104
Other income	(29)	(28)	(31)
Adoption of accounting standard for impairment of long-lived assets	—	—	211
	6,286	6,697	7,164
Income (loss) from continuing operations before income taxes	338	320	(133)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Depreciation and Amortization
Owned property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets: 25 to 45 years for buildings and 3 to 10 years for furniture, fixtures and equipment. Leased property and equipment under capital leases and improvements to leased premises are amortized on a straight-line basis over the lesser of the life of the asset or the remaining term of the lease.

Accelerated Methods

THE BOEING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Millions)

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

Property, Plant and Equipment
Property, plant and equipment are recorded at cost, including applicable construction-period interest, and depreciated principally over the following estimated useful lives: new buildings and land improvements, from 20 to 45 years; machinery and equipment, from 3 to 13 years. The principal methods of depreciation are as follows: buildings and land improvements, 150% declining balance; machinery and equipment, sum-of-the years' digits.

Note 8 (In Part): Property, Plant and Equipment

Property, plant and equipment at December 31 consisted of the following:

	1997	1996
Land	$ 530	$ 539
Buildings	8,133	7,883
Machinery and equipment	9,940	9,778
Construction in progress	691	525
	19,294	18,725
Less accumulated depreciation	(10,903)	(10,459)
	$ 8,391	$ 8,266

Depreciation expense was $1,266, $1,132 and $1,172 for 1997, 1996 and 1995, respectively. Interest capitalized as construction-period property, plant and equipment costs amounted to $28, $28 and $32 in 1997, 1996 and 1995, respectively.

RAYTHEON COMPANY (DEC)

Statements of Cash Flows

(In millions)	1997	1996	1995
Cash flows from operating activities			
Net income	$527	$761	$792
Adjustments to reconcile net income to net cash provided by operating activities, net of the effect of acquired companies			
Depreciation and amortization	457	369	371
Net gain on sale of operating units	(72)	—	(210)
Gain on sale of an investment	—	—	(29)
Sale of receivables	1,752	1,209	1,081

NOTES TO FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Betterments and major renewals are capitalized and included in property, plant and equipment accounts while expenditures for maintenance and repairs and minor renewals are charged to expense. When assets are retired or otherwise disposed of, the assets and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income.

Provisions for depreciation are computed generally on the sum-of-the-years-digits method, except for certain operations, which use the straight-line or declining-balance method. Depreciation provisions are based on estimated useful lives: buildings—20 to 45 years, machinery and equipment, including production tooling—3 to 10 years, and equipment leased to others—5 to 10 years. Leasehold improvements are amortized over the lesser of the remaining life of the lease or the estimated useful life of the improvement.

LEE ENTERPRISES, INCORPORATED (SEP)

(In thousands)	1997	1996	1995
Operating revenue			
Publishing:			
Daily newspapers:			
Advertising	$179,822	$169,151	$153,325
Circulation	80,522	79,814	72,863
Other	58,097	53,599	48,689
Broadcasting	120,489	117,797	100,586
Equity in net income of associated companies	7,756	7,008	8,277
	$446,686	$427,369	$383,740
Operating expenses:			
Compensation costs	$165,547	$153,076	$137,368
Newsprint and ink	30,906	38,535	31,936
Depreciation	17,175	16,236	11,965
Amortization of intangibles	11,129	11,563	9,501
Other	117,778	113,218	101,565
	$342,535	$332,628	$292,335
Operating income	$104,151	$94,741	$91,405

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Nature of Business and Significant Accounting Policies

Property and Equipment:

Property and equipment is carried at cost. Equipment, except for printing presses and broadcast towers, is depreciated primarily by declining-balance methods. The straight-line method is used for all other assets. The estimated useful lives in years are as follows:

	Years
Buildings and improvements	5-25
Publishing:	
Printing presses	15-20
Other major equipment	3-11
Broadcasting:	
Towers	15-20
Other major equipment	3-10

The Company capitalizes interest as part of the cost of constructing major facilities.

Units-Of-Production Method

CUMMINS ENGINE COMPANY, INC. (DEC)

Consolidated Statement of Cash Flows

(Millions)	1997	1996	1995
Cash flows from operating activities:			
Net earnings	$212	$160	$224
Adjustments to reconcile net earnings to net cash from operating activities:			
Depreciation and amortization	158	149	143
Restructuring actions	(24)	(42)	114

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Property, Plant and Equipment. A modified units-of-production method, which is based upon units produced subject to a minimum level, is used to depreciate substantially all engine production equipment. The straight-line depreciation method is used for all other equipment. The estimated depreciable lives range from 20 to 40 years for buildings and 3 to 20 years for machinery, equipment and fixtures.

BROWNING-FERRIS INDUSTRIES, INC. (SEP)

Consolidated Statement of Cash Flows

(In thousands)	1997	1996	1995
Cash Flows From Operating Activities:			
Net income (loss)	$265,214	$(101,331)	$384,561
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization-			
Property and equipment	501,656	521,185	476,384
Goodwill	43,215	47,374	43,519
Other intangible assets	24,799	33,966	31,967

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Property and Equipment

Property and equipment are recorded at cost. Capitalized landfill costs include expenditures for land and related airspace, permitting costs and preparation costs. Landfill permitting and preparation costs represent only direct costs related to these activities, including legal, engineering, construction and the direct costs of Company personnel dedicated for these purposes. Interest is capitalized on landfill permitting and construction projects and other projects under development while the assets are undergoing activities to ready them for their intended use. The interest capitalization rate is based on the Company's weighted average cost of indebtedness. Interest capitalized during fiscal years 1997, 1996 and 1995 was $9,714,000, $16,306,000 and $11,429,000, respectively. Management routinely reviews its investment in operating landfills, transfer stations and other significant facilities to determine whether the costs of these investments are realizable.

Landfill permitting and acquisition costs, excluding the estimated residual value of land, are typically amortized as permitted airspace of the landfill is consumed. For many of the Company's landfills, preparation costs, which include the costs of construction associated with excavation, liners, site berms and the installation of leak detection and leachate collection systems, are also typically amortized as total permitted airspace of the landfill is consumed. In determining the amortization rate for these landfills, preparation costs include the total estimated costs to complete construction of the landfill's permitted capacity. For other landfills, the landfill preparation costs are generally less significant and are amortized as the airspace for the particular benefited phase is consumed. Units-of-production amortization rates are determined annually for each of the Company's operating landfills. The rates are based on estimates provided by the Company's engineers and accounting personnel, and consider the information provided by aerial surveys which are generally performed annually. Depreciation of property and equipment, other than landfills, is provided on the straight-line method based upon the estimated useful lives of the assets, generally estimated as follows: buildings, 20 to 40 years and vehicles and equipment, 3 to 12 years.

Expenditures for major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to expense as incurred. During fiscal 1997, 1996 and 1995, maintenance and repairs charged to expense were $338,553,000, $336,374,000 and $325,658,000, respectively. When property and equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income.

Production-Variable Method

BETHLEHEM STEEL CORPORATION (DEC)

(Dollars in millions)	1997	1996	1995
Net Sales	$4,631.2	$4,679.0	$4,867.5
Costs and Expenses:			
Cost of sales	4,053.3	4,168.2	4,202.8
Depreciation (Note A)	231.0	268.7	284.0
Selling, administration and general expense	107.9	105.5	111.8
Estimated (gain) loss on exiting businesses	(135.0)	465.0	—
Total Costs and Expenses	4,257.2	5,007.4	4,598.6
Income (Loss) from Operations	374.0	(328.4)	268.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Accounting Policies

Depreciation. Depreciation is based upon the estimated useful lives of each asset group. The estimated useful life is 18 years for most steel producing assets. Steel assets, other than blast furnace linings, and most raw material 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 current and preceding four 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 $5 million, $13 million and $16 million more than straight-line in 1997, 1996 and 1995. Through December 31, 1997, $10 million more accumulated depreciation has been recorded under this method than would have been recorded under straight-line depreciation. The cost of blast furnace linings is depreciated on a unit-of-production basis.

WEIRTON STEEL CORPORATION (DEC)

(Dollars in thousands)	1997	1996	1995
Net Sales	$1,397,204	$1,383,301	$1,351,771
Operating Costs:			
Cost of sales	1,258,035	1,282,923	1,180,053
Selling, general and administrative expense	36,308	39,102	34,440
Depreciation	60,855	58,019	54,699
Restructuring charge	17,000	16,959	—
Provision for profit sharing	—	—	24,178
Insurance recoveries	—	—	(41,502)
Total Operating Costs	1,372,198	1,397,003	1,251,868
Income (Loss) From Operations	25,006	(13,702)	99,843

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Significant Accounting Policies

Property, Plant and Equipment

Property, plant and equipment is valued at cost. Major additions are capitalized, while the cost of maintenance and repairs which do not improve or extend the lives of the respective assets is charged to expense in the year incurred. Interest costs applicable to facilities under construction are capitalized. Gains or losses on property dispositions are credited or charged to income.

Depreciation of steelmaking facilities is determined by the production-variable method which adjusts straight-line depreciation to reflect actual production levels. The cost of relining blast furnaces and related equipment is amortized over the estimated production life of the lining. All other assets are depreciated on a straight-line basis.

Depletion

SONOCO PRODUCTS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

6 (In Part): Property, Plant and Equipment

Plant assets represent the original cost of land, buildings and equipment less depreciation computed under the straight-line method over the estimated useful life of the asset. Equipment lives range from 3 to 11 years; buildings from 20 to 30 years.

Timber resources are stated at cost. Depletion is charged to operations based on the number of units of timber cut during the year.

Depreciation and depletion expense amounted to $136,925 in 1997, $125,167 in 1996 and $110,706 in 1995.

Details of property, plant and equipment at December 31 are as follows:

	1997	1996
Land	$ 37,854	$ 33,603
Timber resources	33,328	32,822
Buildings	261,850	304,406
Machinery and equipment	1,310,902	1,326,069
Construction in progress	115,200	155,929
	1,759,134	1,852,829
Accumulated depreciation and depletion	(819,592)	(857,414)
	$ 939,542	$ 995,415

LAFARGE CORPORATION (DEC)

Consolidated Statements of Cash Flows

(In thousands)	1997	1996	1995
Cash Flows from Operations			
Net income	$181,976	$140,866	$129,613
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation, depletion, and amortization	106,304	100,507	94,321
Provision for bad debts	2,365	255	588
Deferred income taxes	9,815	8,491	(25,101)
Gain on sale of assets	(6,038)	(4,085)	(14,585)
Other noncash charges and credits, net	2,512	(156)	(2,918)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting and Financial Reporting Policies (In Part):

Property, Plant and Equipment

Depreciation of property, plant and equipment is computed for financial reporting purposes using the straight-line method over the estimated useful lives of the assets.

These lives range from three years on light mobile equipment to 40 years on certain buildings. Land and mineral deposits include depletable raw material reserves on which depletion is recorded using the units-of-production method.

INCOME TAXES

PRESENTATION OF INCOME TAXES

Statement of Financial Accounting Standards No. 109 is the authoritative pronouncement on accounting for and reporting income tax liabilities and expense. Paragraphs 41-49 of *SFAS NO. 109* set forth standards for financial presentation and disclosure of income tax liabilities and expense.

Table 3-14 summarizes the descriptive captions used by the survey companies to identify income tax expense. Examples of income tax expense presentation and disclosure follow.

TABLE 3-14: FEDERAL INCOME TAX EXPENSE

	1997	1996	1995	1994
Descriptive Terms				
Income taxes	567	564	560	558
Federal income taxes	23	25	29	29
United States (U.S.) income taxes	1	2	3	4
	591	591	592	591
Other or no current year amount	9	9	8	9
Total Companies	**600**	**600**	**600**	**600**

Expense Provision

BROWN & SHARPE MANUFACTURING COMPANY (DEC)

(Dollars in thousands)	1997	1996	1995
Sales	$322,513	$344,877	$328,031
Cost of goods sold	218,842	226,235	212,733
Research and development expense	9,180	9,125	8,996
Selling, general and administrative expense	87,288	92,929	94,902
Restructuring charge	10,847	—	336
Operating (loss) profit	(3,644)	16,588	11,064
Interest expense	6,380	8,280	9,129
Other income, net	1,044	462	688
(Loss) income before income taxes	(8,980)	8,770	2,623
Income tax provision	1,550	965	697
Net (Loss) income	$(10,530)	$ 7,805	$ 1,926

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

1 (In Part): Significant Accounting Policies

Income Taxes

The Company provides for income taxes under the provisions of SFAS No. 109 "Accounting for Income Taxes". SFAS No. 109 requires an asset and liability based approach in accounting for income taxes.

Deferred income tax assets and liabilities are recorded to reflect the tax consequences on future years of temporary differences of revenue and expense items for financial statement and income tax purposes. Valuation allowances are provided against assets which are not likely to be realized. Federal income taxes are not provided on the unremitted earnings of foreign subsidiaries since it has been the practice and is the intention of the Company to continue to reinvest these earnings in the business outside the United States.

4. Income Taxes

(Loss) income before income taxes consisted of the following:

	1997	1996	1995
Domestic	$ 1,757	$(1,323)	$(4,850)
Foreign	(10,737)	10,093	7,473
(Loss) income before income taxes	$ (8,980)	$ 8,770	$ 2,623

The following table reconciles the income tax provision (benefit) at the U.S. statutory rate to that in the financial statements:

	1997	1996	1995
Taxes computed at 34%	$(3,053)	$2,982	$ 892
Goodwill amortization	68	182	158
Additional tax on foreign income	191	676	113
State taxes (net)	123	104	31
Net operating losses and other losses	(1,204)	(3,143)	(636)
Restructuring accrual	5,117	—	—
Other (net)	308	164	139
Income tax provision	$ 1,550	$ 965	$ 697

The income tax provision (benefit) consisted of the following:

	1997	1996	1995
Current:			
Federal	$ 578	$686	$(996)
State	186	157	31
Foreign	(497)	330	1,286
	267	1,173	321
Deferred:			
Federal	960	(495)	996
Foreign	323	287	(620)
	1,283	(208)	376
Income tax provision	$1,550	$965	$ 697

Provision has not been made for U.S. taxes on $47,300 of cumulative undistributed earnings of foreign subsidiaries as those earnings are intended to be permanently reinvested.

The components of the Company's deferred tax assets and liabilities as of December 31, 1997 and 1996 are as follows:

	1997	1996
Deferred tax assets:		
Inventory	$4,463	$7,656
Warranty expense	789	1,103
Provision for doubtful accounts	574	401
Depreciation	817	999
Tax credit and loss carryforwards	36,377	44,531
Other	3,693	4,049
Gross deferred tax assets	46,713	58,739
Less valuation allowance	38,204	48,925
Deferred tax asset	$8,509	$9,814
Deferred tax liabilities:		
Pension expense	$1,920	$1,673
Inventory	1,075	1,276
Depreciation	1,912	2,568
Other	4,329	3,500
Deferred tax liability	$9,236	$9,017

A valuation allowance has been established due to the uncertainty of realizing certain tax credit and loss carryforwards and a portion of the other deferred tax assets.

The valuation allowance has been decreased by $10,721 during 1997 of which $6,600 was attributable to changes in foreign exchange rates and has been recorded in equity as a component of cumulative foreign currency translation adjustments. The recognition of any future tax benefits resulting from the reduction of $8,027 of the valuation allowance will reduce any goodwill related to the DEA acquisition remaining at the time of such reduction.

For income tax purposes, the Company has operating loss and capital loss carryforwards of $2,100 and $1,200, respectively, in the U.K. and net operating loss carryforwards of $9,300, $34,000, $5,600, $3,700, and $22,700, respectively, in Switzerland, Germany, France, Japan, and Italy. The Swiss, French, Japanese, and Italian carryforwards expire between 1998 and 2002. There is no time limit for the U.K. and Germany carryforwards.

During the year, the Internal Revenue Service completed the examination of the Company's domestic income tax returns for the 1993 and 1994 fiscal years. The Company's provision for the assessments which resulted from this examination was adequate.

BROWN GROUP, INC. (JAN)

(Thousands)	1997	1996	1995
Net Sales	$1,567,202	$1,525,052	$1,455,896
Cost of goods sold	988,530	958,288	948,925
Gross profit	578,672	566,764	506,971
Selling and administrative expenses	559,536	521,553	494,098
Interest expense	21,756	19,327	15,969
Other expense (income), net	(452)	(1,341)	1,630
Earnings (Loss) from Continuing Operations Before Income Taxes	(2,168)	27,225	(4,726)
Income tax (provision) benefit	(18,728)	(6,910)	5,423
Earnings (Loss) from Continuing Operations	(20,896)	20,315	697

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes

Provision is made for the tax effects of timing differences between financial and tax reporting. These differences relate principally to depreciation, employee benefit plans, bad debt allowances and inventory.

Note 5: Income Taxes

The components of earnings from continuing operations before income taxes consisted of domestic earnings (loss) before taxes of $14.1 million, $10.7 million, and ($18.6) million in 1997, 1996 and 1995, respectively, and foreign earnings (loss) of ($16.3) million, $16.5 million and $13.9 million in 1997, 1996 and 1995, respectively.

The components of income tax expense (benefit) are as follows (in thousands):

	1997	1996	1995
Federal			
Currently payable	$6,158	$(523)	$(7,220)
Deferred	7,313	2,323	(2,485)
	13,471	1,800	(9,705)
State	614	1,052	(399)
Foreign	4,643	4,058	4,681
Total income tax expense (benefit) on earnings (loss) from continuing operations	18,728	6,910	(5,423)
Tax expense of discontinued operations	—	—	1,400
Total income tax expense (benefit)	$18,728	$6,910	$(4,023)

The Company made net tax payments, including domestic federal, state and foreign taxes, of $4.9 million and $6.8 million in fiscal 1997 and 1996, respectively. In fiscal 1995 the Company received an income tax refund, net of payments, of $4.1 million.

The differences between the tax expense (benefit) from continuing operations reflected in the financial statements and the amounts calculated at the federal statutory income tax rate of 35% are as follows (in thousands):

	1997	1996	1995
Income taxes at statutory rate	$ (759)	$9,529	$(1,654)
State income tax net of federal tax benefit	399	626	(259)
Foreign tax in excess of (less than) domestic rate	574	(1,475)	337
Recovery of tax assessment (A)	—	—	(5,837)
Foreign operating losses with no benefit provided (B)	9,390	—	—
Provision for foreign cash repatriation	8,000	—	—
Valuation of temporary differences	(1,000)	(2,300)	2,700
Other	2,124	530	(710)
	$18,728	$6,910	$(5,423)

(A) Represents tax and interest (net of tax) related to an Internal Revenue Service assessment on a portion of the Company's unremitted foreign earnings. In fiscal 1994, the U.S. Tax Court issued a judgment in favor of the Internal Revenue Service, however, this judgment was reversed by an Appeals Court ruling in fiscal 1995.

(B) Represents foreign operating losses on which no tax benefit will be realized.

Significant components of the Company's deferred income tax assets and liabilities are as follows (in thousands):

	1997	1996
Deferred Tax Assets		
Employee benefits, compensation, and insurance	$8,874	$7,820
Allowance for doubtful accounts	2,899	3,649
Inventory capitalization and inventory allowances	5,183	6,325
Postretirement and postemployment benefit plans	3,980	4,658
Tax credits and loss carryforwards	4,319	10,515
Discontinued operations, restructuring, and store closing accruals	249	1,682
Other	9,882	10,603
Total deferred tax assets	35,386	45,252
Deferred Tax Liabilities		
Excess depreciation	(4,080)	(6,303)
Retirement plans	(12,140)	(12,009)
LIFO inventory valuation	(9,325)	(7,693)
Other	(1,758)	(3,356)
Total deferred tax liabilities	(27,303)	(29,361)
Valuation allowance	—	(1,000)
Net deferred income tax asset	$8,083	$14,891

The Company provided a deferred tax asset valuation allowance of $2.7 million in fiscal 1995, bringing the total valuation balance to $3.3 million. During fiscal 1996, $2.3 million of the valuation allowance was reversed, due to the increased domestic earnings of the Company. The Company reversed the remaining deferred tax asset valuation allowance of $1.0 million in fiscal 1997. Based on management's assessment, it is more likely than not that all the net deferred tax assets will be realized through future taxable earnings or implementation of tax planning strategies.

At January 31, 1998, the Company has net operating loss carryforwards for federal income tax purposes of $2.5 million which are available to offset future federal taxable income through fiscal 2011. Other tax credits primarily represent alternative minimum tax credits which have no expiration and foreign tax credits which have expiration dates from fiscal 1998 through fiscal 2001.

As of January 31, 1998, there are accumulated unremitted earnings from the Company's Canadian subsidiary and other foreign subsidiaries on which deferred taxes have not been provided as the undistributed earnings of foreign subsidiaries are indefinitely reinvested. Based on the current United States and Canadian income tax rates, it is anticipated that no additional United States tax would be incurred if the accumulated Canadian earnings were distributed. In the event that the other foreign entities' earnings were distributed, it is estimated that U.S. taxes, net of foreign tax credits, of approximately $16.4 million, after considering the $8.0 million tax provided for cash repatriations expected in fiscal 1998, would be due.

FANSTEEL INC. (DEC)

	1997	1996	1995
Net Sales	$140,194,075	$120,833,831	$102,397,754
Costs and Expenses			
Cost of products sold	118,677,180	99,990,541	84,951,756
Selling, general and administrative	16,508,472	14,500,746	13,210,850
Environmental remediation	6,900,000	—	—
	142,085,652	114,491,287	98,162,606
Operating Income (Loss)	(1,891,577)	6,342,544	4,435,148
Other Income (Expense)			
Interest income on investments	681,157	864,569	1,229,317
Interest expense	(88,780)	(34,409)	(15,577)
Other	(331,397)	(119,276)	(134,957)
	260,980	710,884	1,078,783
Income (Loss) from Continuing Operations Before Income Taxes	(1,630,597)	7,053,428	5,513,931
Income Tax Provision	877,000	2,776,000	2,181,000
Income (Loss) from Continuing Operations	(2,507,597)	4,277,428	3,332,931

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Income tax expense is based on reported earnings before income taxes. Deferred income taxes reflect the temporary difference between assets and liabilities recognized for financial reporting and such amounts recognized for tax purposes which requires recognition of deferred tax liabilities and assets. Deferred tax liabilities and assets are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recognized if it is anticipated that some or all of a deferred tax asset may not be realized.

6. Income Taxes

Deferred income taxes reflect the tax effect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes.

Valuation allowances were established in 1997 in accordance with provisions of FASB Statement No. 109, "Accounting for Income Taxes". The valuation allowances are attributable to federal and state deferred tax assets.

Significant components of the Company's deferred tax assets and liabilities at December 31, 1997 and 1996 are as follows:

	1997	1996
Deferred tax assets - current:		
Plant shutdown, idle facilities and environmental costs	$ 431,677	$ 154,516
Self-insurance accruals	781,246	648,718
Vacation accruals	371,767	395,352
State income taxes	350,780	291,582
Other	343,692	191,430
	$ 2,279,162	$ 1,681,398
Deferred tax assets (liabilities) - non-current:		
Plant shutdown, idle facilities and environmental costs	$ 4,536,752	$ 438,344
Pension credits	(2,374,928)	(2.414,493)
Tax depreciation in excess of book depreciation	(388,444)	(131,046)
Other	102,264	32,384
	1,875,544	(2,074,811)
State income tax net operating loss carryforwards net of valuation allowance	81,091	520,633
State income taxes	169,145	(490,356)
	250,236	30,277
Valuation Allowance	(2,482,000)	—
	$ (356,220)	$(2,044,534)

At December 31, 1997 and 1996, the Company had potential state income tax benefits of $703,000 and $926,000, respectively, from net operating loss carryforwards that expire in various years through 2011. For financial reporting purposes, valuation allowances of $622,000 and $405,000 at December 31, 1997 and 1996, respectively, were recognized for net operating loss carryforwards not anticipated to be realized before expiration. State income tax benefits of $255,000 expired unused after returns were filed for the year ended December 31, 1996, which were offset by $223,000 of valuation allowance.

Details of the provision (benefit) for income taxes in the consolidated statements of operations are as follows:

	1997	1996	1995
Current taxes			
Federal	$1,378,000	$1,767,000	$908,000
State and other	541,000	341,000	385,000
	1,919,000	2,108,000	1,293,000
Deferred income tax charge (credit)			
Federal	(4,489,000)	524,000	856,000
State	(753,000)	144,000	32,000
Valuation allowances	2,956,000	—	—
	(2,286,000)	668,000	888,000
Total	$(367,000)	$2,776,000	$2,181,000
Allocated to discontinued operations	(1,244,000)	—	—
Continuing Operations	$877,000	$2,776,000	$2,181,000

The deferred income tax credit in 1997 resulted primarily from provisions for environmental costs accrued for continuing and discontinued operations reduced by the valuation allowances established in 1997.

The deferred tax credit in 1996 resulted primarily from payments for certain plant shutdown, idle facilities and environmental costs accrued in prior years and from the net effect of timing of the deduction of certain employee fringe benefits.

The deferred income tax charge in 1995 results primarily from payments for certain plant shutdown, idle facilities and environmental costs accrued in prior years.

A reconciliation of the total provision for income taxes with amounts determined by applying the statutory U.S. federal income tax rate to income before income tax provision is as follows:

	1997	1996	1995
Income tax provision at statutory rate	$(2,968,000)	$2,398,000	$1,875,000
Add:			
State income taxes, net of federal income tax provision	(395,000)	320,000	275,000
Change in valuation allowances	2,956,000	—	—
Other, net	40,000	58,000	31,000
Total income tax provision	$(367,000)	$2,776,000	$2,181,000

Income taxes paid for each of the three years in the period ended December 31, 1997 amounted to $2,161,000, $2,189,000 and $1,147,000, respectively. Income tax refunds received during the three years in the period ended December 31, 1997 amounted to $262,000, $30,000 and $427,000, respectively.

FOSTER WHEELER CORPORATION (DEC)

(In thousands of dollars)	1997	1996	1995
Revenues:			
Operating revenues	$4,059,965	$4,005,503	$3,042,177
Other income (including interest: 1997—$21,669; 1996—$21,714; 1995—$23,404)	112,050	35,108	39,753
Total Revenues	4,172,015	4,040,611	3,081,930
Costs and Expenses:			
Cost of operating revenues	3,816,748	3,510,970	2,642,290
Selling, general and administrative expenses	268,026	296,921	250,369
Other deductions (including interest: 1997—$54,675; 1996—$54,940; 1995—$49,011)	89,544	76,678	64,998
Provision for special charges	—	24,000	50,120
Minority interest	2,931	5,176	4,490
Total Costs and Expenses	4,177,249	3,913,745	3,012,267
(Loss)/earnings before income taxes	(5,234)	126,866	69,663
Provision for income taxes	5,229	44,626	41,129
Net (loss)/earnings	$(10,463)	$82,240	$28,534

NOTES TO FINANCIAL STATEMENTS
(In thousands of dollars)

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

Deferred income taxes are provided on a liability method whereby deferred tax assets are established for the difference between the financial reporting and income tax basis of assets and liabilities as well as operating loss and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Investment tax credits are accounted for by the flow-through method whereby they reduce income taxes currently payable and the provision for income taxes in the period the assets giving rise to such credits are placed in service. To the extent such credits are not currently utilized on the Corporation's tax return, deferred tax assets, subject to considerations about the need for a valuation allowance, are recognized for the carryforward amount.

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 $273,000 at December 26, 1997. It is not prac-

ticable to estimate the additional tax that would be incurred, if any, if these amounts were repatriated.

10. Income Taxes

The components of (loss)/earnings before income taxes for the years 1997, 1996 and 1995 were taxed under the following jurisdictions:

	1997	1996	1995
Domestic	$(91,188)	$(11,261)	$2,775
Foreign	85,954	138,127	66,888
Total	$(5,234)	$126,866	$69,663
The provision for income taxes on those earnings was as follows:			
Current tax (benefit)/expense:			
Domestic	$(12,183)	$6,002	$6,306
Foreign	40,049	31,197	17,883
Total current	27,876	37,199	24,189
Deferred tax (benefit)/expense:			
Domestic	(18,162)	(5,434)	5,508
Foreign	(4,485)	12,861	11,432
Total deferred	(22,647)	7,427	16,940
Total provision for income taxes	$5,229	$44,626	$41,129

Deferred tax liabilities (assets) consist of the following:

	1997	1996
Difference between book and tax depreciation	$89,562	$90,995
Pension assets	36,092	36,024
Capital lease transactions	11,899	12,201
Revenue recognition	24,546	19,994
Other	2,023	6,416
Gross deferred tax liabilities	164,122	165,630
Current taxability of estimated costs to complete long-term contracts	(7,331)	(9,061)
Income currently taxable deferred for financial reporting	(6,291)	(6,697)
Expenses not currently deductible for tax purposes	(60,969)	(37,104)
Investment tax credit carryforwards	(30,251)	(30,251)
Postretirement benefits other than pensions	(64,707)	(64,900)
Asbestos claims	(6,370)	(8,400)
Minimum tax credits	(9,822)	(6,832)
Foreign tax credits	(21,400)	(21,400)
Other	(1,809)	(3,166)
Valuation allowance	20,000	20,000
Net deferred tax assets	(188,950)	(167,811)
	$(24,828)	$(2,181)

The domestic investment tax credit carryforwards, if not used, will expire in the years 2002 through 2007. Foreign tax credit carryforwards are recognized based on their potential utilization and, if not used, will expire in the years 1998 through 2002. The Corporation has significant foreign tax credit carryforwards for which deferred tax assets have not been recorded since their utilization is deemed remote. As reflected above, the Corporation has recorded various deferred tax assets. Realization is dependent on generating sufficient taxable income prior to the expiration of the various credits. Management believes that it is more likely than not that all of the deferred tax assets (after consideration of the valuation allowance) will be realized through future earnings and/or tax planning strategies. The amount of the deferred tax assets considered realizable, however, could change in the near future if estimates of future taxable income during the carryforward period are changed.

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory rate to earnings before income taxes, as a result of the following:

	1997	1996	1995
Tax (benefit)/provision at U.S. statutory rate	(35.0%)	35.0%	35.0%
State income taxes, net of Federal income tax benefit	36.9	2.0	4.4
Increase in valuation allowance	—	—	20.8
Difference in estimated income taxes on foreign income and losses, net of previously provided amounts	104.9	—	—
Other	(6.9)	(1.8)	(1.2)
	99.9%	35.2%	59.0%

SOUTHDOWN, INC. (DEC)

(In millions)	1997	1996	1995
Revenues	$719.2	$664.4	$596.1
Costs and expenses:			
Operating	460.6	442.4	408.3
Depreciation, depletion and amortization	45.9	42.4	40.3
Selling and marketing	17.2	16.0	15.0
General and administrative	38.0	34.8	34.6
Other income, net	(9.7)	(4.9)	(5.4)
	552.0	530.7	492.8
Minority interest in earnings of consolidated joint venture	7.5	6.2	5.8
	559.5	536.9	498.6
Earnings before interest, income taxes and extraordinary charge	159.7	127.5	97.5
Interest, net of amounts capitalized	(14.0)	(19.8)	(26.7)
Earnings before income taxes and extraordinary charge	145.7	107.7	70.8
Federal and state income tax expense (Note 12)	(49.0)	(36.5)	(23.3)
Earnings before extraordinary charge	96.7	71.2	47.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Income Taxes. In computing its federal and state income tax liabilities, the Company uses accelerated depreciation and deducts currently certain expenditures that are capitalized for financial reporting purposes. Deferred income taxes are provided on these and other temporary differences between the tax bases of assets and liabilities and their bases for financial statement purposes. Investment tax credit carryforwards are accounted for under the flow-through method and, accordingly, reduce federal income taxes in the years in which their utilization is assured. (See also Note 12 of Notes to Consolidated Financial Statements).

12. Income Taxes

The following table provides a breakdown of the current and deferred components of the provisions for federal and state income taxes attributable to the earnings before income taxes and extraordinary charge.

(Years ended December 31, in millions)	1997	1996	1995
Federal income tax expense:			
Current	$30.9	$25.3	$6.9
Deferred	12.8	8.7	14.5
State income tax expense:			
Current	4.8	2.0	0.9
Deferred	0.5	0.5	1.0
	$49.0	$36.5	$23.3

The tax benefit allocated to the 1996 extraordinary charge was $6.2 million.

A reconciliation between the income tax expense recognized in the Company's Statement of Consolidated Earnings and the income tax expense computed by applying the statutory federal income tax rate to the earnings before income taxes and extraordinary charge follows:

(Years ended December 31, in millions)	1997		1996		1995	
	Amount	Percent	Amount	Percent	Amount	Percent
Earnings before income taxes and extraordinary charge	$145.7		$107.7		$70.8	
Income tax expense computed at statutory rate	$51.0	35.0%	$37.7	35.0%	$24.8	35.0%
Benefit of statutory depletion	(5.5)	(3.8)	(4.2)	(3.9)	(4.0)	(5.6)
Effect of non-deductible goodwill	0.7	0.5	0.8	0.7	0.7	1.0
Effect of state income tax expense	3.4	2.4	1.6	1.5	1.3	1.8
Other	(0.6)	(0.5)	0.6	0.6	0.5	0.7
	$49.0	33.6%	$36.5	33.9%	$23.3	32.9%

The provision for deferred income taxes represents the change in the Company's deferred income tax liability during each year, including the effect of any enacted tax rate changes. A deferred income tax liability or asset is recognized for the net effect of (i) temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements after applying enacted statutory tax rates and laws in effect for the year in which the differences are expected to reverse and, in certain instances, (ii) the deferred tax effects of tax net operating loss and tax credit carryforwards.

Significant components of the Company's net deferred tax liability as of December 31, 1997 and 1996 were as follows:

(December 31, in millions)	1997	1996
Deferred tax liabilities:		
Differences between book and tax bases of property, plant and equipment	$155.5	$151.1
Assets of overfunded pension plan	12.7	10.9
Other	8.9	11.4
	177.1	173.4
Deferred tax assets:		
Postretirement benefit obligation	27.8	28.6
Reserves not currently deductible	10.1	11.6
Deferred state income taxes	5.0	3.7
Tax credit carryforwards	—	1.9
AMT credit carryforwards	6.5	15.0
Other	—	0.2
	49.4	61.0
Valuation allowance	—	(2.0)
	49.4	59.0
Net deferred tax liability	$127.7	$114.4

The valuation allowance has been reduced by $2 million during 1997 because of the anticipated use on the 1997 federal income tax return of investment tax credits acquired in prior business combinations and for which no tax benefit was recognized at the time of acquisition. Goodwill related to the acquisition of these investment tax credit carryforwards has been reduced by a corresponding $2 million.

The consolidated federal income tax returns of the Company for 1993 through 1995 and various state income tax returns are currently under examination. In the opinion of management, adequate provision has been made at December 31, 1997 for income taxes that might be due as a result of these audits and any resulting assessments will have no material effect on the Company's consolidated earnings.

Credit Provision

FERRO CORPORATION (DEC)

(Dollars in thousands)	1997	1996	1995
Net sales	$1,381,280	1,355,685	1,322,954
Cost of sales	1,028,069	1,023,401	1,003,638
Selling, administrative and general expense	233,674	226,518	223,101
Realignment charge	152,790	—	—
Other charges (income):			
Interest expense	12,163	13,031	15,226
Interest earned	(2,286)	(2,528)	(5,509)
Foreign currency transactions	(2,246)	(812)	160
Miscellaneous - net	7,586	7,868	6,179
	15,217	17,559	16,056
Income (loss) before taxes	(48,470)	88,207	80,159
Income tax expense (benefit)	(11,193)	33,621	30,905
Net income (loss)	(37,277)	54,586	(49,254)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

Income taxes have been provided using the liability method under Statement of Financial Accounting Standards No. 109.

12. Income Tax Expense

Income tax expense (benefit) is comprised of the following components:

(Dollars in thousands)	1997	1996	1995
Current:			
U.S. federal	$ 21,958	18,641	15,173
Foreign	14,354	12,968	12,063
State and local	3,758	3,345	2,845
	40,070	34,954	30,081
Deferred:			
U.S. federal	(25,173)	(588)	(278)
Foreign	(21,908)	(663)	1,613
State and local	(4,182)	(82)	(511)
	(51,263)	(1,333)	824
Total income tax	$(11,193)	33,621	30,905

In addition to the 1997 income tax benefit of $11.2 million, certain tax benefits of $1.8 million were allocated directly to shareholders' equity.

The above tax benefits are based upon earnings before income taxes and after a $152.8 million pre-tax charge. These earnings (losses) aggregated $(14.5) million, $53.7 million and $44.4 million for domestic operations and $(34.0) million, $34.5 million and $35.7 million for foreign operations in 1997, 1996 and 1995, respectively.

A reconciliation of the statutory federal income tax rate and the effective tax rate follows:

	1997	1996	1995
Statutory federal income tax rate	(35.0)%	35.0	35.0
Realignment charge	7.2	—	—
Foreign tax rate difference	1.6	0.4	1.9
U.S. taxes on dividends from subsidiaries	1.4	0.9	0.8
State and local taxes net of federal income tax	3.9	2.4	1.9
Miscellaneous	(2.2)	(0.6)	(1.0)
Effective tax rate	(23.1)%	38.1	38.6

The components of deferred tax assets and liabilities at December 31 were:

(Dollars in thousands)	1997	1996
Deferred tax assets:		
Realignment	$31,865	—
Pension and other benefit programs	25,466	22,915
Restructuring	643	2,238
Accrued liabilities	6,577	6,488
Net operating loss carryforwards	8,628	9,858
Inventories	4,342	3,412
Other	9,474	8,930
Total deferred tax assets:	$86,995	53,841
Deferred tax liabilities:		
Property and equipment - depreciation and amortization	11,143	29,107
Other	111	1,486
Total deferred tax liabilities	11,254	30,593
Net deferred tax asset before valuation allowance	75,741	23,248
Valuation allowance	(8,678)	(5,008)
Net deferred tax asset	$67,063	18,240

At December 31, 1997, the Company's foreign subsidiaries had deferred tax assets relating to net operating loss carryforwards for income tax purposes of $8.6 million that expire in years 1998 through 2002, and in three instances have no expiration period. For financial reporting purposes, a valuation allowance of $2.5 million has been recognized to offset the deferred tax assets relating to the net operating loss carryforwards.

In connection with the second quarter realignment charge, a valuation allowance in the amount of $5.5 million has been recognized to offset the deferred tax assets relating to the realignment charge.

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately $99.2 million. Deferred income taxes are not provided on these earnings as it is intended that the majority of these earnings are indefinitely invested in these entities.

GENCORP INC. (NOV)

(Dollars in millions)	1997	1996	1995
Net Sales	$1,568	$1,515	$1,772
Cost and Expenses			
Cost of products sold	1,243	1,200	1,430
Selling, general and administrative	147	143	174
Depreciation	56	58	70
Interest expense	16	27	34
Other (income) expense, net	(12)	3	(5)
Unusual items	—	42	5
	1,450	1,473	1,708
Income Before Income Taxes	118	42	64
Income tax (benefit) provision (Note F)	(19)	—	26
Net Income	$137	$42	$38

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes. Deferred income taxes are provided for temporary differences between the carrying amount of assets and liabilities for financial reporting and income tax purposes.

Note F. Income Taxes

Income Tax (Benefit) Provision (Dollars in millions)	Years ended November 30 1997	1996	1995
Current			
U.S. federal	$(45)	$18	$4
State and local	6	5	(2)
Foreign	7	7	9
	(32)	30	11
Deferred			
U.S. federal	12	(26)	13
State and local	1	(4)	5
Foreign	—	—	(3)
	13	(30)	15
Income Tax (Benefit) Provision	$(19)	$—	$26

Effective Income Tax Rate	Years ended November 30 1997	1996	1995
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal income tax benefit	3.8	1.5	3.0
Tax settlements, including interest	(57.0)	(39.0)	—
Earnings of subsidiaries taxed at other than U.S. statutory rate	.1	1.2	.3
Adjustment to estimated income tax accruals	1.1	—	.3
Other, net	.5	1.3	1.4
Effective Income Tax Rate	(16.5)%	—%	40.0%

The Company reduced its 1997 and 1996 income tax expense by $67 million and $16 million, respectively, due to the receipt of federal income tax settlements for tax credits, timing of deductions and related interest.

Deferred Taxes (Dollars in millions)	At November 30 1997 Assets	1997 Liabilities	1996 Assets	1996 Liabilities
Accrued estimated costs	$97	$—	$101	$—
Long-term contract method	7	—	9	—
Depreciation	—	26	—	28
Pension	—	42	—	37
NOLs and tax credit carryforwards	8	—	7	—
Other postretirement/ employee benefits	151	—	156	—
Deferred Taxes	$263	$68	$273	$65

The consolidated balance sheets reflect deferred income taxes of $44 million and $52 million in prepaid expenses and other at November 30, 1997 and 1996, respectively. Included in other long-term assets for 1997 and 1996 are deferred income taxes of $151 million and $156 million, respectively. The majority of net operating losses (NOLs) and tax credit carryforwards have an indefinite carryforward period with the remaining portion expiring in years through 2007. Pretax income of foreign subsidiaries was $21 million in 1997, $18 million in 1996 and $17 million in 1995. Cash paid during the year for income taxes was $70 million in 1997, $29 million in 1996 and $28 million in 1995.

LAM RESEARCH CORPORATION (JUN)

(In thousands)	1997	1996	1995
Net sales	$989,742	$1,254,070	$798,209
Royalty income	12,662	22,814	12,348
Total revenue	1,002,404	1,276,884	810,557
Costs and expenses:			
Cost of goods sold	689,459	663,181	418,818
Research and development	170,624	173,013	127,840
Selling, general and administrative	197,089	227,755	145,507
Restructuring charge	9,021	—	—
	1,066,193	1,063,949	692,165
Operating income (loss)	(63,789)	212,935	118,392
Other (income) expense:			
Interest income	(4,257)	(5,442)	(5,138)
Interest expense	5,110	7,887	6,732
Other, net	636	1,453	(10,646)
	1,489	3,898	(9,052)
Income (loss) before income taxes	(65,278)	209,037	127,444
Income tax expense (benefit)	(31,644)	67,946	38,233
Net income (loss)	$(33,634)	$141,091	$89,211

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note N: Income Taxes

Income tax expense (benefit) consists of the following:

(In thousands)	1997	1996	1995
Federal:			
Current	$(21,871)	$61,950	$36,093
Deferred	(14,926)	(18,397)	(10,247)
	(36,797)	43,553	25,846
State:			
Current	2,225	6,746	6,131
Deferred	(9,511)	(1,572)	(2,282)
	(7,286)	5,174	3,849
Foreign:			
Current	12,439	20,769	8,538
Deferred	—	(1,550)	—
	12,439	19,219	8,538
	$(31,644)	$67,946	$38,233

Actual current tax benefits are higher than reflected above for fiscal 1997 by $1,039,000 and actual current tax liabilities are lower than tax expenses reflected above for fiscal years 1996 and 1995 by $1,719,000 and $7,128,000, respectively, for the stock option deduction benefits recorded as a credit to stockholders' equity.

Under FAS No. 109, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred tax assets as of June 30, are as follows:

(In thousands)	1997	1996
Deferred tax assets:		
Accounting accruals deductible in different periods	$42,163	$24,745
Inventory valuation differences	24,635	21,696
Tax credit carryforward	15,189	—
Net undistributed profits of foreign subsidiaries	3,805	6,753
Other	—	446
Total deferred tax assets	85,792	53,640
Deferred tax liabilities:		
Temporary differences for capital assets	(8,534)	—
Other	(1,236)	(2,055)
Total deferred tax liabilities	(9,770)	(2,055)
	$76,022	$51,585

A reconciliation of income tax expense provided at the federal statutory rate (35% in 1997, 1996 and 1995) to income tax expense follows:

(In thousands)	1997	1996	1995
Income tax expense computed at federal statutory rate	—	$73,163	$44,605
Net operating loss benefit	$(22,847)	—	—
Tax credits	(5,159)	—	(2,800)
State income taxes, net of federal tax benefits (provision)	(4,736)	3,363	2,502
Foreign sales corporation tax benefits	—	(9,074)	(5,250)
Other	1,098	494	(824)
	$(31,644)	$67,946	$38,233

Income before income taxes from foreign operations for fiscal years 1997, 1996 and 1995 was $31,621,000, $42,216,000, and $17,830,000, respectively. In addition, the Company received royalty and other income from foreign sources of $12,662,000, $22,814,000 and $12,227,000, in fiscal years 1997, 1996 and 1995, respectively, which is subject to foreign tax withholding.

No Provision

ALPHA INDUSTRIES, INC. (MAR)

(In thousands)	1997	1996	1995
Sales	$85,253	$96,894	$78,254
Cost of sales	68,519	65,986	54,376
Research and development expenses	9,545	9,148	4,154
Selling and administrative expenses	20,441	17,226	15,727
Repositioning expenses (credit)	2,074	(320)	—
	100,579	92,040	74,257
Operating income (loss)	(15,326)	4,854	3,997
Other income (expense)			
Interest expense	(554)	(743)	(728)
Interest income	415	372	57
Other (expense) income, net	(107)	(20)	23
	(246)	(391)	(648)
Income (loss) before income taxes	(15,572)	4,463	3,349
Provision for income taxes (Note 6)	—	669	502
Net income (loss)	$(15,572)	$3,794	$2,847

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes:
The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. This method also requires the recognition of future tax benefits such as net operating loss carryforwards, to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Note 6. Income Taxes

Income (loss) before income taxes consisted of (in thousands):

	1997	1996	1995
Domestic	$(13,520)	$3,553	$2,723
Foreign	(2,052)	910	626
	$(15,572)	$4,463	$3,349

The provision for income taxes consisted of (in thousands):

	1997	1996	1995
Current income taxes			
Federal	$—	$ 69	$ 75
State	(119)	108	217
Foreign	119	492	210
	$—	$669	$502

The provision for income taxes is different from that which would be obtained by applying the statutory Federal income tax rate to income (loss) before income taxes. The items causing this difference are as follows (in thousands):

	1997	1996	1995
Tax expense (benefit) at U.S. statutory rate	$(5,294)	$1,517	$1,139
State income taxes, net of Federal benefit	79	71	143
Change in valuation allowance	5,189	(882)	(763)
Other net	26	(37)	(17)
	$ —	$ 669	$ 502

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 30, 1997 and March 31, 1996 are as follows (in thousands):

	1997	1996
Deferred tax assets:		
Accounts receivable due to bad debts	$ 195	$ 234
Inventories capitalization	1,417	729
Accrued liabilities	1,584	575
Deferred compensation	102	177
Other	7	6
Net operating loss carryforward	13,109	9,276
Charitable contribution carryforward	37	32
Minimum tax credits and state tax credit carryforwards	555	415
Total gross deferred tax assets	17,006	11,443
Less valuation allowance	(13,503)	(8,314)
Net deferred tax assets	3,503	3,129
Deferred tax liabilities:		
Property, plant and equipment due to depreciation	(3,503)	(3,129)
Total gross deferred tax liability	(3,503)	(3,129)
Net deferred tax	$ —	$ —

The valuation allowance for deferred tax assets as of March 30, 1997 and March 31, 1996 was $13,503,000 and $8,314,000, respectively. The net change in the total valuation allowance for the years ended March 30, 1997 and March 31, 1996 was an increase of $5,189,000 and a decrease of $882,000, respectively.

Cash payments for income taxes were $149,000, $241,000 and $157,000 in fiscal 1997, 1996 and 1995, respectively. As of March 30, 1997, the Company has available for income tax purposes approximately $36,000,000 in federal net operating loss carryforwards which may be used to offset future taxable income. These loss carryforwards begin to expire in fiscal year 2004. Should the Company undergo an ownership change as defined in Section 382 of the Internal Revenue Code, the Comnpany's tax net operating loss carryforwards generated prior to the ownership change will be subject to an annual limitation which could reduce or defer the utilization of these losses. The Company also has minimum tax credit carryforwards of approximately $25,000 which are available to reduce future federal regular income taxes, if any, over an indefinite period. In addition, the Company has state tax credit carryforwards of $530,000 of which $218,000 is available to reduce state income taxes over an indefinite period.

The Company has not recognized a deferred tax liability of approximately $148,000 for the undistributed earnings of its 100 percent owned foreign subsidiaries that arose in 1997 and prior years because the Company currently does not expect those unremitted earnings to reverse and become taxable to the Company in the forseeable future. A deferred tax liability will be recognized when the Company expects that it will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. As of March 30, 1997, the undistributed earnings of these subsidiaries were approximately $436,000.

APPLE COMPUTER, INC. (SEP)

(Dollars in millions)	1997	1996	1995
Net sales	$7,081	$9,833	$11,062
Costs and expenses:			
Cost of sales	5,713	8,865	8,204
Research and development	485	604	614
Selling, general and administrative	1,286	1,568	1,583
Special charges:			
In-process research and development	375	—	—
Restructuring costs	217	179	(23)
Termination of license agreement	75	—	—
	8,151	11,216	10,378
Operating income (loss)	(1,070)	(1,383)	684
Interest and other income (expense), net	25	88	(10)
Income (loss) before provision (benefit) for income taxes	(1,045)	(1,295)	674
Provision (benefit) for income taxes	—	(479)	250
Net income (loss)	$(1,045)	$ (816)	$ 424

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes

The provision (benefit) for income taxes consists of the following:

(In millions)	1997	1996	1995
Federal:			
Current	$—	$(125)	$26
Deferred	—	(279)	113
	—	(404)	139
State:			
Current	—	(2)	1
Deferred	—	(71)	15
	—	(73)	16
Foreign:			
Current	—	(1)	89
Deferred	—	(1)	6
	—	(2)	95
Provision (benefit) for income taxes	$—	$(479)	$250

The foreign provision (benefit) for income taxes is based on foreign pretax earnings (loss) of approximately $(265) million, $(141) million, and $572 million in 1997, 1996, and 1995, respectively. A substantial portion of the Company's cash, cash equivalents, and short-term investments is held by foreign subsidiaries and is generally based in U.S. dollar-denominated holdings. Amounts held by foreign subsidiaries would be subject to U.S. income taxation on repatriation to the United States. The Company's consolidated financial statements fully provide for any related tax liability on amounts that may be repatriated, aside from undistributed earnings of certain of the Company's foreign subsidiaries that are intended to be indefinitely reinvested in operations outside the United States. U.S. income taxes have not been provided on a cumulative total of $395 million of such earnings. It is not practicable to determine the income tax liability that might be incurred if these earnings were to be distributed. Except for such indefinitely reinvested earnings, the Company provides for federal and state income taxes currently on undistributed earnings of foreign subsidiaries.

Deferred tax assets and liabilities reflect the future income tax effects of temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates that apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

As of September 26, 1997, and September 27, 1996, the significant components of the Company's deferred tax assets and liabilities were:

(In millions)	1997	1996
Deferred tax assets:		
Accounts receivable and inventory	$151	$105
Accrued liabilities	126	139
Basis of capital assets and investments	103	82
Tax losses and credits	315	175
Total deferred tax assets	695	501
Less: Valuation allowance	218	14
Net deferred tax assets	477	487
Deferred tax liabilities:		
Unremitted earnings of subsidiaries	410	467
Other	7	11
Total deferred tax liabilities	417	478
Net deferred tax asset	$ 60	$ 9

The increase in net deferred tax assets of $51 million in 1997 is primarily the result of reclassifying certain benefits of tax losses and credits from other current assets to deferred tax assets in the consolidated balance sheet.

As of September 26, 1997, the Company had operating loss carryforwards for tax purposes of approximately $451 million, which expire principally in 2011 and 2012. Most of the remaining benefits from tax losses and credits do not expire.

The net change in the total valuation allowance in 1997 was an increase of $204 million, which is net of a $4 million adjustment related to the acquisition of NeXT.

A reconciliation of the provision (benefit) for income taxes, with the amount computed by applying the statutory federal income tax rate (35% in 1997, 1996, and 1995) to income (loss) before provision (benefit) for income taxes, is as follows:

(In millions)	1997	1996	1995
Computed expected tax (benefit)	$(366)	$(453)	$236
State taxes, net of federal effect	(3)	(48)	10
Research and development tax credit	—	—	(1)
Indefinitely invested earnings of foreign subsidiaries	—	—	(21)
Purchase accounting and asset acquisitions	158	—	—
Valuation allowance	208	—	3
Other individually immaterial items	3	22	23
Provision (benefit) for income taxes	$ —	$(479)	$250
Effective tax rate	0%	37%	37%

The Internal Revenue Service ("IRS") has proposed federal income tax deficiencies for the years 1984 through 1991, and the Company has made certain prepayments thereon. The Company contested the proposed deficiencies by filing petitions with the United States Tax Court, and most of the issues in dispute have now been resolved. On June 30, 1997, the IRS proposed income tax adjustments for the years 1992 through 1994. Although a substantial number of issues for these years have been resolved, certain issues still remain in dispute and are being contested by the Company. Management believes that adequate provision has been made for any adjustments that may result from tax examinations.

GTI CORPORATION (DEC)

(In thousands)	1997	1996	1995
Sales	$82,591	$92,533	$114,836
Cost of sales	63,164	75,350	82,729
Gross profit	19,427	17,183	32,107
Operating expenses	21,742	25,722	25,382
Operating profit (loss)	(2,315)	(8,539)	6,725
Other (income) expense, net			
Loss on sale of securities	499	—	—
Interest (income)	(308)	(91)	(93)
Interest expense	537	319	342
Other (income) expenses	90	(66)	(220)
Income (loss) from continuing operations before income taxes and minority interest	(3,133)	(8,701)	6,696
Provision (benefit) for income taxes	—	(1,050)	506
Minority interest in earnings of subsidiaries	—	—	66
Income (loss) from continuing operations	(3,133)	(7,651)	6,124

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes. The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." This statement requires an asset and liability approach to account for income taxes. The Company provides deferred income taxes for temporary differences that will result in taxable or deductible amounts in future years based on the reporting of certain costs in different periods for financial statement and income tax purposes.

Note 6: Income Taxes

The components of the provision (benefit) for income taxes for the years ended December 31 are as follows:

	1997	1996	1995
Federal - current	$ —	$(2,988)	$(358)
- deferred	1,998	1,264	(762)
Foreign - current	(1,998)	2,031	1,714
- deferred	—	(1,156)	71
State and local	—	(201)	(159)
	$ —	$(1,050)	$ 506

The components of the income tax provision (benefit) were based on the following sources of pre-tax income (loss):

	1997	1996	1995
Total United States	$(9,129)	$(13,341)	$(2,289)
Total Foreign	5,996	4,640	8,985
	$(3,133)	$ (8,701)	$ 6,696

The components of the net deferred income tax asset were as follows:

	1997	1996
Accelerated depreciation	$ 30	$ 51
Compensation	99	532
Reserves	745	674
NOL, capital loss, AMT credit carryovers	5,261	866
Miscellaneous accrued expenses	121	—
Other	423	90
Valuation allowance - capital loss	(643)	(651)
	$6,036	$1,562

The components of the net deferred income tax liabilities were as follows:

	1997	1996
Accelerated depreciation of foreign assets	$ —	$—
Earnings not permanently reinvested	6,472	—
	$6,472	$—

A reconciliation from the Federal income tax provision at the statutory rate to the effective rate is as follows:

	1997	1996	1995
Statutory Federal tax on income before income taxes	$(1,065)	$(2,958)	$1,719
Effect of foreign losses with no tax benefit	—	—	—
State income taxes, net of federal benefit	—	(201)	(191)
Differences between U.S. and foreign tax rates	—	986	(1,050)
Foreign tax refund	(1,998)	—	—
Earnings not permanently reinvested	4,675	—	—
Non-deductible expenses	258	748	28
Benefit of NOL carryforward	(1,870)	—	—
Other	—	375	—
	$ —	$(1,050)	$ 506

Income tax provision is not recorded for U.S. Federal income taxes on a portion of the undistributed earnings of foreign subsidiaries as such earnings are intended to be permanently reinvested in those operations. Such earnings would become taxable upon the sale or liquidation of these foreign subsidiaries or upon the remittance of dividends. Accumulated undistributed earnings of foreign subsidiaries on which U.S. taxes have not been provided are approximately $37,300, which would result in a related tax liability of $9,300, net of estimated foreign tax credits of $6,700, if such earnings were repatriated.

OPERATING LOSS AND TAX CREDIT CARRYFORWARDS

Paragraph 48 of *Statement of Financial Accounting Standards No. 109* states that amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes should be disclosed. Examples of operating loss and tax credit carryforward disclosures follow.

IMC GLOBAL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

17. Income Taxes

Two of the Company's three potash operations that are subject to Canadian taxes, Kalium Canada and Central Canada Potash, are included in the consolidated United States federal income tax return filed by the Company.

Deferred income taxes reflect the net tax effects of temporary differences between the amounts of assets and liabilities for accounting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax liabilities and assets as of December 31 were as follows:

	1997	1996
Deferred tax liabilities		
Property, plant and equipment	$433.4	$446.5
Other liabilities	114.8	63.9
Total deferred tax liabilities	548.2	510.4
Deferred tax assets		
Alternative minimum tax credit carryforwards	124.4	76.2
Postretirement and postemployment benefits	43.1	42.1
Foreign tax credit carryforward	30.6	36.0
Sterlington litigation settlement	22.4	30.9
Reclamation and decommissioning accruals	23.8	26.8
Restructuring accruals	9.5	21.4
Other assets	61.4	46.3
Total deferred tax assets	315.2	279.7
Valuation allowance	37.3	36.0
Net deferred tax assets	277.9	243.7
Net deferred tax liabilities	$270.3	$266.7

As of December 31, 1997, the Company had alternative minimum tax credit carryforwards of approximately $124.4 million. In addition, the Company had a foreign tax credit carryforward of approximately $30.6 million, investment tax credit and other general business credit carryforwards of approximately $11.2 million, and a carryover of charitable contributions of approximately $17.4 million.

The alternative minimum tax credit carryforwards can be carried forward indefinitely. The foreign tax credit carryforward will expire in 2001 to the extent it remains unutilized. The investment tax credit and other general business credit carryforwards have expiration dates ranging from 1999 through 2008. The charitable contributions carryover has expiration dates ranging from 1998 through 2001.

Due to the uncertainty of the realization of certain tax carryforwards, the Company has established a valuation allowance against these carryforward benefits in the amount of $37.3 million.

Some of these carryforward benefits may be subject to limitations imposed by the Internal Revenue Code. Except to the extent that valuation allowances have been established, the Company believes these limitations will not prevent the carryforward benefits from being realized.

The provision for income taxes for the years ended December 31 consisted of the following:

	1997	1996	1995
Current			
Federal	$14.9	$55.0	$68.9
State and local	4.0	4.2	10.4
Foreign	48.3	12.0	39.6
	67.2	71.2	118.9
Deferred			
Federal	(28.5)	(2.4)	5.7
State and local	(7.1)	(.2)	.9
Foreign	11.9	21.1	3.9
	(23.7)	18.5	10.5
	$43.5	$89.7	$129.4

The components of earnings before income taxes and extraordinary charge, and the effect of significant adjustments to tax computed at the federal statutory rate were as follows:

	1997	1996	1995
Domestic	$26.1	$173.6	$259.0
Foreign	105.2	51.3	89.4
Earnings before income taxes and extraordinary charge	$131.3	$224.9	$348.4
Computed tax at the federal statutory rate of 35%	$46.0	$78.6	$121.9
Foreign income and withholding taxes	4.9	11.3	17.3
Percentage depletion in excess of basis	(9.5)	(9.0)	(19.5)
Vigoro Merger expenses not deductible for tax purposes		7.1	
State income taxes, net of federal income tax benefit	(2.0)	3.1	6.4
Benefit of foreign sales corporation	(5.6)	(3.9)	(4.3)
Federal taxes on undistributed foreign earnings			2.8
Other items (none in excess of 5% of computed tax)	9.7	2.5	4.8
Provision for income taxes	$43.5	$89.7	$129.4
Effective tax rate	33.1%	39.9%	37.1%

United States income and foreign withholding taxes are provided on the earnings of foreign subsidiaries that are expected to be remitted to the extent that taxes on the distribution of such earnings would not be offset by foreign tax credits. The Company has no present intention of remitting undistributed earnings of foreign subsidiaries aggregating $211.5 million at December 31, 1997, and, accordingly, no deferred tax liability has been established relative to these earnings. If these amounts were not considered permanently reinvested, a deferred tax liability of $42.2 million would have been required.

Income taxes paid, net of refunds received, were $51.6 million, $73.8 million and $89.9 million for 1997, 1996 and 1995, respectively.

NAVISTAR INTERNATIONAL CORPORATION (OCT)

NOTES TO FINANCIAL STATEMENTS

3. Income Taxes

The domestic and foreign components of income (loss) before income taxes consist of the following:

(Millions of dollars)	1997	1996	1995
Domestic	$239	$108	$251
Foreign	3	(3)	11
Total Income before income taxes	$242	$105	$262

The components of income tax expense consist of the following:

(Millions of dollars)	1997	1996	1995
Current:			
Federal	$ 8	$ 1	$ 7
State and local	2	2	2
Total current expense	10	3	9
Deferred:			
Federal	71	32	77
State and local	11	5	12
Total deferred expense	82	37	89
Total income tax expense	$92	$40	$98

The deferred tax expense does not represent cash payment of income taxes and was primarily generated by the utilization of net operating loss (NOL) carryforwards and the increase of temporary differences, and will not require future cash payments. Consolidated tax payments made during 1997, 1996 and 1995 were $10 million, $3 million and $9 million, respectively.

The relationship of the tax expense to income before taxes for 1997, 1996 and 1995 differs from the U.S. statutory rate (35%) because of state income taxes and the benefit of NOLs in foreign countries. The effective tax rates for the years 1997, 1996 and 1995 were 38.0%, 38.1% and 37.4%, respectively.

Undistributed earnings of foreign subsidiaries were $35 million and $30 million at October 31, 1997 and 1996, respectively. Taxes have not been provided on these earnings because no withholding taxes are applicable upon repatriation and U.S. tax would be substantially offset by utilization of NOL carryforwards.

Taxpaying entities of the company offset all deferred tax assets and liabilities within each tax jurisdiction and present them in a single amount in the Statement of Financial Condition. The components of the deferred tax asset (liability) at October 31 are as follows:

(Millions of dollars)	1997	1996
United States		
Deferred Tax Assets		
Net operating loss carryforwards	$680	$753
Alternative minimum tax	19	11
Product liability and warranty	97	100
Other liabilities	168	143
Postretirement benefits	353	363
Total deferred tax assets	1,317	1,370
Deferred Tax Liabilities:		
Prepaid pension assets	(58)	(12)
Depreciation	(37)	(40)
Total deferred tax liabilities	(95)	(52)
Total deferred tax asset	1,222	1,318
Less valuation allowance	(288)	(288)
Net deferred tax asset	$934	$1,030
Foreign		
Deferred Tax Assets:		
Net operating loss carryforwards	$ 2	$ 2
Postretirement benefits	19	19
Total deferred tax assets	21	21
Less valuation allowance	(21)	(21)
Net deferred tax assets	—	—
Deferred tax liabilities— prepaid pension assets	(16)	(16)
Net deferred tax liabilities	$(16)	$(16)

A valuation allowance has been provided for those NOL carryforwards and temporary differences which are estimated to expire before they are utilized. Because the foreign tax carryforward period is relatively short, an allowance has been provided against the total deferred tax assets.

At October 31, 1997, the company had $1,802 million of domestic and $6 million of foreign NOL carryforwards available to offset future taxable income. Such carryforwards reflect income tax losses incurred which will expire as follows, in millions of dollars:

2000	$174
2001	143
2002	47
2004	238
2005	7
2006 through 2011	1,199
Total	$1,808

Additionally, the reversal of net temporary differences of $1,413 million as of October 31, 1997 will create net tax deductions which, if not utilized previously, will expire subsequent to 2011.

PENNZOIL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Income Taxes

Accounting for Income Taxes

Pennzoil accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Federal, State and Foreign

Federal, state and foreign income tax expense (benefit) for continuing operations consists of the following:

	Year Ended December 31		
(Expressed in thousands)	1997	1996	1995
Current			
United States	$ 28,285	$11,994	$ 1,800
Foreign	37,359	485	741
State	(538)	1,835	372
Deferred			
United States	58,140	12,356	(142,627)
Foreign	(6,044)	2,728	(24,039)
State	6,938	5,830	(8,780)
	$124,140	$35,228	$(172,533)

Pennzoil's net deferred tax liability is as follows:

	December 31	
(Expressed in thousands)	1997	1996
Deferred tax liability	$551,826	$478,342
Deferred tax asset	(312,905)	(280,631)
Valuation allowance	30,277	23,246
Net deferred tax liability	$269,198	$220,957

Temporary differences and carryforwards which gave rise to significant portions of deferred tax assets and liabilities are as follows:

(Expressed in thousands)	December 31 1997	1996
Investment in equity securities	$138,808	$143,117
Property, plant and equipment	335,088	284,221
Proceeds from issuance of exchangeable debentures treated as option proceeds	40,855	40,953
Original issue discount on exchangeable debentures	(26,763)	(29,880)
Alternative minimum tax credit carryforward	(101,719)	(92,499)
Net operating loss carryforwards	(38,037)	(32,898)
Other, net	(109,311)	(115,303)
Valuation allowance	30,277	23,246
Net deferred tax liability	$269,198	$220,957

The principal items accounting for the difference in income taxes on income (loss) from continuing operations computed at the federal statutory rate and income taxes as recorded are as follows:

(Expressed in thousands)	Year Ended December 31 1997	1996	1995
Income tax provision (benefit) at statutory rate	$106,538	$59,194	$(167,187)
Increases (reductions) resulting from:			
Dividends received deduction	(10,068)	(9,272)	(8,535)
State income taxes, net	4,160	4,982	(5,465)
Sale of foreign subsidiary (1)	—	(19,094)	—
Taxes on foreign income in excess of statutory rate (2)	20,355	(509)	(618)
Nondeductible goodwill	2,429	2,303	11,815
Other, net	726	(2,376)	(2,543)
Income tax provision (benefit)	$124,140	$35,228	$(172,533)

(1) In 1996 Pennzoil recognized a tax benefit from the sale of stock of Pennzoil Canada, Inc. ("Pennzoil Canada"), an indirect wholly owned subsidiary of Pennzoil. The benefit was attributable to prior foreign losses and asset write-downs that had not previously been recognized for tax purposes. Reference is made to Note 10 for additional information on the sale of Pennzoil Canada.

(2) In December 1997, Pennzoil received net proceeds of $101.9 million from the sale of its remaining Canadian oil and gas assets. A pretax gain of $67.6 million and Canadian income taxes of $29.6 million were recorded in connection with the sale. The $29.6 million has been deducted in calculating the U.S. income tax liability.

The Internal Revenue Service is currently reviewing Pennzoil's 1993, 1994 and 1995 federal income tax returns.

As of December 31, 1997, Pennzoil had a United States net operating loss carryforward of approximately $4.5 million, which is available to reduce future regular federal income taxes payable. Additionally, for purposes of determining alternative minimum tax, an approximate $3.1 million net operating loss is available to offset future alternative minimum taxable income. Utilization of these regular and alternative minimum tax net operating losses, to the extent generated in separate return years, is limited based on the separate taxable income of the subsidiary, or its successor, generating the loss. If not used, these carryovers will expire in the years 2000 to 2006. In addition, Pennzoil has approximately $101.7 million of alternative minimum tax credits indefinitely available to reduce future regular tax liability to the extent it exceeds the related alternative minimum tax otherwise due. All net operating loss and credit carryover amounts are subject to examination by the tax authorities.

Pennzoil also has state net operating loss carryforwards, the tax effect of which was approximately $38.0 million as of December 31, 1997. A valuation allowance of approximately $28.6 million has been established to offset the portion of the deferred tax asset related to state tax loss carryforwards expected to expire before their utilization.

PEPSICO, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

Note 12: Income Taxes

Provision for income taxes on income from continuing operations:

	1997	1996	1995
Current: Federal	$598	$254	$427
Foreign	110	138	63
State	59	72	60
	767	464	550
Deferred: Federal	23	204	101
Foreign	15	(41)	16
State	13	(3)	2
	51	160	119
	$818	$624	$669

U.S. and foreign income from continuing operations before income taxes:

	1997	1996	1995
U.S.	$1,731	$1,630	$1,679
Foreign	578	(64)	412
	$2,309	$1,566	$2,091

Reconciliation of the U.S. Federal statutory tax rate to PepsiCo's effective tax rate on continuing operations:

	1997	1996	1995
U.S. Federal statutory tax rate	35.0%	35.0%	35.0%
State income tax, net of Federal tax benefit	2.0	2.9	2.0
Effect of lower taxes on foreign results	(5.5)	(4.4)	(4.8)
Settlement of prior years' audit issues	(1.7)	(2.9)	(4.8)
Effect of unusual items	2.2	9.7	1.0
Other, net	3.4	(0.5)	3.6
Effective tax rate on continuing operations	35.4%	39.8%	32.0%

Deferred tax liabilities are not recognized for basis differences related to investments in foreign subsidiaries and unconsolidated affiliates that are essentially permanent in duration. Determination of the amount of such unrecognized deferred tax liabilities is not practicable.

Deferred tax liabilities (assets):

	1997	1996
Intangible assets, other than nondeductible goodwill	$1,363	$1,354
Property, plant and equipment	500	388
Safe harbor leases	115	143
Zero coupon notes	84	103
Other	335	172
Gross deferred tax liabilities	2,397	2,160
Net operating loss carryforwards	(520)	(406)
Postretirement benefits	(247)	(242)
Casualty claims	(51)	(36)
Various current liabilities and other	(459)	(350)
Gross deferred tax assets	(1,277)	(1,034)
Deferred tax assets valuation allowance	458	435
Net deferred tax assets	(819)	(599)
Net deferred tax liability	$1,578	$1,561
Included in		
Prepaid expenses, deferred income taxes and other current assets	$ (119)	$ (14)
Deferred income taxes	1,697	1,575
	$1,578	$1,561

Net operating loss carryforwards totaling $2.3 billion at year-end 1997 are available to reduce future taxable income of certain subsidiaries and are related to a number of foreign and state jurisdictions. Of these carryforwards, $56 million expire in 1998, $2.0 billion expire at various times between 1999 and 2011 and $215 million may be carried forward indefinitely.

POLAROID CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Income Taxes

An analysis of income tax expense/(benefit) follows:

(In millions) 1997	Current	Deferred	Total
Federal	$6.8	$(72.0)	$(65.2)
State	.3	(3.2)	(2.9)
Foreign	—	2.9	2.9
Total	$7.1	$(72.3)	$(65.2)
1996			
Federal	$2.8	$(19.2)	$(16.4)
State	.4	.8	1.2
Foreign	25.7	5.7	31.4
Total	$28.9	$(12.7)	$16.2
1995			
Federal	$.9	$(68.4)	$(67.5)
State	.3	(7.5)	(7.2)
Foreign	17.7	(4.2)	13.5
Total	$18.9	$(80.1)	$(61.2)

Prepaid income taxes and deferred income taxes result from future tax benefits and expenses related to the difference between the tax basis of assets and liabilities and the amounts reported in the financial statements. These differences predominately relate to U.S. operations. Carryforwards and tax overpayments are also included in prepaid income taxes. The net of deferred income tax assets and deferred income tax liabilities reflected on the consolidated balance sheet was a net asset of $325.6 million and $243.7 million as of December 31, 1997 and 1996, respectively. Significant components of those amounts shown on the balance sheet as of December 31 were as follows:

(In millions)	1997	1996
Deferred tax assets:		
Property, plant and equipment and trademarks	$16.5	$(22.0)
Inventory	43.4	43.0
Compensation and benefits	96.4	59.4
Postretirement and postemployment benefits	114.7	124.8
Loss and credit carryforwards	79.8	54.1
All other	14.7	17.6
Subtotal	365.5	276.9
Valuation allowance	(27.4)	(21.5)
Total deferred tax assets	$338.1	$255.4
Deferred tax liabilities:		
Property, plant and equipment and trademarks	$5.7	$4.4
Inventory	3.3	3.1
Compensation and benefits	2.9	3.9
All other	.6	.3
Total deferred tax liability	12.5	11.7
Net deferred tax asset	$325.6	$243.7

Valuation allowances of $27.4 million and $21.5 million as of December 31, 1997 and 1996, respectively, were established for the prepaid taxes related to foreign tax credits and to capital losses. Foreign tax credits may be used to offset the U.S. income taxes due on income earned from foreign sources. However, the credit is limited by the total income included on the U.S. income tax return as well as the ratio of foreign source income to total income. Excess foreign tax credits may be carried back two years and forward five years. As of December 31, 1997, the Company did not believe it was more likely than not that it would generate sufficient U.S. sourced income within the appropriate period to utilize all the foreign tax credits.

Capital losses may be used only to offset capital gains. Capital losses may be carried back three years and forward five years. As of December 31, 1997, the Company had a capital loss carryforward of $4.3 million. In addition, those temporary differences which most likely will produce capital losses upon reversal have been treated as capital losses. Historically, the Company has generated limited net capital gains. Therefore, as of December 31, 1997, the Company did not believe it was more likely than not that it would generate sufficient capital gains within the appropriate time period to offset those capital losses.

Management believes the Company will obtain the full benefit of other deferred tax assets on the basis of its evaluation of the Company's anticipated profitability over the period of years that the temporary differences are expected to become tax deductions. It believes that sufficient book and taxable income will be generated to realize the benefit of these tax assets. This assessment of profitability takes into account the Company's present and anticipated split of domestic and international earnings and the fact that the temporary differences related to postretirement and other postemployment benefits are deductible over a period of 30 to 40 years.

Management considered that as of December 31, 1997, the Company has a net operating loss carryforward of $125.2 million, $37.8 million of the net operating loss in the US. expires in 2010, $45.5 million expires in 2011 and $41.9 million expires in 2012. The Company also has a foreign tax credit carryforward of $24.4 million (against which there is a full valuation allowance) and an alternative minimum tax credit carryforward of $2.8 million as of December 31, 1997. $16.2 million of the foreign tax credit expires in 2000, $3.9 million expires in 2001 and $4.4 million expires in 2002. The alternative minimum tax credit does not expire. Management does believe it will earn sufficient U.S. income to utilize the net operating losses within the carryforward period. Regardless of management's expectations, there can be no assurance that the Company will generate any specific level of continuing earnings or where these earnings will be generated.

For alternative minimum tax purposes, the Company had an alternative minimum tax net operating loss of $37.8 million at the end of 1997. $19.7 million will expire in 2011, $18.1 million will expire in 2012. In addition, the Company had an alternative minimum tax foreign tax credit carryforward at the end of 1997 of $54.1 million: $22.0 million expires in 1998, $6.5 million expires in 1999, $18.1 million expires in 2000, $3.1 million expires in 2001, and $4.4 million expires in 2002.

An analysis of earnings/(loss) before income tax expense/(benefit) and extraordinary loss follows:

(In millions)	1997	1996	1995
Domestic	$(189.9)	$(3.7)	$(236.8)
Foreign	(2.0)	34.9	35.4
Total	$(191.9)	$31.2	$(201.4)

A reconciliation of differences between the statutory U.S. federal income tax rate and the Company's effective tax rate follows:

	1997	1996	1995
U.S. statutory rate	35.0%	35.0%	35.0%
State taxes	1.7	3.3	2.3
Benefit plan deductions	.5	(3.3)	—
Loss carryforwards	.8	(2.9)	—
Nondeductible expenses/ Nontaxable income	2.0	2.7	—
Valuation allowance change	(3.1)	(5.5)	(7.8)
Tax effect resulting from foreign activities	(1.4)	21.9	.5
Other	(1.5)	.8	.4
Effective tax rate	34.0%	52.0%	30.4%

In 1996 and 1995, the tax effect resulting from foreign activities includes the effect of remeasuring foreign currency. The impact on the tax rate for 1996 was an increase of 28.7 percentage points and an increase of 2.1 percentage points for 1995. In 1997, the Company changed its method of applying Financial Accounting Standards Board Statement No. 52, "Foreign Currency Translation" (FAS 52) and adopted the local currency as its functional currency for most of its subsidiaries outside

the U.S. Therefore, there is no impact from remeasuring foreign currency in the tax effect resulting from foreign activities for 1997 for those subsidiaries which are local currency functional.

Undistributed earnings of foreign subsidiaries held for reinvestment in overseas operations amounted to $417.9 million at December 31, 1997. Additional U.S. income taxes may be due upon remittance of those earnings (net of foreign tax reductions because of the distribution), but it is impractical to determine the amount of any such additional taxes. If all those earnings were distributed as dividends, foreign withholding taxes of approximately $20.4 million would be payable.

TAXES ON UNDISTRIBUTED EARNINGS

Statement of Financial Accounting Standards No. 109 requires, except in certain specified situations, that undistributed earnings of a subsidiary included in consolidated income be accounted for as a temporary difference. If a deferred tax liability is not recognized, paragraph 44 of *SFAS No. 109* specifies what information should be disclosed. Examples of disclosures concerning undistributed earnings follow.

Taxes Accrued On Undistributed Earnings

THE QUAKER OATS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes. The Company uses an asset and liability approach to financial accounting and reporting for income taxes. Deferred income taxes are provided when tax laws and financial accounting standards differ with respect to the amount of income for a year and the bases of assets and liabilities. Income taxes have been provided on $170.6 million of the $188.8 million of unremitted earnings from foreign subsidiaries. Taxes are not provided on earnings expected to be indefinitely reinvested.

UNION CAMP CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

1 (In Part): Significant Accounting Policies

Income Taxes: Deferred income taxes are recorded using enacted tax rates in effect for the year temporary differences are expected to reverse. Federal and state income taxes are not accrued on the cumulative undistributed earnings of foreign subsidiaries because the earnings have been reinvested in the businesses of those companies. As of December 31, 1997, the total of all such undistributed earnings amounted to $202.4 million. It is not practical to estimate the amount of tax that might be payable on the distribution of the foreign earnings. The company has, as required, provided for tax potentially payable on the distribution of its share of $85.7 million, the undistributed earnings of Bush Boake Allen Inc. (BBA) and subsidiaries earned subsequent to 1992.

Taxes Not Accrued On Undistributed Earnings

COCA-COLA ENTERPRISES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Income Taxes

At December 31, 1997, the Company's foreign subsidiaries had $112 million in distributable earnings, exclusive of amounts that if remitted in the future would result in little or no tax under current laws. The Company's earnings from foreign subsidiaries are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been made for these earnings. Determination of the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable. Upon distribution of foreign subsidiary earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries.

LAFARGE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes (In Part):

At December 31, 1997 cumulative undistributed earnings of LCI were $796.8 million. No provision for U.S. income taxes or Canadian withholding taxes has been made since the Company considers the undistributed earnings to be permanently invested in Canada. The Company's management has decided that the determination of the amount of any unrecognized deferred tax liability for the cumulative undistributed earnings of LCI is impracticable since it would depend on a number of factors that cannot be known until such time as a decision to repatriate the earnings might be made.

OWENS CORNING (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Income Taxes

As of December 31, 1997, the Company has not provided for withholding or U.S. federal income taxes on approximately $244 million of accumulated undistributed earnings of its foreign subsidiaries as they are considered by management to be permanently reinvested. if these undistributed earnings were not considered to be permanently reinvested, approximately $28 million of deferred income taxes would have been provided.

PHILIP MORRIS COMPANIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (In Part): Income Taxes

At December 31, 1997, applicable United States federal income taxes and foreign withholding taxes have not been provided on approximately $3.0 billion of accumulated earnings of foreign subsidiaries that are expected to be permanently reinvested abroad. If these amounts were not considered permanently reinvested, additional deferred income taxes of approximately $167 million would have been provided.

TEXACO INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Taxes

The undistributed earnings of subsidiary companies and of affiliated corporate joint-venture companies accounted for on the equity method, for which deferred U.S. income taxes have not been provided at December 31, 1997 amounted to $1,482 million and $2,313 million, respectively. The corresponding amounts at December 31,1996 were $1,302 million and $2,124 million, respectively. Recording of deferred income taxes on these undistributed earnings is not required relative to foreign companies and pre-1993 earnings of domestic companies when the earnings have been permanently reinvested. These amounts would be subject to possible U.S. taxation only if remitted as dividends. The determination of the hypothetical amount of unrecognized deferred U.S. taxes on undistributed earnings of foreign entities is not practicable. For domestic entities, such unrecorded deferred income taxes were not material.

LONG-TERM CONTRACTS

Accounting and disclosure requirements for long-term contracts are discussed in *Accounting Research Bulletin 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 units-of-delivery method is used to recognize revenue on long-term contracts. 16 companies used both of the aforementioned methods. Examples of disclosures for long-term contracts follow.

TABLE 3-15: METHOD OF ACCOUNTING FOR LONG-TERM CONTRACTS

	Number of Companies			
	1997	**1996**	**1995**	**1994.**
Percentage-of-completion	69	70	80	90
Units-of-delivery	26	33	28	33
Completed contract	2	3	4	2
Not determinable	4	4	3	1

EMCOR GROUP, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note B (In Part): Summary Of Significant Accounting Policies

Revenue Recognition

Revenues from long-term contracts are recognized on the percentage-of-completion method. Percentage-of-completion for the mechanical and electrical construction services business is measured principally by the percentage of costs incurred and accrued to date for each contract to the estimated total costs for each contract at completion. Certain of the Company's electrical contracting business units measure percentage-of-completion by the percentage of labor costs incurred to date for each contract to the estimated total labor costs for such contract, while others are on the cost to total cost method. Revenues from facilities services are recognized as services are provided.

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. In forecasting ultimate profitability on certain contracts, estimated recoveries are included for work performed under customer change orders to contracts for which firm prices have not yet been negotiated. Due to uncertainties inherent in the estimation process, it is reasonably possible that completion costs, including those arising from contract penalty provisions and final contract settlements, will be revised in the near-term. Such revisions to costs and income are recognized in the period in which the revisions are determined.

FOSTER WHEELER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition on Long-term Contracts

The Engineering and Construction Group records profits on long-term contracts on a percentage-of-completion basis determined on the ratio of earned revenues to total contract price, after considering accumulated costs and estimated costs to complete each contract. Contracts in process are valued at cost plus accrued profits less earned revenues and progress payments on uncompleted contracts. Contracts of the Engineering and Construction Group are generally considered substantially complete when engineering is completed and/or field construction is completed. The Corporation includes pass-through costs on cost-plus contracts, which are customer-reimbursable materials, equipment and subcontractor costs when the Corporation determines that it is responsible for the engineering specification, procurement and management of such cost components on behalf of the customer.

The Energy Equipment Group primarily records profits on long-term contracts on a percentage-of-completion basis determined on a variation of the efforts-expended and the cost-to-cost methods, which include multiyear contracts that require significant engineering efforts and multiple delivery units. These methods are periodically subject to physical verification of the actual progress towards completion. Contracts of the Energy Equipment Group are generally considered substantially complete when manufacturing and/or field erection is completed.

The Corporation has numerous contracts that are in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. The Corporation has a substantial history of making reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs. However, current estimates may be revised as additional information becomes available. If estimates of costs to complete long-term contracts indicate a loss, provision is made currently for the total loss anticipated. The elapsed time from award of a contract to completion of performance may be up to four years.

Certain special-purpose subsidiaries in the Power Systems Group are reimbursed for their costs, including repayment of project debt, for building and owning certain facilities over the lives of the service contracts. The Corporation records revenues relating to debt repayment obligations on these contracts on a straight-line basis over the lives of the service contracts, and records depreciation of the facilities on a straight-line basis over the estimated useful lives of the facilities, after consideration of the estimated residual value.

INTERFACE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

Revenue is generally recognized on the sale of products or services when the products are shipped or the services performed, all significant contractual obligations have been satisfied, and the collection of the resulting receivable is reasonably assured. Revenues and estimated profits on long-term performance contracts are recognized under the percentage of completion method of accounting using the cost-to-cost methodology. Profit estimates are revised periodically based upon changes in facts. Any losses identified on contracts are recognized immediately.

LITTON INDUSTRIES, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Significant Accounting Policies

Inventories and Long-term Contracts

Revenues and profits on long-term contracts, performed over extended periods of time, are recognized under the percentage-of-completion method of accounting, principally based on direct labor dollars incurred for the Marine Engineering and Production segment and generally on the costs incurred or units-of-delivery basis for the Company's other operations. Revenues and profits on long-term contracts are based on the Company's estimates to complete and are reviewed periodically, with adjustments recorded in the period in which the revisions are made. Any anticipated losses on contracts are charged to operations as soon as they are determinable.

NORTHROP GRUMMAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary Of Significant Accounting Policies (In Part):

Sales

Sales under cost-reimbursement, service, research and development, and construction-type contracts are recorded as costs are incurred and include estimated earned fees or profits calculated on the basis of the relationship between costs incurred and total estimated costs (cost-to-cost type of percentage-of-completion method of accounting). Construction-type contracts embrace those fixed-price type contracts that provide for the delivery at a low volume per year or a small number of units after a lengthy period of time over which a significant amount of costs have been incurred. Sales under other types of contracts are recorded as deliveries are made and are computed on the basis of the estimated final average unit cost plus profit (units-of-delivery type of percentage-of-completion method of accounting).

Certain contracts contain provisions for price redetermination or for cost and/or performance incentives. Such redetermined amounts or incentives are included in sales when the amounts can reasonably be determined. In the case of the B-2 bomber production contract, future changes in operating margin will be recognized on a units-of-delivery basis and recorded as each equivalent production unit is delivered. Amounts representing contract change orders, claims or limitations in funding are included in sales only when they can be reliably estimated and realization is probable. In the period in which it is determined that a loss will result from the performance of a contract, the entire amount of the estimated ultimate loss is charged against income. Loss provisions are first offset against costs that are included in assets, with any remaining amount reflected in Other Current Liabilities. Other changes in estimates of sales, costs, and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Hence, the effect of the changes on future periods of contract performance is recognized as if the revised estimates had been the original estimates.

OGDEN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Contracts and Revenue Recognition: Service revenues primarily include only the fees for cost-plus contracts and other types of contracts. Both the service revenues and operating expenses exclude reimbursed expenditures of $283,900,000, $357,698,000, and $450,696,000 for the years ended December 31, 1997, 1996, and 1995, respectively. Subsidiaries engaged in governmental contracting recognize revenues from cost-plus-fixed-fee contracts on the basis of direct costs incurred plus indirect expenses and the allocable portion of the fixed fee. Revenues under time and material contracts are recorded at the contracted rates as the labor hours and other direct costs are incurred. Revenues under fixed-price contracts are recognized on the basis of the estimated percentage of completion of services rendered. Service revenues also include the fees earned under contracts to operate and maintain the waste-to-energy facilities and to service the facilities' debt, with additional fees earned based on excess tonnage processed and energy generation. Long-term unbilled service receivables related to waste-to-energy operations are discounted in recognizing the present value for services performed currently. Such unbilled receivables amounted to $130,388,000 and $123,420,000 at December 31, 1997 and 1996, respectively. Subsidiaries engaged in long-term construction contracting record income on the percentage-of-completion method of accounting and recognize income as the work progresses. Anticipated losses on contracts are recognized as soon as they become known.

RAYTHEON COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies

Contracts in Process

Sales under long-term contracts are primarily 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.

Sales under certain fixed price contracts are recorded as products are shipped or services are rendered.

STEWART & STEVENSON SERVICES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Contract Revenues and Costs: Revenues relating to contracts or contract changes that have not been completely priced, negotiated, documented, or funded are not recognized unless realization is considered probable. Generally, revenue is recognized when a product is shipped or accepted by the customer, except for certain Engineered Power Systems' products, where revenue is recognized using the percentage-of-completion method. The revenues of the Tactical Vehicle Systems segment are generally recognized under the units-of-production method, whereby sales and estimated average cost of the units to be produced under the Family of Medium Tactical Vehicle ("FMTV") contract are recognized as units are substantially completed. Profits expected to be realized on contracts are based on the Company's estimates of total sales value and costs at completion. Changes in estimates for sales, costs, and profits are recognized in the period which they are determinable using the cumulative catch-up method of accounting. In

certain cases, the estimated sales values include amounts expected to be realized from contract adjustments or claims when recovery of such amounts are probable, subject to negotiations or legal proceedings. Any anticipated losses on contracts are charged in full to operations in the period in which they are determinable.

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 business segment disposals. These examples are reprinted in Section I13 of *FASB Accounting Standards—Current Text.*

In 1997, 57 survey companies discontinued or planned to discontinue the operations of a business segment. Examples of discontinued operations accounted for as a disposal of a business segment follow.

Business Segment Disposals

ASHLAND INC. (SEP)

In millions	1997	1996	1995
Income from continuing operations	$192	$136	$14
Income from discontinued operations (net of income taxes)-Note B	25	75	10
Gain on sale of discontinued operations (net of income taxes)-Note B	71	—	—
Income before extraordinary loss	288	211	24

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B - Discontinued Operations

On July 1, 1997, Ashland sold the domestic exploration and production operations of Blazer Energy Corporation, realizing cash proceeds of $566 million. The sale resulted in a pretax gain of $138 million which, net of $67 million of income taxes, produced a gain on sale of discontinued operations of $71 million. Ashland has reached an agreement in principle to sell its exploration and production operations in Nigeria, subject to the approval of the Nigerian government and other conditions. Accordingly, results from the Exploration segment are shown as discontinued operations with prior years restated. Components of amounts reflected in the income statements, balance sheets and cash flow statements are presented in the following table.

(In millions)	1997	1996	1995
Income statement data			
Revenues	$240	$320[1]	$204
Costs and expenses	(215)	(226)	(210)
Operating income (loss)	25	94	(6)
Income tax benefit (expense)	—	(19)	16
Income from discontinued operations	$25	$75[1]	$10
Balance sheet data			
Current assets	$59	$76	
Investments and other assets	1	1	
Property, plant and equipment-net	57	430	
Current liabilities	(41)	(81)	
Noncurrent liabilities	(58)	(100)	
Net assets of discontinued operations held for sale	$18	$326	
Cash flow data			
Cash flows from operations	$(90)	$115	$58
Cash flows from investment (including sales proceeds)	526	(80)	(72)
Cash provided (used) by discontinued operations	$436	$35	$(14)

(1) Includes a gain of $73 million ($48 million after income taxes) resulting from the settlement of claims in the bankruptcy reorganization of Columbia Gas Transmission and Columbia Gas Systems.

HARSCO CORPORATION (DEC)

In thousands	1997	1996	1995
Income from continuing operations	$100,400	$83,903	$61,318
Discontinued operations:			
Equity in income of defense business (net of income taxes of $14,082, $14,255, and $18,099, respectively)	28,424	35,106	36,059
Gain on disposal of defense business (net of income taxes of $100,006)	150,008	—	—
Net income	$278,832	$119,009	$97,377

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Discontinued Defense Business

On August 25, 1997, the Company and FMC Corporation signed an agreement to sell United Defense, L.P. for $850 million, and the sale was completed on October 6, 1997. Prior to the sale, FMC had been the managing general partner and 60% owner of United Defense, L.P., while the Company owned the balance of 40% as the limited partner. United Defense supplies ground combat and naval weapons systems for the U.S. and military customers around the world.

On the Consolidated Statement of Income under Discontinued Operations, "Equity in income of defense business" includes equity income through August 1997 (the measurement date) from the Company's 40% interest in United Defense, L.P. The sale resulted in pre-tax cash proceeds to the Company of $344 million and resulted in an after tax gain on the sale of $150 million or $3.08 per share after taking into account certain retained liabilities from the partnership and estimated post closing net worth adjustments, as well as pre-partnership formation contingencies and other defense business contingencies.

The Consolidated Balance Sheet as of December 31, 1996 has been restated to segregate the Company's investment in the defense business. On the Consolidated Statement of Cash Flows, equity in income of the defense business and distributions from the defense business through the measurement date are included in "Equity in income of unconsolidated entities" and "Dividends or distributions from unconsolidated entities", respectively.

JOHNSON CONTROLS, INC. (SEP)

In millions	1997	1996	1995
Income from continuing operations	$220.6	$222.7	$168.0
Discontinued operations			
(Loss) income from discontinued operations, adjusted for applicable (benefit) provision for income taxes of $(1.0), $9.8 and $19.9, respectively, and minority interests	(1.1)	12.0	27.8
Gain on sale of discontinued operations, net of $66.0 of income taxes	69.0	—	—
Net income	$288.5	$234.7	$195.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Acquisition and Divestiture

Divestiture of Plastic Container Division

On February 28, 1997, the Company completed the sale of its Plastic Container division (PCD) to Schmalbach-Lubeca AG/Continental Can Europe (a member of the VIAG Group) for approximately $650 million, with a portion of the proceeds deferred. The Company recorded a gain on the sale of $135 million ($69 million or $.82 per primary share and $.76 per fully diluted share, after-tax).

The results of PCD have been reported separately as discontinued operations in the Consolidated Statement of Income. The results of the discontinued operations do not reflect any interest expense or management fees allocated by the Company. Prior year consolidated financial statements have been restated to present PCD as a discontinued operation. Revenues of PCD were $242 million for the five months ended February 28, 1997 and $799 million for the year ended September 30, 1996. These amounts are not included in sales as reported in the Consolidated Statement of Income.

Pro Forma Financial Information
The following pro forma results of operations of the Company give effect to the acquisition of Prince, the divestiture of PCD, and the application of the after-tax proceeds from the PCD sale as though these transactions had occurred on October 1, 1995.

(in millions, except per share data; unaudited)	Year ended September 30, 1997[(1)]	1996
Net sales	$11,145.4	$10,076.7
Income from continuing operations	$ 226.6	$ 232.9
Earnings per share from continuing operations		
Primary	$ 2.56	$ 2.67
Fully diluted	$ 2.43	$ 2.53
Weighted average shares		
Primary	84.8	83.6
Fully diluted	90.9	89.9

(1) Amounts include a restructuring charge (see Note 2) of $70.0 million ($40.3 million or $.48 per primary share and $.44 per fully diluted share, after-tax).

The unaudited pro forma financial information presented is not necessarily indicative of either the results of operations that would have occurred had these transactions taken place on October 1, 1995 or the future results of operations.

QUANEX CORPORATION (OCT)

	1997	1996	1995
In thousands			
Income from continuing operations before extraordinary charge	$27,718	$22,978	$23,380
Income from discontinued operations, net of income taxes	5,176	9,912	10,480
Gain on sale of discontinued operations, net of income taxes	36,290	—	—
Income before extraordinary charge	69,184	32,890	33,860

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Discontinued Operations

In April 1997, the Company completed the sale of its LaSalle Steel Company ("LaSalle") subsidiary. The Company recorded an after tax gain on the sale of $36,290,000 in the second quarter of fiscal 1997. LaSalle's results of operations have been classified as discontinued operations and prior periods have been restated. For business segment reporting purposes, LaSalle's data was previously reported as the segment "Cold Finished Steel Bars".

In December 1997, the Company completed the sale of its tubing operations, comprised of Michigan Seamless Tube, Gulf States Tube, and the Tube Group Administrative Office ("Tubing Operations"). The Company will record a gain on the sale of approximately $13,000,000 in the first quarter of fiscal 1998. Results of these operations have been classified as discontinued and prior periods have been restated. For business segment reporting purposes, Tubing Operations were previously classified as "Steel Tubes". (See Note 17)

Net sales and income from discontinued operations are as follows:

(In thousands)	Years Ended October 31, 1997	1996	1995
Net sales	$187,123	$275,641	$287,210
Operating income	7,962	17,090	18,069
Income tax expense	(2,786)	(7,178)	(7,589)
Income from discontinued operations	$5,176	$9,912	$10,480

(In thousands)	October 31, 1997	1996
Net Assets of Discontinued Operations		
Current assets	$ 24,388	$ 60,697
Property, plant and equipment, net	17,357	32,381
Other assets	2,784	5,010
Current liabilities	(11,241)	(38,663)
Deferred pension credits	(4,373)	(10,183)
Deferred postretirement welfare benefits	(22,406)	(49,169)
Deferred income taxes	6,718	16,421
Adjustment for minimum pension liability	327	2,336
Net assets of discontinued operations	$13,554	$18,830

17. Subsequent Event

In December 1997, the Company completed the sale of its tubing operations, comprised of Michigan Seamless Tube, Gulf States Tube, and the Tube Group Administrative Office ("Tubing Operations"), to Vision Metals, Inc., a new company formed by certain management of the Tubing Operations and Citicorp Venture Capital, Ltd. Under the terms of the Purchase Agreement dated December 3, 1997, the Company received cash consideration of approximately $30 million, subject to post closing adjustments. The results of operations of the Tubing Operations have been classified as discontinued operations and prior periods have been restated. For business segment reporting purposes, the Tubing Operations were previously classified as "Steel Tubes". Two small divisions, Heat Treat Division and NitroSteel Division, which were previously included within the "Steel Tubes" segment, were retained by the company and are now included in the "Engineered Steel Bars" segment.

Adjustment Of Gain/Loss Reported in Prior Period

JOHNS MANVILLE CORPORATION (DEC)

	In thousands of dollars		
	1997	1996	1995
Income from Continuing Operations	$130,529	$190,525	$122,006
Income from Discontinued Operations, net of tax and Minority Interest (Note 21)			(36,491)
Gain (Loss) on Disposal of Discontinued Operations, net of tax (Note 21)	19,471	216,246	(42,502)
Income before Extraordinary Items	150,000	406,771	115,995

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 21: Discontinued Operations

During the third quarter of 1997, the Company adjusted the estimated gain recognized in 1996 on the disposition of Riverwood. The adjustment, resulting in an additional net gain on disposal of discontinued operations of $19.5 million, of which $8.2 million related to income taxes, arose from the resolution of indemnification issues with the purchaser of Riverwood and from the determination of certain income tax consequences of the disposition, which were finalized with the completion of the Company's 1996 income tax returns.

During 1996, the Company received gross cash proceeds of $1.08 billion from the disposition of its 81.3 percent interest in Riverwood and recorded a gain of $216.2 million, net of taxes of $138.7 million.

Riverwood's results of operations have been shown as discontinued operations through the disposition in the first quarter of 1996. Summarized information on the discontinued operations of Riverwood is as follows:

	In thousands of dollars 1995
Net Sales	$1,342,304
Income Before Income Taxes	$ 25,485
Income Tax Expense	11,214
Income Before Equity in Earnings of Affiliate and Minority interest	14,271
Equity in Earnings of Affiliate, net of taxes	30,609
Minority Interest in Riverwood	(8,389)
Income from Discontinued Operations, net of tax and Minority Interest	$ 36,491

In the fourth quarter of 1995, the Company recorded an estimated loss on the disposal of discontinued operations of $42.5 million. This loss primarily relates to deferred taxes on the Company's investment in Riverwood that had not been recognized previously. The Company recorded these taxes when it became apparent the taxes would be incurred due to the planned disposition of Riverwood.

KNAPE & VOGT MANUFACTURING COMPANY (JUN)

	1997	1996	1995
Income From Continuing Operations	$8,325,228	$3,103,058	$7,590,705
Discontinued Operation, Net of Income Taxes (Note 3)			
Income (loss) from operations	(471,624)	(337,926)	654,433
Estimated loss on sale	—	(2,700,000)	—
Total Discontinued Operation, Net of Income Taxes	(471,624)	(3,037,926)	654,433
Net Income	$7,853,604	$65,132	$8,245,138

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Discontinued Operation

On August 20, 1996, the Company announced its decision to sell the Roll-it division of Knape & Vogt Canada Inc. (Roll-it), the Company's store fixture operation. The Company has been seeking a buyer for Roll-it and has engaged the firm of J.J.B. Hilliard, W.L. Lyons, Inc. to assist in the sale. At the end of July 1997, several interested buyers have signed confidentiality agreements with the Company. Although it is difficult to predict, the Company expects to sell Roll-it during fiscal year 1998. Roll-it is reported as a discontinued operation, and the consolidated financial statements have been reclassified to segregate the net assets and operating results of the business.

The estimated loss recorded during fiscal 1996 on the sale of Roll-it was $3.9 million, which included a reduction in asset values of $3.6 million and a provision for anticipated closing costs and operating losses until disposal of $.3 million. The loss was reported net of an income tax benefit of $1.2 million, for an aftertax loss of $2.7 million.

During the third quarter of fiscal year 1997, the Company recorded an additional loss of $714,582, which is an adjustment to the estimated provision for operating losses of Roll-it through fiscal year 1997. The loss has been reported net of an income tax benefit of $242,958, for an after-tax loss of $471,624 or $.08 per share from discontinued operation. The adjustment was necessary as it became evident in the third quarter that Roll-it's sales for the year would be less than the level forecasted in recording the original estimated provision for operating losses through fiscal year 1997. The lower than expected sales is primarily attributable to less than forecasted orders from Roll-it's major customer. Income or loss attributable to Roll-it's operations beyond fiscal year 1997 through the date of the sale will be reflected as incurred in each reporting period.

The loss on the sale of Roll-it of $3.9 million was based on estimates of the proceeds expected to be realized on the sale of the store fixture operation. The

amounts the Company will ultimately realize could differ materially in the near term from the amounts assumed in arriving at the loss on disposal of the discontinued operation. Summary operating results of the discontinued operation (in thousands) are as follows:

Year ended June 30,	1997	1996	1995
Revenues	$10,531	$13,540	$14,851
Costs and expenses	11,237	13,990	13,823
Income (loss) before taxes	(706)	(450)	1,028
Income tax expense (benefit)	(234)	(112)	374
Net income (loss)	$ (472)	$ (338)	$ 654

At June 30, 1997, net assets of the discontinued operation of approximately $2.9 million consisted of $1.5 million of current assets, deductions for an allowance for the estimated loss on disposal, current liabilities and $1.4 million of equipment.

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 operations. Examples of charges or credits shown after the caption for income taxes applicable to income from continuing operations follow.

TABLE 3-16: CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Minority interest	87	86	87	75
Equity in earnings or losses of investees	34	36	35	37
Cumulative effect of accounting change	30	5	25	81
Other	10	9	4	8

BROWNING-FERRIS INDUSTRIES, INC. (SEP)

In Thousands	1997	1996	1995
Income before income taxes, minority interest and extraordinary items	$495,142	$27,706	$691,076
Income taxes	198,057	105,188	276,430
Minority interest in income of consolidated subsidiaries	13,390	11,690	30,085
Income (loss) before extraordinary items	283,695	(89,172)	384,561

GENERAL MILLS, INC. (MAY)

In Millions	1997	1996	1995
Earnings from Continuing Operations before Taxes and Earnings (Losses) of Joint Ventures	$710.0	$758.6	$419.6
Income Taxes	258.3	279.4	153.3
Earnings (Losses) from Joint Ventures	(6.3)	(2.8)	(6.6)
Earnings from Continuing Operations	445.4	476.4	259.7

THE BF GOODRICH COMPANY (DEC)

Dollars In Millions	1997	1996	1995
Income from continuing operations before income taxes and Trust distributions	$217.8	$194.4	$157.2
Income tax expense	(94.1)	(68.4)	(57.3)
Distributions on Trust preferred securities	(10.5)	(10.5)	(5.1)
Income From Continuing Operations	113.2	115.5	94.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note U. Preferred Securities of Trust

On July 6, 1995, BFGoodrich Capital, a wholly owned Delaware statutory business trust (the "Trust") which is consolidated by the Company, received $122.5 million, net of the underwriting commission, from the issuance of 8.3 percent Cumulative Quarterly Income Preferred Securities, Series A ("QUIPS"). The Trust invested the proceeds in 8.3 percent Junior Subordinated Debentures, Series A, due 2025 ("Junior Subordinated Debentures") issued by the Company, which represent approximately 97 percent of the total assets of the Trust. The Company used the proceeds from the Junior Subordinated Debentures primarily to redeem all of the outstanding shares of the $3.50 Cumulative Convertible Preferred Stock, Series D.

The QUIPS have a liquidation value of $25 per Preferred Security, mature in 2025 and are subject to mandatory redemption upon repayment of the Junior Subordinated Debentures. The Company has the option at any time on or after July 6, 2000, to redeem, in whole or in part, the Junior Subordinated Debentures with the proceeds from the issuance and sale of the Company's common stock within two years preceding the date fixed for redemption.

The Company has unconditionally guaranteed all distributions required to be made by the Trust, but only to the extent the Trust has funds legally available for such distributions. The only source of funds for the Trust to make distributions to preferred security holders is the payment by the Company of interest on the Junior Subordinated Debentures. The Company has the right to defer such interest payments for up to five years. If the

Company defers any interest payments, the Company may not, among other things, pay any dividends on its capital stock until all interest in arrears is paid to the Trust.

MAYTAG CORPORATION (DEC)

In thousands	1997	1996	1995
Income before income taxes, minority interest and extraordinary item	$300,555	$228,237	$59,804
Income taxes	109,800	89,000	74,800
Income (loss) before minority interest and extraordinary item	190,755	139,237	(14,996)
Minority interest	(7,265)	(1,260)	
Income (loss) before extraordinary item	183,490	137,977	(14,996)

XEROX CORPORATION (DEC)

In millions	1997	1996	1995
Income before Income Taxes, Equity Income and Minorities' Interests	$2,141	$1,944	$1,849
Income Taxes	728	700	615
Equity in Net Income of Unconsolidated Affiliates	127	123	131
Minorities' Interests in Earnings of Subsidiaries	88	161	191
Income from Continuing Operations	1,452	1,206	1,174

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* and the *AICPA Accounting Interpretation* published in the November 1973 issue of the *Journal of Accountancy* illustrate events and transactions which should and should not be classified as extraordinary items. These examples are reprinted in Section I17 of *FASB Accounting Standards—Current Text. Statement of Financial Accounting Standards No. 4* specifies 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. As shown in Table 3-17, practically all of the transactions classified as an extraordinary item in 1997 by the survey companies were debt extinguishments—all 62 at a loss. Examples of the presentation and disclosure of extraordinary items follow.

TABLE 3-17: EXTRAORDINARY ITEMS

	1997	**1996**	**1995**	**1994**
Nature				
Debt extinguishments	62	60	53	59
Other	3	5	3	—
Total Extraordinary Items	**65**	**65**	**56**	**59**
Number of Companies				
Presenting extraordinary items	64	63	55	59
Not presenting extraordinary items	536	537	545	541
Total Companies	**600**	**600**	**600**	**600**

Debt Extinguishments

ATLANTIC RICHFIELD COMPANY (DEC)

Millions	1997	1996	1995
Income before extraordinary item	$1,889	$1,663	$1,376
Extraordinary loss on extinguishment of debt, net of income taxes of $74 million	118	—	—
Net income	$1,771	$1,663	$1,376

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Extraordinary Item

During 1997, ARCO retired debt with a face value of $756 million prior to maturity. The debt repurchases resulted in an extraordinary charge of $118 million against net income, after tax of $74 million.

The impact of the extraordinary item on basic and diluted earnings per share was as follows:

Millions		Basic	Diluted
Income before extraordinary item	$1,889	$5.88	$5.77
Extraordinary loss	(118)	(0.37)	(0.36)
Net income	$1,771	$5.51	$5.41

FORT JAMES CORPORATION (DEC)

(In millions)	1997	1996	1995
Income before extraordinary item	$104.5	$328.0	$159.9
Extraordinary loss on early extinguishment of debt, net of taxes of $83.5 million in 1997, $5.3 million in 1996 and $11.9 million in 1995	(131.5)	(8.1)	(18.8)
Net income (loss)	$(27.0)	$319.9	$141.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (in part): Indebtedness

In connection with the merger, Fort James undertook a plan (the "Debt Refinancing Plan") designed to refinance an aggregate of approximately $2 billion principal amount of debt of Fort James and Fort Howard. In connection with the Debt Refinancing Plan, the Company incurred a $131.5 million, net of taxes, extraordinary loss for prepayment penalties and the write-off of deferred loan costs.

SAFEWAY INC. (DEC)

In millions	1997	1996	1995
Income before extraordinary loss	$621.5	$460.6	$328.3
Extraordinary loss related to early retirement of debt, net of income tax benefit of $41.1 and $1.3	(64.1)	—	(2.0)
Net income	$557.4	$460.6	$326.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C (in part): Financing

Redemptions. During 1997, the Company redeemed $588.5 million of the Subordinated Securities, $285.5 million of Vons' public debt and $40.0 million of medium-term notes using proceeds from the Senior Debt and commercial paper program. During 1995, Safeway retired $53.5 million of mortgage debt with proceeds from floating rate bank borrowings. In connection with these redemptions, Safeway recorded extraordinary losses of $64.1 million ($0.13 per share) in 1997 and $2.0 million in 1995. The extraordinary losses represent the payment of redemption premiums and the write-off of deferred finance costs, net of the related tax benefits.

Gain On Disposition Of Assets Following A Pooling Of Interests

KIMBERLY-CLARK CORPORATION (DEC)

Millions of dollars	1997	1996	1995
Income Before Extraordinary Gains	$884.0	$1,403.8	$33.2
Extraordinary gains, net of income taxes	17.5	—	—
Net Income	$901.5	$1,403.8	$33.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Extraordinary Gains

In March 1997, the Corporation sold its noncore pulp and newsprint facility located in Coosa Pines, Alabama ("Coosa") for approximately $600 million in cash. Also, in the first quarter of 1997, the Corporation recorded impairment losses on the planned disposal of a pulp manufacturing mill in Miranda, Spain; a recycled fiber facility in Oconto Falls, Wisconsin; and a tissue converting facility in Yucca, Arizona; and on an integrated pulp making facility in Everett, Washington. These impairment losses totaled $111.5 million before income tax benefits. In June 1997, the Corporation completed the sale of its interest in Scott Paper Limited ("SPL") for approximately $127 million. Accounting regulations require that certain transactions following a business combination that was accounted for as a pooling of interests be reported as extraordinary items. Accordingly, the above described transactions have been aggregated and reported as extraordinary gains totaling $17.5 million, net of applicable income taxes of $38.4 million. The high effective income tax rate on the extraordinary gains is due to income tax loss carryforwards in Spain that precluded the current recognition of the income tax benefit on the Miranda impairment loss and the tax basis in SPL being substantially lower than the carrying amount of the investment in the financial statements. The extraordinary gains were equal to $0.3 per share for both basic and diluted EPS.

COMPREHENSIVE INCOME

Foreign currency items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities are components of comprehensive income. Effective for fiscal years beginning after December 15, 1997, *Statement of Financial Accounting Standards No. 130* requires that the "components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements." Although the requirements of *SFAS No. 130* did not apply to 1997 financial statements, 14 survey companies reported the components of comprehensive income in a financial statement — 3 in a separate statement and 11 in a statement of changes in stockholders' equity. Examples of such financial statements are presented on pages 464-471.

EARNINGS PER SHARE

Effective for periods ending after December 15, 1997, *Statement of Financial Accounting Standards No. 128* supersedes *APB Opinion No. 15*. The reporting and disclosure requirements of *SFAS No. 128* are stated in paragraphs 36-42. Examples of earnings per share presentations follow.

ARMCO INC. (DEC)

(Dollars in millions, except per share amounts)	1997	1996	1995
Income before extraordinary loss	$79.8	$32.5	$29.8
Extraordinary loss on retirement of debt	(3.0)	—	—
Net income	$76.8	$32.5	$29.8
Basic and diluted earnings per share (Note 1)			
Income from continuing operations	$0.55	$0.08	$0.05
Income from discontinued operations	0.03	0.06	0.06
Extraordinary loss on retirement of debt	(0.03)	—	—
Net income	$0.55	$0.14	$0.11

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share amounts)

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

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the year. In arriving at income available to common shareholders, preferred stock dividends of $17.9 were deducted in each year presented. Diluted EPS reflects the potential dilution that could occur if dilutive securities and other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of Armco.

Average shares outstanding for basic EPS was 107 million in 1997. The calculation of diluted EPS in 1997 included the assumed conversion of the $3.625 Class A preferred stock into common stock, the effect of which would be to decrease preferred dividends by $9.8 and increase average shares outstanding by 18.3 million shares. This change had no effect on the calculated EPS amount. Average shares outstanding for both basic and diluted EPS was 106.6 million for 1996 and 106 million for 1995.

At December 31, 1997, 1996 and 1995, 5.4 million shares of preferred stock, which were convertible into 22.7 million common shares, were outstanding. All of these potential common shares were excluded from the computation of diluted EPS for 1996 and 1995, and approximately 4.4 million of the potential common shares were excluded for 1997 because their inclusion would have had an antidilutive effect on EPS. At December 31, 1997,1996 and 1995 substantially all of the 2.2 million, 1.7 million and 1.5 million, respectively, of the exercisable stock options and stock appreciation rights were excluded from the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares.

THE BLACK & DECKER CORPORATION (DEC)

(Dollars in Millions Except Per Share Data)	1997	1996	1995
Net Earnings	$227.2	$229.6	$224.0
Net Earnings Per Common Share—Basic:			
Earnings from continuing operations	$2.40	$1.69	$2.39
Earnings from discontinued operations	—	.79	.45
Extraordinary loss from early extinguishment of debt	—	—	(.36)
Net Earnings Per Common Share—Basic	$2.40	$2.48	$2.48
Net Earnings Per Common Share—Assuming Dilution:			
Earnings from continuing operations	$2.35	$1.66	$2.29
Earnings from discontinued operations	—	.73	.41
Extraordinary loss from early extinguishment of debt	—	—	(.33)
Net Earnings Per Common Share—Assuming Dilution	$2.35	$2.39	$2.37

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Summary Of Accounting Policies

Earnings Per Share: In 1997, the Financial Accounting Standards Board issued SFAS No. 128, Earnings per Share. SFAS No. 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share, respectively. Unlike the previously reported primary earnings per share, basic earnings per share excludes the dilutive effects of stock options. Diluted earnings per share is similar to the previously reported fully diluted earnings per share. Earnings per share amounts for all periods presented have been calculated in accordance with and, where appropriate, restated to conform to the requirements of SFAS No. 128.

Note 16: Earnings Per Share

The computations of basic and diluted earnings per share from continuing operations for each year were as follows:

(Amounts in Millions Except Per Share Data)	1997	1996	1995
Numerator:			
Earnings from continuing operations	$227.2	$159.2	$216.5
Preferred stock dividend	—	(9.1)	(11.6)
Numerator for basic earnings per share— earnings from continuing operations available to common stockholders	227.2	150.1	204.9
Effect of dilutive securities— preferred stock dividend	—	9.1	11.6
Numerator for diluted earnings per share — earnings from continuing operations available to common stockholders after assumed conversions	$227.2	$159.2	$216.5
Denominator:			
Denominator for basic earnings per share from continuing operations—weighted-average shares	94.6	88.9	85.7
Effect of dilutive securities:			
Employee stock options and stock issuable under employee benefit plans	1.9	2.2	2.3
Convertible preferred stock	—	5.0	6.4
Dilutive potential common shares	1.9	7.2	8.7
Denominator for diluted earnings per share from continuing operations—adjusted weighted-average shares and assumed conversions	96.5	96.1	94.4
Basic earnings per share from continuing operations	$2.40	$1.69	$2.39
Diluted earnings per share from continuing operations	$2.35	$1.66	$2.29

For additional information regarding the preferred stock and employee stock options, see Notes 15 and 17, respectively.

The following options to purchase shares of common stock were outstanding during each year, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares for the year and, therefore, the effect would be antidilutive:

	1997	1996	1995
Number of options (in millions)	0.7	0.3	0.1
Weighted-average exercise price	$38.64	$37.56	$35.38

E.I. DU PONT DE NEMOURS AND COMPANY (DEC)

(Dollars in millions, except per share)	1997	1996	1995
Net Income	$2,405	$3,636	$3,293
Earnings Per Share of Common Stock (Note 8)			
Basic	$2.12	$3.23	$2.81
Diluted	$2.08	$3.18	$2.77

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions, except per share)

8. Earnings Per Share of Common Stock

Statement of Financial Accounting Standards No. 128, "Earnings Per Share," became effective in the fourth quarter of 1997 and requires two presentations of earnings per share - "basic" and "diluted." Basic earnings per share is computed by dividing income available to common stockholders (the numerator) by the weighted-average number of common shares (the denominator) for the period. The computation of diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

The numerator in calculating both basic and diluted earnings per share for each year is reported net income less preferred dividends of $10. The denominator is based on the following weighted-average number of common shares:

	1997	1996	1995
Basic	1,130,755,483	1,121,350,592	1,170,214,952
Diluted	1,149,803,450	1,139,822,755	1,183,408,459

The difference between basic and diluted weighted-average common shares results from the assumption that dilutive stock options outstanding were exercised.

The following stock options and warrants are not included in the diluted earnings per share calculation since in each case the exercise price is greater than the average market price:

	1997	1996	1995
Stock options	4,992,300	—	512,000
Warrants	—	—	312,000,000

Shares held by the Flexitrust are not considered in computing the weighted-average number of common shares.

FORTUNE BRANDS, INC. (DEC)

(In millions, except per share amounts)	1997	1996	1995
Net income	$98.5	$486.5	$540.4
Earnings per Common share			
Basic			
Income from continuing operations	$.24	$1.04	$.99
Income from discontinued operations	.38	1.82	1.91
Extraordinary items	(.05)	(.06)	(.01)
Net income	$.57	$2.80	$2.89
Diluted			
Income from continuing operations	$.23	$1.03	$.98
Income from discontinued operations	.38	1.79	1.89
Extraordinary items	(.05)	(.06)	(.01)
Net income	$.56	$2.76	$2.86
Dividends paid per Common share	$1.41	$2.00	$2.00
Average number of Common shares outstanding			
Basic	171.6	173.3	186.9
Diluted	173.3	176.1	189.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Earnings Per Share

In the fourth quarter of 1997, the Company adopted FAS Statement No. 128, "Earnings per Share". Accordingly, diluted earnings per Common share for all prior periods have been restated.

Basic earnings per Common share are based on the weighted average number of Common shares outstanding in each year and after preferred stock dividend requirements. Diluted earnings per Common share assume that any dilutive convertible debentures and convertible preferred shares outstanding at the beginning of each year were converted at those dates, with related interest, preferred stock dividend requirements and outstanding Common shares adjusted accordingly. It also assumes that outstanding Common shares were increased by shares issuable upon exercise of those stock options for which market price exceeds exercise price, less shares which could have been purchased by the Company with related proceeds. The Convertible Preferred stock was not included in the computation of diluted earnings per Common share for 1997 since it would have resulted in an antidilutive effect.

The computation of basic and diluted earnings per Common share for "Income from continuing operations" is as follows:

(In millions, except per share amounts)	1997	1996	1995
Income from continuing operations	$41.5	$181.7	$185.9
Less: Preferred stock dividends	1.1	1.2	1.3
Income available to Common stockholders—basic	40.4	180.5	184.6
Convertible Preferred stock dividend requirements	—	1.2	1.3
Income available to Common stockholders —diluted	$40.4	$181.7	$185.9
Weighted average number of Common shares outstanding —basic	171.6	173.3	186.9
Conversion of Convertible Preferred stock	—	1.8	2.0
Exercise of stock options	1.7	1.0	0.7
Weighted average number of Common shares outstanding —diluted	173.3	176.1	189.6
Earnings per Common share			
Basic	$.24	$1.04	$.99
Diluted	$.23	$1.03	$.98

HONEYWELL INC. (DEC)

(Dollars and Shares in Millions Except Per Share Amounts)	1997	1996	1995
Net Income	$471.0	$402.7	$333.7
Basic Earnings Per Common Share	$3.71	$3.18	$2.62
Average Number of Basic Common Shares Outstanding	127.1	126.6	127.1
Diluted Earnings Per Common Share	$3.65	$3.11	$2.58
Average Number of Diluted Common Shares Outstanding	129.2	129.5	129.5

NOTES TO FINANCIAL STATEMENTS (Dollars in Millions Except Per Share Amounts)

1 (In Part): Accounting Policies

Earnings Per Common Share. In 1997, Honeywell adopted Statement of Financial Accounting Standards No. 128 (SFAS 128), "Earnings Per Share." SFAS 128 requires the disclosure of Basic and Diluted Earnings per Share (EPS). Basic EPS is calculated using income available to common shareowners divided by the weighted average of common shares outstanding during the year. Diluted EPS is similar to Basic EPS except that the weighted average of common shares outstanding is

increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares, such as options, had been issued. The treasury stock method is used to calculate dilutive shares which reduces the gross number of dilutive shares by the number of shares purchasable from the proceeds of the options assumed to be exercised. All prior year Earnings per Share have been restated in accordance with the provisions of SFAS 128. Adoption of SFAS 128 did not have a material effect on Honeywell's historically disclosed Earnings per Share. See Note 4 on page 41 for more information regarding the Earnings per Share calculations.

4. Earnings Per Share

	1997	1996	1995
Basic Earnings Per Share:			
Income:			
Income available to common shareowners	$471.0	$402.7	$333.6
Weighted-Average Shares:			
Outstanding	127,051,613	126,632,082	127,138,774
Basic EPS	$3.71	$3.18	$2.62
Diluted Earnings Per Share:			
Income:			
Income available to common shareowners	$471.0	$402.7	$333.6
Weighted Average Shares:			
Outstanding	127,051,613	126,632,082	127,138,774
Dilutive shares issuable in connection with stock plans	4,767,393	6,286,392	7,326,033
Less: Shares purchasable with proceeds	(2,626,784)	(3,437,695)	(4,961,681)
Total Shares	129,192,222	129,480,779	129,503,126
Diluted EPS	$3.65	$3.11	$2.58

Options to purchase 1.4 million shares of common stock at a range of $69.43 to $78.91 were outstanding during 1997 but were not included in the computation of the diluted EPS because the options' exercise price was greater than the average market price of the common shares.

INLAND STEEL INDUSTRIES, INC. (DEC)

Dollars in Millions (except per share data)	1997	1996	1995
Income before extraordinary loss	$119.3	$69.0	$146.8
Extraordinary loss on early retirement of debt (Note 4)	—	(23.3)	—
Net income	119.3	45.7	146.8
Dividend requirements for preferred stock (net of tax benefits related to leveraged ESOP shares)	9.1	9.1	19.0
Net income applicable to common stock	$110.2	$36.6	$127.8
Per share of common stock (Note 17)			
Basic:			
Before extraordinary loss	$2.25	$1.23	$2.70
Extraordinary loss on early retirement of debt	—	(.48)	—
Net income	$2.25	$.75	$2.70
Diluted:			
Before extraordinary loss	$2.13	$1.17	$2.55
Extraordinary loss on early retirement of debt	—	(.45)	—
Net income	$2.13	$.72	$2.55

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17: Earnings Per Share

Basic earnings per share Dollars and Shares in Millions (except per share data)	1997	1996	1995
Income before extraordinary items	$119.3	$69.0	$146.8
Less preferred stock dividends	9.1	9.1	19.0
Income available to common stockholders	110.2	59.9	127.8
Extraordinary items	—	(23.3)	—
Net income available to common stockholders	$110.2	$36.6	$127.8
Average shares of common stock outstanding	48.9	48.8	47.3
Basic earnings per share			
Before extraordinary items	$2.25	$1.23	$2.70
Extraordinary items	—	(.48)	—
Net income	$2.25	$.75	$2.70

Diluted earnings per share Dollars and Shares in Millions (except per share data)	1997	1996	1995
Income available to common stockholders	$110.2	$59.9	$127.8
Effect of dilutive securities			
Series A preferred stock	—	—	.2
Series E leveraged preferred stock	8.7	8.5	8.2
Additional ESOP funding required on conversion of Series E leveraged preferred stock, net of tax	(8.1)	(7.9)	(7.6)
Income available to common stockholders and assumed conversions before extraordinary items	110.8	60.5	128.6
Extraordinary items	—	(23.3)	—
Net income available to common stockholders and assumed conversions	$110.8	$37.2	$128.6
Average shares of common stock outstanding	48.9	48.8	47.3
Assumed conversion of			
Series A preferred stock	—	—	.1
Series E leveraged preferred stock	3.0	3.0	3.0
Dilutive effect of stock options	—	—	.1
Shares outstanding for diluted earnings per share calculation	51.9	51.8	50.5
Diluted earnings per share			
Before extraordinary items	$2.13	$1.17	$2.55
Extraordinary items	—	(.45)	—
Net income	$2.13	$.72	$2.55

UNISYS CORPORATION (DEC)

(Millions, except per share data)	1997	1996	1995
Net income (loss)	(853.6)	49.7	(624.6)
Dividends on preferred shares	111.1	120.8	120.3
Earnings (loss) on common shares	$(964.7)	$(71.1)	$(744.9)
Earnings (loss) per common share - basic			
Continuing operations	$(5.30)	$(.34)	$(4.37)
Discontinued operations			.02
Extraordinary item		(.07)	
Total	$(5.30)	$(.41)	$(4.35)
Earnings (loss) per common share - diluted			
Continuing operations	$(5.30)	$(.34)	$(4.37)
Discontinued operations			.02
Extraordinary item		(.07)	
Total	$(5.30)	$(.41)	$(4.35)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Earnings per share

As of December 31, 1997, the company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share." This statement establishes new standards for computing and presenting earnings per share. Adoption of SFAS No. 128 and restatement of prior periods' earnings per share were required in the fourth quarter of 1997. For the company, earnings per share under SFAS No. 128 for 1997 was the same as if it were computed in accordance with the prior rule. The effect of restatement on prior periods was immaterial.

Year ended December 31 (Millions, except per share data)	1997	1996	1995
Earnings per share computation - basic			
Income (loss) from continuing operations before extraordinary item	$(853.6)	$61.8	$(627.3)
Less dividends on preferred shares	(111.1)	(120.8)	(120.3)
Income (loss) available to common stockholders	(964.7)	(59.0)	(747.6)
Discontinued operations			2.7
Extraordinary item		(12.1)	
Net income (loss) available to common stockholders	$(964.7)	$(71.1)	$(744.9)
Weighted average shares (thousands)	182,016	172,507	171,238
Earnings per share - basic			
Income (loss) from continuing operations before extraordinary item	$(5.30)	$(.34)	$(4.37)
Discontinued operations			.02
Extraordinary item		(.07)	
Net income (loss)	$(5.30)	$(.41)	$(4.35)
Earnings per share computation - diluted			
Income (loss) available to common stockholders	$(964.7)	$(59.0)	$(747.6)
Discontinued operations			2.7
Extraordinary item		(12.1)	
Net income (loss) available to common stockholders	$(964.7)	$(71.1)	$(744.9)
Weighted average shares (thousands)	182,016	172,507	171,238
Earnings per share-diluted			
Income (loss) from continuing operations before extraordinary item	$(5.30)	$(.34)	$(4.37)
Discontinued operations			.02
Extraordinary item		(.07)	
Net income (loss)	$(5.30)	$(.41)	$(4.35)

The average shares listed below were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the periods presented.

Year ended December 31 (thousands)	1997	1996	1995
Employee stock plans	4,154	723	719
8¼% convertible notes due 2006	40,946	35,486	
8¼% convertible notes due 2000	27,016	33,697	33,697
Series A preferred stock	47,454	47,454	47,454

WESTPOINT STEVENS INC. (DEC)

(In thousands, except per share data)	1997	1996	1995
Net income (loss)	$78,021	$57,665	$(129,848)
Basic net income (loss) per common share:			
Continuing operations	$1.14	$.92	$(1.57)
Discontinued operations	.04	—	(.42)
Gain on sale of discontinued operations	.10	—	—
Net income (loss) per common share	$1.28	$.92	$(1.99)
Diluted net income (loss) per common share:			
Continuing operations	$1.11	$.91	$(1.57)
Discontinued operations	.04	—	(.42)
Gain on sale of discontinued operations	.10	—	—
Net income (loss) per common share	$1.25	$.91	$(1.99)
Basic average common shares outstanding	61,078	62,656	65,398
Dilutive effect of stock options and stock bonus plan	1,576	1,018	—
Diluted average common shares outstanding	62,654	63,674	65,398

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Principles

Earnings Per Common Share. In 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings per Share. Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the Statement 128 requirements.

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 those disclosures. Examples of such disclosures follow.

ABBOTT LABORATORIES (DEC)

ABBOTT IN THE COMMUNITY

Abbott maintains a worldwide corporate presence that extends beyond its business operations. The company is committed to using its resources to improve the lives of people throughout the world.

Social responsibility

During 1997 outreach efforts ranged from product and financial donations for worldwide relief efforts to local and national education programs and employee volunteer activities.

Abbott was quick to aid victims of natural disasters in many areas of the world. Working with humanitarian aid organizations, Abbott provided more than $22 million in product donations.

In keeping with Abbott's dual commitment to science education and health awareness, the company launched a unique AIDS education program in partnership with the National Science Teachers Association. This innovative curriculum, which is being introduced in high schools throughout the United States, teaches students about the science of HIV and AIDS so they understand how the disease is prevented and treated.

Abbott maintains a strong commitment to the communities in which it operates. Community involvement extends from in-kind corporate contributions to employee fundraising campaigns and employee volunteer efforts. For example, Abbott employees in Queenborough, England, recently cleaned up the seafront near their facility. The group removed weeds and debris to make the area more accessible and enjoyable for local residents.

In-kind contributions also support local community needs. Abbott has donated a manufacturing facility in Rocky Mount, N.C., to Tri-County Industries, a work-oriented rehabilitation facility serving disabled and disadvantaged people.

Diversity

Abbott recognizes that its business performance is strongly linked to its ability to successfully attract, retain and develop a diverse employee population. The company's management team continues to promote new diversity efforts within Abbott.

Abbott supports the "PhD Project," designed to increase the number of minorities in doctoral business programs, and an ongoing program to purchase supplies from minority- and women-owned businesses.

The company also sponsors an exhibit on cultural diversity at Chicago's Field Museum. Called "Living Together," this permanent exhibit is designed to foster understanding between people in today's increasingly diverse society. It focuses on how people of different cultures deal with the common concerns of home, image and community.

Abbott views the principles of equal employment opportunity and affirmative action as important elements in its employment practice and as a hallmark of good management.

Safety and the environment

Abbott is committed to protecting the environment and the safety of its work force. More than 300 pollution and waste reduction programs are in place at Abbott facilities worldwide. The company also has established highly effective health and safety, energy conservation, recycling and packaging programs.

THE CLOROX COMPANY (JUN)

BUILDING OUR COMMUNITIES

We build a lot of things inside and outside of our headquarters in Oakland, and in the dozens of communities across America and Canada that we call home.

By building a growing business that provides jobs and paychecks, and pays taxes, we help cities and towns grow. Additionally, efforts by Clorox volunteers and our charitable giving programs are building greater understanding with our neighbors, building confidence in kids, building better parks and playgrounds, and helping civic organizations build stronger futures of their own.

Our people are board members and docents at zoos and museums. Some spend hours in classrooms as volunteer teachers. We help build affordable housing with Habitat for Humanity. We clear brush and dig holes for new trees so quail in one California park now have a nicer home. A high school science fair that we helped initiate in Fairfield, Calif., is now a highly anticipated event for youngsters. We're also involved with the Alzheimer's Association, the American Cancer Society, the American Red Cross, Junior Achievement, March of Dimes, United Way and the United Negro College Fund.

Other employees take the safety and emergency response expertise they learned on the job and apply it as chiefs, assistant chiefs, firefighters and emergency medical technicians in volunteer fire departments throughout the country.

Clorox's community grants program, conducted at each of our 20 manufacturing and research locations in the U.S. and Canada, provided $218,000 during the past fiscal year to a total of 29 organizations. The majority of the funding gave school children new books, computers, scholarships and tutoring, and supported training programs for teachers.

In the San Francisco Bay Area, Clorox employees and The Clorox Company Foundation combined to raise $1.4 million in fiscal year 1997 for charitable agencies as part of the employee-driven GIFT (Getting Involved For Tomorrow) Campaign.

KMART CORPORATION (JAN)

COMMUNITY COMMITMENT

Kmart expresses our big commitment to communities and families coast-to-coast in many ways. As part of our pledge to America's Promise, Kmart strives to give children a healthier start in life and supports programs nationwide that offer young people safe, fun alternatives through which they can learn and grow.

In 1997, Kmart contributed more than $13.6 million in cash to charitable causes nationwide, such as Rosie O'Donnell's For All Kids Foundation and the United Way. Kmart also donated nearly $8 million in merchandise, such as school supplies and clothing, to charities in 1997 through Gifts In Kind International and other outreach partnerships.

The Kmart Family Foundation
& The Kmart Kids Race Against Drugs

The Kmart Family Foundation is a corporate leader in the fight against drug abuse by children and youth. A fun family event called The Kmart Kids Race Against Drugs uniquely combines the excitement of racing with the opportunity to educate young people about the dangers of drug abuse. Kmart has raised more than $2 million to benefit drug-fighting charities and grassroots programs nationwide since 1996. Celebrities from Kathy Ireland, Paul Newman and Jaclyn Smith to Sugar Ray Leonard, Mary Lou Retton, Michael Andretti, Christian Fittipaldi and Jeff Gordon are among those who have joined our national fight against drugs.

March of Dimes WalkAmerica

Kmart has earned the distinction of being the first place WalkAmerica team in the nation for the past 13 years and, in doing so, has raised more than $17.5 million to help in the March of Dimes' fight against birth defects. As the National Retail Sponsor of WalkAmerica, Kmart promotes March of Dimes in its national circular, displays sponsor forms and develops special promotions with suppliers such as Mattel and Kellogg. In 1997 alone, Kmart associates raised $2.5 million for March of Dimes and reinforced the message that "Kmart Loves Kids."

Give Kids The World

Kmart helps children's dreams come true through fundraising support of Give Kids The World—a special village that provides terminally ill children and their families with all-expense-paid vacations to central Florida. Special Kmart promotions with companies such as Coca-Cola and Procter & Gamble reinforce a shared commitment to the children. Kmart raised more than $2.1 million for Give Kids The World in 1997, resulting in the biggest grant ever made to this special charity that works with wish-granting foundations, hospitals and hospices worldwide.

Kmart Community Volunteers

Year after year, Kmart's 260,000 associates show their personal generosity as they volunteer thousands of hours to improve the lives of children, families and the communities they serve. Kmart associates support community causes through Community Volunteer teams organized in every Kmart, Big Kmart and Super Kmart.

First established in 1985, these volunteer teams rally support for national charitable causes and generously lend their support to hometown causes.

During the Yuletide season, Kmart volunteers host annual shopping sprees for more than 50,000 underprivileged children in hometowns coast-to-coast.

Kmart associates also reach out to victims of fires, hurricanes, explosions, floods and tornadoes when nature expresses its devastating force. From filling sand bags to providing relief supplies such as batteries, blankets and bottled water, associates pitch in and Kmart contributes much-needed funds so that the American Red Cross and Salvation Army can help others.

Giving back to the communities Kmart serves is a big commitment and a proud legacy.

MERCK & CO., INC. (DEC)

CORPORATE CITIZENSHIP

Merck outpaces all other companies in charitable giving. A 1997 Corporate Giving Watch report ranked Merck No. 1 in corporate giving. Merck is able to make these contributions because of our business success in providing life-saving, life-improving medicines and vaccines. Merck supports nonprofit organizations through The Merck Company Foundation to improve education and increase knowledge in science, develop codes of ethics for better business practices, improve the quality of life in the communities where we operate and protect the environment for future generations.

Eliminating river blindness as a major public health problem

1997 was the 10th anniversary of Merck's decision to donate Mectizan to treat river blindness (onchocerciasis). Last year, more than 18 million people in Africa and Latin America received the medicine. In June, Merck joined a global public/private partnership in signing a Declaration of Intent, which reaffirmed Merck's commitment to donate Mectizan for as long as necessary to all who need it for river blindness.

Developing scientists for the future

The Merck Institute for Science Education works closely with four school districts near Merck facilities in New Jersey and Pennsylvania to improve science education. The National Science Foundation (NSF) uses the Merck Institute as a model for school/business partnerships. NSF awarded the Institute a five-year, $2.4 million grant in 1996 to expand its programs.

Facilitating dialogue for ethical business practices

Merck gave a $1 million grant to the Ethics Resource Center to help establish the Gulf Center for Excellence in Ethics for the Middle East in the United Arab Emirates. The goal is to help government and the private sector raise ethical standards and develop codes of ethics for better business practices in the context of their own cultures.

Making the world a cleaner, healthier and safer place

In 1997, Merck was named, for the second time, an Environmental Champion by the Environmental Protection Agency (EPA) for our leadership in voluntary initiatives. Merck is also participating in the EPA's Project XL program — one of U.S. Vice President Al Gore's "Reinventing Government" initiatives — to voluntarily reduce air emissions while gaining unparalleled operating flexibility.

MINNESOTA MINING AND MANUFACTURING COMPANY (DEC)

COMMUNITY AND THE ENVIRONMENT

3M Employees Make a Difference

Our company and employees continue to support education, communities, the arts, and health and human services. In 1997, 3M donated over $35 million in cash, products and services to more than 2,000 educational and charitable organizations.

Education is a key area of emphasis, with special focus on science, math and economics from elementary to graduate levels. In higher education, we provide grants to colleges and universities for capital improvements and academic programs, as well as for scholarships, fellowships and other efforts.

3M employees continue to make a difference in their communities as volunteers, mentors and tutors. As part of Science Encouragement programs, 3M scientists and engineers visit schools to spark student interest in science and math. These popular programs, which originated in St. Paul, Minnesota, have expanded throughout the United States, as well as into Japan, the United Kingdom, Canada and other countries. Our employees and retirees also volunteer countless hours to community service projects, such as Meals-on-Wheels and Habitat for Humanity.

For more information, access www.3M.com/profile/community on the Internet or call 1-800-3M-HELPS for a 3M Contributions Program Annual Report.

Environmental, Health and Safety Focus

3M is committed to safe, healthy and environmentally sustainable products and operations. We've advanced into Life Cycle Management, in which our employees strive to improve environmental, health and safety aspects of 3M products from development to disposal.

For example, employees tested 400 formulas to develop 3M's newest firefighting foam, which passed 40 rigorous internal performance and environmental tests.

Since 1990, 3M has reduced its waste-generation ratio by 31 percent. During the same period, we've cut air emissions by 70 percent, reduced releases to water by 52 percent and improved energy efficiency by more than 7 percent.

Since 1994, 3M has reduced recordable work-related illness and injury by 50 percent. We aim for "zero incidents' through prevention planning, employee involvement and knowledge transfer in all of our operations.

To learn more, access www.3M.com/profile/envt on the Internet or call 1-800-3M-HELPS for our Environmental Progress Report.

THE QUAKER OATS COMPANY (DEC)

CORPORATE SOCIAL RESPONSIBILITY

Social Responsibility
Quaker is committed to supporting the communities where it manufactures and markets products. Through The Quaker Oats Foundation and its corporate community relations and volunteer programs, the Company supports groups and activities to: strengthen the communities that support Quaker's businesses; develop a diverse workforce and supplier base; and build positive relationships with community groups and neighbors. Quaker's support reflects two facts: 1) the Company is a leading producer and marketer of wholesome foods and beverages, and 2) the Company values a diverse work force. Accordingly, the primary areas for support are nutrition education and counseling, hunger, health issues related to nutrition and hunger, and minority education.

In 1997, The Quaker Oats Company and The Quaker Oats Foundation contributed approximately $11 million in grants and food product donations (approximately $3 million in cash and $8 million in product donations) to support communities where Quaker operates.

The Quaker Oats Foundation - In 1997, the Foundation made grants totaling more than $1.9 million. Direct grants were made to about 100 organizations, totaling $900,000. Over 90 percent of this amount benefited communities where the Company has facilities. Examples of the Foundation's grants during the year include support for enhanced nutrition education in local Head Start programs, Second Harvest, the National Hispanic Scholarship Fund, the Big Shoulders Fund in Chicago, the American Indian College Fund, the Chinese American Service Fund, the Greater Chicago Food Depository and the NAACP's scholarship program—ACT-SO. The Foundation contributed over $86,000 in scholarships for children of Company employees through the National Merit Scholarship program. It also provided substantial support to local United Way campaigns, adding to the United Way contributions made by Company employees in their communities. In 1997, the Foundation's contributions to 25 United Way campaigns across the country totaled over $400,000. Combined with Quaker employee contributions of more than $950,000, employees and the Foundation contributed $1.35 million to the United Way in 1997.

In addition to direct grants, The Quaker Oats Foundation encourages and enhances the philanthropic activity of Company employees through three special programs: Matching Gifts, Dollars for Doers and Volunteer of the Year. In 1997, more than 1,000 organizations received over $550,000 in matching gifts through Quaker's Foundation. The Foundation also awarded 119 grants totaling $58,400 to supplement the volunteer efforts of employees in not-for-profit organizations under its Dollars for Doers and Volunteer of the Year programs.

Community Relations and Volunteer Programs-Around the block and around the country, Quaker supports communities where it does business. Support ranges from financial contributions and product donations to volunteer efforts by Quaker employees. In 1997, Quaker provided more than $800,000 in corporate support to hundreds of not-for-profit organizations across the country. Examples include the League of United Latin American Citizens, the NAACP, Voices of Tomorrow (a Quaker-sponsored national youth gospel choir competition), Asian Human Services, United Negro College Fund, Chicago Urban League, YMCA of Metropolitan Chicago, Spanish Coalition for Jobs, Metropolitan Family Services, Boys and Girls Clubs of America, the National Council of LaRaza and AIDS Walk.

Quaker has long encouraged and supported employee volunteer programs, both at its corporate office and at local facilities across the United States. We believe that employee volunteerism improves the lives of our consumers and employees and strengthens the communities where Quaker operates. Employee volunteer efforts are wide-ranging, including tutoring and school mentoring programs and a variety of walks and runs for causes such as the March of Dimes' WalkAmerica, the Greater Chicago Food Depository's Walk for Hunger and various marathons that support research efforts on behalf of AIDS, cancer, diabetes and heart disease. Still other employees work at food banks, solicit donors for blood and bone marrow, work with Boy and Girl Scouts, sort clothing donations, staff shelters and food pantries and provide food, clothing and toys to various not-for-profit organizations.

Section 4: Stockholders' Equity

This section reviews the presentation of transactions, other than net income (loss) for the year, affecting stockholders' equity.

RETAINED EARNINGS

PRESENTATION OF CHANGES IN RETAINED EARNINGS

Paragraph 152 of *Statement of Financial Accounting Standards No. 95* states that a complete set of financial statements includes a presentation of "results of operations." Paragraph 7 of *APB Opinion No. 9* states that a statement of income and a statement of retained earnings "are designed to reflect" results of operations. As shown in Table 4-1, which summarizes the presentation formats used by the survey companies to present changes in retained earnings, changes in retained earnings are most frequently presented in a Statement of Stockholders' Equity. Examples of statements showing changes in retained earnings are presented throughout this section.

TABLE 4-1: PRESENTATION OF CHANGES IN RETAINED EARNINGS

	1997	1996	1995	1994
Statement of stockholders' equity	521	505	497	488
Separate statement of retained earnings	26	32	33	36
Combined statement of income and retained earnings	12	15	19	23
Schedule in notes	41	48	51	53
Total Companies	**600**	**600**	**600**	**600**

DIVIDENDS

Table 4-2 shows the nature of distributions made by the survey companies to their shareholders. Approximately 58% 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 28% of the survey companies made a similar disclosure for cash dividends paid to preferred stock shareholders.

Stock purchase rights enable the holders of such rights to purchase additional equity in a company if an outside party acquires or tenders for a substantial minority interest in the subject company. Of the 13 survey companies issuing stock purchase rights during 1997, 3 companies did so under a plan which replaced a plan adopted in a prior year.

Examples of distributions to shareholders follow.

TABLE 4-2: DIVIDENDS

	Number of Companies			
	1997	1996	1995	1994
Cash Dividends Paid to Common Stock Shareholders				
Per share amount disclosed in retained earnings statements	256	268	276	278
Per share amount not disclosed in retained earnings statements	182	178	168	159
Total	**438**	**446**	**444**	**437**
Cash Dividends Paid to Preferred Stock Shareholders				
Per share amount disclosed in retained earnings statements	28	37	49	45
Per share amount not disclosed in retained earnings statements	70	89	84	91
Total	**98**	**126**	**133**	**136**
Dividends Paid by Pooled Companies	**1**	**2**	**3**	**2**
Stock Dividends	**7**	**7**	**11**	**8**
Dividends in Kind	**14**	**16**	**14**	**8**
Stock Purchase Rights	**13**	**36**	**10**	**3**

Cash Dividends

ALLIEDSIGNAL INC. (DEC)

Consolidated Statement of Retained Earnings

(Dollars in millions, except per share amounts)	1997	1996	1995
Balance at beginning of year	$3,214	$2,315	$1,613
Net income	1,170	1,020	875
Common stock dividends (1997—$.52 per share; 1996—$.45 per share; 1995—$.39 per share)	(295)	(262)	(217)
Other	—	141	44
Balance at end of year	$4,089	$3,214	$2,315

HOMASOTE COMPANY (DEC)

Consolidated Statements of Operations and Retained Earnings

	1997	1996	1995
Net (loss) earnings	$ (445,778)	$ 708,489	$ 786,100
Retained earnings at beginning of year	14,950,349	14,407,554	13,842,541
Less cash dividends paid ($0.24 per share in 1997, $0.44 per share in 1996 and $0.58 per share in 1995)	(90,300)	(165,694)	(221,087)
Retained earnings at end of year	$14,414,271	$14,950,349	$14,407,554

COOPER TIRE & RUBBER COMPANY

Consolidated Statements of Stockholders' Equity

(Dollar amounts in thousands, per-share amounts in dollars)	Common Stock $1 Par Value	Capital In Excess of Par Value	Retained Earnings	Cumulative Currency Translation Adjustment	Minimum Pension Liability	Common Shares in Treasury	Total
Balance at January 1, 1995	$83,634	$1,656	$582,137	$ —	$(5,350)	$ —	$662,077
Net income			112,820				112,820
Exercise of stock options	28	275					303
Cash dividends - $.27 per share			(22,584)				(22,584)
Minimum pension liability adjustment, net of income taxes					(3,817)		(3,817)
Balance at December 31, 1995	83,662	1,931	672,373	—	(9,167)	—	748,799
Net income			107,884				107,884
Purchase of treasury shares						(46,134)	(46,134)
Exercise of stock options	10	96					106
Cash dividends - $.31 per share			(25,776)				(25,776)
Minimum pension liability adjustment, net of income taxes					1,733		1,733
Balance at December 31, 1996	83,672	2,027	754,481	—	(7,434)	(46,134)	786,612
Net income			122,411				122,411
Purchase of treasury shares						(54,117)	(54,117)
Exercise of stock options	88	1,074					1,162
Cash dividends - $.35 per share			(27,622)				(27,622)
Cumulative currency translation adjustment				2,448			2,448
Minimum pension liability adjustment, net of income taxes					2,681		2,681
Balance at December 31, 1997	$83,760	$3,101	$849,270	$2,448	$(4,753)	$(100,251)	$833,575

Stock Dividend

REPUBLIC GROUP INCORPORATED

Consolidated Statements of Stockholders' Equity

(In thousands of dollars)	Common stock, $1 par value	Additional paid-in capital	Retained earnings	Treasury Stock Shares	Treasury Stock Amount at cost	Pension liability adjustment	Total
Balance at June 30, 1994	$10,538	$12,211	$18,450	—	$ —	$(26)	$41,173
Net income	—	—	11,677	—	—	—	11,677
Cash dividends on common stock, $.209 per share	—	—	(2,426)	—	—	—	(2,426)
Exercise of stock options	22	97	—	—	—	—	119
Pension liability adjustment	—	—	—	—	—	26	26
Balance at June 30, 1995	10,560	12,308	27,701	—	—	—	50,569
Net income	—	—	14,912	—	—	—	14,912
Cash dividends on common stock $.259 per share	—	—	(3,018)	—	—	—	(3,018)
Exercise of stock options	47	154	—	—	—	—	201
Balance at June 30, 1996	10,607	12,462	39,595	—	—	—	62,664
Net income	—	—	19,663	—	—	—	19,663
Cash dividends on common stock, $.344 per share	—	—	(4,020)	—	—	—	(4,020)
10% stock dividend	1,064	15,163	(16,277)	—	—	—	—
Purchase of treasury stock	—	—	—	(51)	(1,069)	—	(1,069)
Shares issued under ESOP Plan	—	—	(16)	18	376	—	360
Exercise of stock options	45	202	—	—	—	—	247
Balance at June 30, 1997	$11,716	$27,827	$38,995	(33)	$ (693)	$ —	$77,845

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Stock Dividend

On January 28, 1997, the Company declared a 10% stock dividend on the Company's common stock which was paid on March 14, 1997 to stockholders of record on February 28, 1997. The dividend was charged to retained earnings in the amount of $16.2 million, which was based on the fair value of the Company's common stock. In addition to the 10% stock dividend, the Company increased the number of stock options and purchase rights under the 1989 Plan and the Non-Employee Director Plan by 10% and reduced the exercise prices accordingly. All references to weighted average shares outstanding, per share amounts, stock purchase rights, option shares, and exercise prices included in the accompanying consolidated financial statements and notes reflect the 10% stock dividend and its retroactive effect.

Dividends-in-Kind

BESTFOODS

Consolidated Statements of Stockholders' Equity

($ millions)	Preferred stock	Common stock	Capital in excess of par value	Unearned ESOP compensation	Cumulative translation adjustment	Treasury common stock	Retained earnings
Balance, December 31, 1994	$194	$49	$155	$(141)	$(181)	$(1,231)	$2,904
Net income							512
Cash dividends declared ($1.48 per share)							(216)
Stock issued in connection with:							
Stock options			3			6	
Deferred compensation			9			7	
Translation adjustment including the effects of hedging, net of taxes					18		
Series ESOP preferred stock dividend, net of taxes							(11)
ESOP compensation earned				13			
ESOP shares redeemed	(4)						
Treasury stock acquired						(99)	
Balance, December 31, 1995	190	49	167	(128)	(163)	(1,317)	3,189
Net income							580
Cash dividends declared ($1.58 per share)							(228)
Stock issued in connection with:							
Stock options			9			17	
Deferred compensation			12			10	
Translation adjustment including the effects of hedging, net of taxes					(96)		
Series A ESOP preferred stock dividend, net of taxes							(11)
ESOP compensation earned				17			
ESOP shares redeemed	(3)		(1)				
Treasury stock acquired						(209)	
Balance, December 31, 1996	187	49	187	(111)	(259)	(1,499)	3,530
Net income							344
Net income from change in Corn Products' international reporting period							10
Cash dividends declared ($1.72 per share)							(247)
Spin-off of Corn Products International					35		(1,021)
Stock issued in connection with:							
Stock options			15			18	
Deferred compensation			10			8	
Translation adjustment including the effects of hedging, net of taxes					(162)		
Series B ESOP preferred stock dividend, net of taxes							(11)
ESOP compensation earned				15			
ESOP shares redeemed	(7)		(5)			1	
Treasury stock acquired						(45)	
Balance, December 31, 1997	$180	$49	$207	$ (96)	$(386)	$(1,517)	$2,605

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Discontinued Operations

In February 1997, the Company announced plans to spin off its corn refining business to shareholders in a tax-free distribution. On November 18, 1997, the Company's Board of Directors approved the spin-off effective December 31, 1997, to shareholders of record as of December 15, 1997, through the issuance of shares in a new legal entity, Corn Products International, Inc. Common shares were distributed on a basis of one share of Corn Products International for every four shares of the Company's common stock. Prior to the spin-off, Corn Products International borrowed $350 million and transferred the proceeds to the Company, which was used to pay down commercial paper obligations and other indebtedness.

The consolidated financial results of the Company have been restated to reflect the divestiture of Corn Products International. Accordingly, the revenues, costs and expenses, assets and liabilities, and cash flows of Corn Products International have been excluded from their respective captions in the Consolidated Statements of Income, Consolidated Balance Sheets, and Consolidated Statements of Cash Flows. These items have been reported as "Income from discontinued operations net of income taxes," "Net assets of discontinued operations," "Net cash flows from discontinued operations," and "Net investing and financing activities of discontinued operations" for all periods presented.

Summarized financial information for the discontinued operations is set forth below:

($ millions except per share amounts)	1997	1996	1995
Net sales	$1,418	$1,524	$1,387
Income before income taxes	20	37	223
Net income	11	23	135
Basic earnings per share	$ 0.07	$ 0.15	$ 0.92
Current assets	$ 416	$ 434	$ 277
Current liabilities	489	287	246
Total assets	1,606	1,663	1,296
Total liabilities	620	638	696
Net assets of discontinued operations	$ 986	$1,025	$ 600

Concurrent with the spin-off, the fiscal year end of the international corn refining affiliates was changed from September 30 to December 31, 1997. Net earnings of $10 million for the period October 1 to December 31, 1997, were credited to retained earnings.

During the second quarter, the Company recorded a pre-tax charge of $86 million ($65 million after taxes or $.45 per basic common share) related to the spin-off/restructuring of its corn refining operations. The spin-off portion of the charge includes direct costs of spinning off this business such as fees in the legal, tax and investment banking areas. The restructuring portion contains other costs for the separation of facilities that were used to produce both consumer foods and corn-derived products including staffing reductions. These restructuring actions are taking place mainly in the international operations of the corn refining business.

During the third quarter of 1997, the Company recorded an additional pre-tax charge of $23 million ($18 million after taxes or $.12 per basic common share) related to finalization of plans regarding certain spin-off/restructuring elements.

The spin-off/restructuring charges comprising the loss on disposal of discontinued operations is summarized below:

($ millions)	1997 Charge	Charges utilized	To be utilized in future periods
Spin-off costs	$ 15	$ 9	$ 6
Restructuring charge			
Employee costs	54	38	16
Plant and support facilities	23	15	8
Other	17	12	5
Restructuring charge	$ 94	$65	$29
Total	$109	$74	$35

EQUIFAX INC. (DEC)

Consolidated Statements of Shareholders' Equity

(In thousands)	1997	1996	1995
Common Stock:			
Balance at beginning of year	$213,573	$211,015	$208,471
Shares issued under stock plans	2,008	2,558	2,544
Balance at end of year	$215,581	$213,573	$211,015
Paid-In Capital:			
Balance at beginning of year	$207,142	$171,020	$145,859
Shares issued under stock plans	22,800	25,795	17,243
Adjustment for treasury stock reissued for acquisitions	3,468	360	884
Other	11,086	9,967	7,034
Balance at end of year	$244,496	$207,142	$171,020
Retained Earnings:			
Balance at beginning of year	$396,340	$269,986	$175,894
Net income	183,737	177,617	147,650
Cash dividends	(52,030)	(49,704)	(50,223)
Spinoff dividend	(111,396)	—	—
Other	(1,502)	(1,559)	(3,335)
Balance at end of year	$415,149	$396,340	$269,986
Cumulative Foreign Currency Translation Adjustment:			
Balance at beginning of year	$ (3,913)	$(13,734)	$(13,310)
Adjustment during year	(9,771)	9,821	(424)
Balance at end of year	$(13,684)	$ (3,913)	$(13,734)
Treasury Stock:			
Balance at beginning of year	$(323,625)	$(218,613)	$(87,975)
Cost of shares repurchased	(129,085)	(105,550)	(132,668)
Cost of shares reissued for acquisitions	5,152	538	2,030
Balance at end of year	$(447,578)	$(323,625)	$(218,613)
Stock Held by Employee Benefits Trusts:			
Balance at beginning of year	$(64,567)	$(66,209)	$(67,004)
Cost of shares reissued under stock plans	—	1,642	795
Balance at end of year	$(64,567)	$(64,567)	$(66,209)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Discontinued Operations.

On December 9, 1996, the Company announced its intention to split into two independent, publicly traded companies by spinning off its Insurance Services industry segment, contingent on receiving a favorable ruling from the IRS regarding the tax-free status of the dividends for U.S. shareholders. In July 1997, the Company received the favorable IRS ruling and on August 7, 1997 completed the spinoff of its Insurance Services industry segment. The spinoff was accomplished by the Company's contribution of the business units that comprised the Insurance Services segment into one wholly owned subsidiary, ChoicePoint Inc. All of the common stock of ChoicePoint was then distributed to Equifax shareholders as a dividend, with one share of ChoicePoint common stock distributed for each ten shares of Equifax common stock held.

As a result of the spinoff, the Company's December 31, 1997 financial statements have been prepared with the Insurance Services segment results of operations and cash flows shown as "discontinued operations". All historical financial statements presented have been restated to conform to this presentation, with the historical assets and liabilities of that segment presented on the balance sheets as "Net assets of discontinued operations." During the second quarter 1997, the Company recorded an expense of $15,041,000 to reflect the net costs associated with effecting the spinoff ($12,887,000 after tax, or $.09 per share). These costs include duplicate software licenses, severance, legal and investment banker fees, and other related costs, partially offset by a $17.1 million curtailment gain related to the U.S. retirement plan caused by the spinoff and the pretax earnings of ChoicePoint for July.

Summarized financial information for the discontinued operation is as follows:

(In thousands)	1997	1996	1995
Revenue	$340,251	$588,425	$517,649
Income before income taxes	24,515	41,014	26,098
Net income	14,336	24,520	14,865

(In thousands)	December 31, 1996
Current assets	$ 91,931
Total assets	301,824
Current liabilities	44,965
Total liabilities	105,410
Net assets of discontinued operations	196,414

The results of operation of ChoicePoint in the table above include its operations only through June 30, 1997. ChoicePoint's results after June 30, 1997 through the spinoff date (July 31, 1997 for accounting purposes) are included with "Costs associated with effecting the spinoff" in the accompanying consolidated statements of income. These July results totaled $4.5 million of income before income taxes and $2.6 million of net income.

The net assets of discontinued operations include the Company's intercompany receivable from ChoicePoint, which totaled $84.0 million at December 31, 1996. The balance of this intercompany receivable was $85.6 million at July 31, 1997 and was repaid to the Company by ChoicePoint in August 1997. Other significant spinoff-related transactions occurring near the date of the spinoff included ChoicePoint's assumption of $29.0 million of the Company's long-term debt and a $13.0 million capital contribution made by the Company to ChoicePoint. These transactions, net of cash payments related to spinoff costs, have been included in "Net cash provided by discontinued operations" in the accompanying consolidated statement of cash flows.

Stock Purchase Rights

GENERAL INSTRUMENT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Stockholders' Equity

Stockholder Rights Plan. On June 10, 1997, the Board of Directors adopted a stockholder rights plan designed to protect stockholders from various abusive takeover tactics, including attempts to acquire control of the Company at an inadequate price. Under the rights plan, each stockholder received a dividend of one right for each outstanding share of Common Stock. The rights are attached to, and presently only trade with, the Common Stock and currently are not exercisable. Except as specified below, upon becoming exercisable, all rights holders will be entitled to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock at a price of $85.

The rights become exercisable and will begin to trade separately from the Common Stock upon the earlier of (i) the first date of public announcement that a person or group (other than an existing 15% stockholder or pursuant to a Permitted Offer, as defined) has acquired beneficial ownership of 15% or more of the outstanding Common Stock or (ii) 10 business days following a person's or group's commencement of, or announcement of, an intention to commence a tender or exchange offer, the consummation of which would result in beneficial ownership of 15% or more of the Common Stock. Each right will entitle the holder to purchase Common Stock of the Company having a market value (immediately prior to such acquisition) of twice the exercise price of the right. If the Company is acquired through a merger or other business combination transaction (other than a Permitted Offer, as defined), each right will entitle the holder to purchase common stock of the surviving company having a market value (immediately prior to such acquisition) of twice the exercise price of the right. The Company may redeem the rights for $0.01 each at any time prior to such acquisition. The rights will expire on June 10, 2007, unless earlier redeemed.

In connection with the rights plan, the Board of Directors approved the creation of, out of the authorized but unissued shares of Common Stock of the Company, a Series A Junior Participating Preferred Stock ("Participating Preferred Stock"), consisting of 400,000 shares with a par value of $0.01 per share. The holders of the Participating Preferred Stock are entitled to receive dividends, if declared by the Board of Directors, from funds legally available. Each share of Participating Preferred Stock is entitled to one thousand votes on all matters submitted to stockholder vote. The shares of Participating Preferred Stock are not redeemable by the Company or convertible into Common Stock or any other security of the Company.

INLAND STEEL INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Stockholder Rights Plan

Pursuant to a stockholder rights plan, on November 25, 1997, the Board of Directors declared a dividend distribution, payable to stockholders of record on December 17, 1997, of one preferred stock purchase right (a "Right") for each outstanding share of the Company's common stock. The Rights will expire December 17, 2007, and will become exercisable only if a person or group becomes the beneficial owner of 20 percent or more of the common stock (a "20 percent holder"), commences a tender or exchange offer which would result in the offeror beneficially owning 20 percent or more of the common stock, or is determined by the Board to beneficially own at least 10 percent of the common stock and either intends to cause the Company to take certain actions not in the best long-term interest of the Company and its stockholders or is reasonably likely, through such beneficial ownership, to cause a material adverse impact on the business or prospects of the Company and its stockholders (an "Adverse Person"). Each Right will entitle stockholders to buy one newly issued unit of one one-hundredth of a share of Series D Junior Participating Preferred Stock at an exercise price of $80, subject to certain antidilution adjustments. The Company (with the concurrence of the independent continuing directors) will generally be entitled to redeem the Rights at $.01 per Right at any time prior to 15 days after a public announcement of the existence of a 20 percent holder.

If a person or group accumulates 20 percent or more of the common stock (except pursuant to an offer for all outstanding shares of common stock which the independent continuing directors determine to be fair to and otherwise in the best interests of the Company and its stockholders) or the Board determines that a person or group is an Adverse Person, each Right (other than Rights held by such 20 percent holder and certain related parties which become void) will represent the right to purchase, at the exercise price, common stock (or, in certain circumstances, a combination of securities and/or assets) having a current market value equal to twice the exercise price. In addition, if, following the public announcement of the existence of a 20 percent holder, the Company is acquired in a merger or other business combination transaction, except a merger or other business combination transaction that takes place after the consummation of an offer for all outstanding shares of common stock that the independent continuing directors have determined to be fair, or a sale of 50 percent or more of the Company's assets or earning power is made to a third party, each Right (unless previously voided) will represent the right to purchase, at the exercise price, common stock of the acquiring entity having a value of twice the exercise price at the time.

The Board of Directors has the option any time after a person or group becomes a 20 percent holder or an Adverse Person to exchange all or part of the Rights (other than Rights held by such 20 percent holder or Adverse Person) for shares of the Company's common stock provided that the Company may not make such an exchange after any person becomes the beneficial owner

of 50 percent or more of the Company's outstanding common stock.

PEERLESS MFG. CO. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note F (In Part): Stockholders' Equity

On May 21, 1997, the Board of Directors declared a dividend of one common share purchase right for each outstanding share of common stock to shareholders of record at the close of business on June 2, 1997. Each Right entitles the registered holder to purchase from the Company one common share at a price of $30.00, subject to adjustment, as more fully set forth in a Rights Agreement dated May 22, 1997.

The Rights will become exercisable only in the event that any person or group of affiliated persons acquires or obtains the right to acquire beneficial ownership of 20% or more of the outstanding common shares or commences a tender or exchange offer, the consummation of which would result in the beneficial ownership by a person or group of 20% or more of such outstanding common shares. The rights are redeemable under certain circumstances at $.01 each and expire in May 2007.

UNION TEXAS PETROLEUM HOLDINGS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Shareholders Equity

Stockholder Rights Plan

In September 1997, the Company adopted a rights agreement (the "Rights Agreement") whereby a dividend of one Common Stock Purchase Right (a "Right") was paid for each outstanding share of the Company's Common Stock. The Rights will be exercisable only if a person acquires beneficial ownership of 15 percent or more of the Company's Common Stock (an "Acquiring Person"), or commences a tender offer which would result in beneficial ownership of 15 percent or more of such stock. When they become exercisable, each Right entitles the registered holder to purchase from the Company one-half of one share of Common Stock at a price of $90.00 per full share of Common Stock, subject to adjustment under certain circumstances.

Upon the occurrence of certain events specified in the Rights Agreement, each holder of a Right (other than an Acquiring Person) will have the right to purchase, at the Right's then current exercise price, shares of the Company's Common Stock having a value of twice the Right's exercise price. In addition, if, after a person becomes an Acquiring Person, the Company is involved in a merger or other business combination transactions with another person in which the Company is not the surviving corporation, or under certain other circumstances, each Right will entitle its holder to purchase, at the Right's then current exercise price, shares of common stock of the other person having a value of twice the Right's exercise price.

Unless redeemed by the Company earlier, the Rights will expire on September 30, 2007. The Company will generally be entitled to redeem the Rights in whole, but not in part, at $0.001 per Right, subject to adjustment. No Rights were exercisable under the Rights Agreement at December 31, 1997.

The terms of the Rights generally may be amended by the Company without the approval of the holders of the Rights prior to the public announcement by the Company or an Acquiring Person that a person has become an Acquiring Person. Before such announcement, the terms may be amended only to (i) cure any ambiguity; (ii) correct or supplement any provision which may be defective or inconsistent with other provisions; or (iii) change or supplement the provisions in any manner which the Company deems necessary or desirable, so long as such change does not adversely affect the interest of the holders of the Rights.

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. *Statement of Financial Accounting Standards No. 16,* as amended by *SFAS No. 109,* stipulates that only corrections of errors 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. Table 4-3 shows that the most common reason for an adjustment to the opening balance of retained earnings during 1997 was a pooling of interests.

TABLE 4-3: ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Poolings of interests	20	17	19	7
LIFO discontinued	1	2	—	1
Income taxes	1	—	—	8
Other—Described	2	1	1	4

Pooling of Interests

MATTEL, INC.

Consolidated Statements of Shareholders' Equity

(In thousands)	Preferred Stock	Preference Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Currency Translation and Other Adjustments	Total Shareholders' Equity
Balance, December 31, 1994	$ 49	$ 9	$240,233	$559,867	$(53,812)	$713,551	$(74,120)	$1,385,777
Net income						337,889		337,889
Five-for-four stock split			55,794	(55,794)				
Purchase of treasury stock					(64,284)			(64,284)
Repurchase of Series F Preference Stock		(9)		(73,857)				(73,866)
Restricted stock activity			20	8,237				8,257
Exercise of stock options			33	8,715				8,748
Issuance of treasury stock				(18,169)	42,522			24,353
Dividends declared on common stock						(50,253)		(50,253)
Dividends declared on preferred and preference stock	3			3,151		(6,542)		(3,388)
Currency translation and other adjustments							(21,533)	(21,533)
Balance, December 31, 1995	52	—	296,080	432,150	(75,574)	994,645	(95,673)	1,551,680
Net income						372,224		372,224
Purchase of treasury stock					(269,771)			(269,771)
Restricted stock activity				2,770	(6,627)			(3,857)
Exercise of stock options			11	26,414				26,425
Issuance of treasury stock				(53,554)	124,315			70,761
Issuance of stock warrant				26,444				26,444
Issuance of preferred stock	773			91,929				92,702
Exercise of stock subscription warrants				(9,307)	11,658			2,151
Dividends declared on common stock						(65,825)		(65,825)
Dividends declared on preferred stock	2			1,650		(7,391)		(5,739)
Currency translation and other adjustments							8,728	8,728
Balance, December 31, 1996	827	—	296,091	518,296	(215,999)	1,293,653	(86,945)	1,805,923
Net income						285,184		285,184
Purchase of treasury stock					(227,932)			(227,932)
Issuance of treasury stock				(45,486)	158,511			113,025
Exercise of stock options			636	23,927				24,563
Conversion of 7% Notes			893	15,141				16,034
Conversion of preferred stock	(55)		2,761	(2,706)				
Dividends declared on common stock						(77,528)		(77,528)
Dividends declared on preferred stock						(10,505)		(10,505)
Currency translation adjustments							(106,694)	(106,694)
Balance, December 31, 1997	$772	$—	$300,381	$509,172	$(285,420)	$1,490,804	$(193,639)	$1,822,070

Consolidated results for December 31, 1994, 1995 and 1996 have been restated retroactively for the effects of the March 1997 merger with Tyco, accounted for as a pooling of interest. See Note 7.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Acquisitions and Nonrecurring Items

Business Combination

Pursuant to an Agreement and Plan of Merger dated November 17, 1996, as amended by an Amendment to Agreement and Plan of Merger dated November 22, 1996, a merger was consummated between the Company and Tyco on March 27, 1997. The stock-for-stock transaction was approved by the shareholders of Tyco, after which Tyco was merged with and into Mattel, with Mattel continuing as the surviving corporation in the merger. As a result of the merger, the separate existence of Tyco ceased. Under the merger agreement, each outstanding share of Tyco common stock was converted into the right to receive 0.48876 Mattel common shares and resulted in the issuance of approximately 17 million shares. Tyco restricted stock units and stock options outstanding as of the merger date were exchanged for approximately 0.6 million Mattel common shares. In addition, each share of Tyco Series B and Series C Preferred Stock was converted into like Mattel preferred stock. This transaction has been accounted for as a pooling of interests, and accordingly, financial information for periods prior to the merger reflect retroactive restatement of the companies' combined financial position and operating results. For periods proceeding the merger, there were no intercompany transactions which required elimination from the combined consolidated results of operations and there were no adjustments necessary to conform the accounting practices of the two companies.

Selected financial information for the combining entities included in the consolidated statements of income for the quarter ended March 31, 1997 (unaudited) and the two years ended December 31, 1996 and 1995 are as follows (in thousands):

	For the Period		
	March 31, 1997	Dec. 31, 1996	Dec. 31, 1995
Net sales			
Mattel	$568,528	$3,785,958	$3,638,812
Tyco (a)	124,992	749,374	731,004
Combined	$693,520	$4,535,332	$4,369,816
Net income			
Mattel	$ 13,123	$377,641	$357,802
Tyco (b)	(7,747)	(6,417)	(19,913)
Integration/restructuring charge (c)	(210,000)	—	—
Combined	$(204,624)	$372,224	$337,889

(a) Certain amounts have been classified differently than previously published amounts in order to conform the accounting presentation of the two entities.

(b) The provision for income taxes has been adjusted by $3.4 million and $7.3 million in 1996 and 1995, respectively, to reflect the adjustment of valuation allowances established in the historical financial statements of Tyco, resulting in the recognition of benefits of losses incurred by certain foreign affiliates.

(c) The integration and restructuring charge of $275.0 million, after related income tax effects, reduced earnings of the combined company by $210.0 million.

Change in Accounting for Long-term Programs and Contracts

ROHR, INC.

Consolidated Statements of Shareholders' Equity

(In thousands)	Common Stock Par Value $1 per Share	Additional Paid-In Capital	Retained Earnings	Minimum Pension Liability Adjustment
Balance at July 31, 1994 as previously reported	$18,042	$102,598	$82,168	$(55,899)
Change in accounting (Note 2)	—	—	(90,328)	—
Balance at July 31, 1994 (restated)	18,042	102,598	(8,160)	(55,899)
Stock plans activity	26	289	—	—
Net income	—	—	22,944	—
Minimum pension liability adjustment	—	—	—	17,481
Balance at July 31, 1995 (restated)	18,068	102,887	14,784	(38,418)
Stock plans activity	253	1,472	—	—
Conversion of 7.75% Convertible Subordinated Notes	4,009	38,297	—	—
Net Income	—	—	22,278	—
Minimum pension liability adjustment	—	—	—	11,987
Balance at July 31, 1996 (restated)	22,330	142,656	37,062	(26,431)
Stock plans activity	133	2,621	—	—
Pension retirement contribution	2,867	44,633	—	—
Net Loss	—	—	(6,022)	—
Minimum pension liability adjustment	—	—	—	26,431
Balance at July 31, 1997	$25,330	$189,910	$31,040	$ —

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Change in Accounting

In the fourth quarter of fiscal 1997, the Company changed its accounting principle related to long-term programs and contracts and restated its historical results to reflect the application of the new principle. The change eliminated the use of program accounting so that all current and future programs will be accounted for under the contract method of accounting as described in Note 1. Prior to the change, approximately half of the Company's revenues were accounted for under the program method of accounting and approximately half were accounted for under the contract method of accounting. Under contract accounting, the Company accounts for the direct sale of spare parts to airlines separately from the sale of production units. Previously, on programs that were accounted for under the program method of accounting, the Company combined the estimated costs and revenues associated with a program's production units and spare parts into a single profit center.

While the Company's previous method of accounting was in accordance with generally accepted accounting principles, the Company believes that the new principle is preferable. By accounting for spare parts sales separately from long-term production contracts, the amount of deferred costs included in inventory has been reduced. The change will also decrease the significant of the projections used in calculating the Company's financial results by eliminating the need to project spare parts sales into the future. In addition, under the changed principle, the Company's financial results will more clearly reflect its current operating activities and cash flow. The Company also believes that the change in accounting principle will enhance internal accountability.

The effect of this change in accounting for the periods through July 31, 1996, was a charge of $59.6 million, net of income tax benefits of $40.0 million. In accordance with Accounting Principles Board Opinion No. 20, "Accounting Changes," prior year financial statements have been restated to reflect this change on a retroactive basis. The effect of the change on fiscal 1997 results was to increase operating income by $15.1 million (composed of $25.5 million of additional operating income less $10.4 million of additional loss on the MD-90 contract, in each case arising from the change in accounting). The effect of the change in accounting on fiscal 1997 net income was to increase net income by $9.0 million, or 35 cents per share (composed of $15.3 million, or 60 cents per share, of additional net income less $6.3 million, or 25 cents per share, arising from the additional loss on the MD-90 program). The total impact on fiscal 1996 and fiscal 1995 was to increase net income by $19.1 million (92 cents per share) and $11.7 million (64 cents per share), respectively.

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.

TABLE 4-4: OTHER CHANGES IN RETAINED EARNINGS

	Number of Companies			
	1997	**1996**	**1995**	**1994**
Charges				
Purchase or retirement of capital stock	74	65	61	51
Treasury stock issued for less than cost	38	40	37	36
Translation adjustment	28	24	8	12
Unrealized loss on investments	12	16	8	11
Pension liability adjustment	11	6	13	7
Preferred stock accretion	2	4	5	5
Other—Described	29	27	30	20
Credits				
Tax benefit on dividends paid to ESOP	18	17	13	20
Unrealized gain on investments	13	13	17	4
Poolings of interests	11	4	4	9
Pension liability adjustment	10	16	9	12
Translation adjustment	1	7	18	12
Other—Described	33	28	25	13

Treasury Stock Transactions

H.B. FULLER COMPANY

Consolidated Statements of Stockholders' Equity

(In thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Foreign Currency Translation Adjustment	Unearned Compensation Restricted Stock
Balances at November 30, 1994	$306	$13,935	$18,907	$236,572	$7,532	$(2,447)
Stock compensation plans, net	—	72	1,864	—	—	(1,031)
Net earnings—1995	—	—	—	28,663	—	—
Dividends paid	—	—	—	(8,746)	—	—
Change in foreign currency translation	—	—	—	—	3,787	—
Balances at November 30, 1995	306	14,007	20,771	256,489	11,319	(3,478)
Stock compensation plans, net	—	59	1,722	—	—	(572)
Net earnings—change in non-U.S. year-end	—	—	—	118	—	—
Net earnings—1996	—	—	—	45,340	—	—
Dividends paid	—	—	—	(9,209)	—	—
Changes in foreign currency translation:						
Translation gain adjustment included in net earnings due to substantial liquidation of non-U.S. assets	—	—	—	—	208	—
Other	—	—	—	—	(2,430)	—
Balances at November 30, 1996	306	14,066	22,493	292,828	9,097	(4,050)
Stock compensation plans, net	—	76	3,039	—	—	(1,333)
Retirement of common stock	—	(301)	(497)	(14,726)	—	—
Net earnings—1997	—	—	—	36,940	—	—
Dividends paid	—	—	—	(10,068)	—	—
Changes in foreign currency translation:						
Translation gain adjustment included in net earnings due to substantial liquidation of non-U.S. assets	—	—	—	—	97	—
Other	—	—	—	—	(8,853)	—
Balances at November 29, 1997	$306	$13,841	$25,035	$304,974	$341	$(5,383)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Purchase of Company Common Stock:
Under the Minnesota Business Corporation Act, repurchased stock is included in the authorized shares of the Company, but is not included in shares outstanding. The excess of cost over par value is charged proportionally to the Additional Paid-In-Capital and to the Retained Earnings. During 1996 the Board of Directors authorized a stock repurchase program under which up to 300,000 shares of H.B. Fuller Company common stock may be repurchased by the Company. The shares of common stock repurchased will be available for compensation plans of the Company. During 1997 the Company repurchased 300,000 shares of common stock.

GEORGIA GULF CORPORATION

Consolidated Statements of Changes in Stockholders' Equity

(In thousands, except share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Total Stockholders' Equity
Balance, December 31, 1994	42,013,116	$420	$185,984	$(155,266)	$31,138
Net income	—	—	—	186,494	186,494
Dividends paid	—	—	—	(12,284)	(12,284)
Tax benefit realized from stock option plans	—	—	2,364	—	2,364
Common stock issued upon exercise of stock options	270,214	3	2,139	—	2,142
Common stock issued under stock purchase plan	127,722	1	3,338	—	3,339
Repurchase and retirement of common stock	(5,170,800)	(52)	(162,513)	—	(162,565)
Balance, December 31, 1995	37,240,252	372	31,312	18,944	50,628
Net income	—	—	—	71,620	71,620
Dividends paid	—	—	—	(11,386)	(11,386)
Tax benefit realized from stock option plans	—	—	2,210	—	2,210
Common stock issued upon exercise of stock options	340,770	3	1,662	—	1,665
Common stock issued under stock purchase plan	152,178	2	3,417	—	3,419
Repurchase and retirement of common stock	(3,148,400)	(31)	(38,601)	(60,954)	(99,586)
Balance, December 31, 1996	34,584,800	346	—	18,224	18,570
Net income	—	—	—	81,201	81,201
Dividends paid	—	—	—	(10,711)	(10,711)
Tax benefit realized from stock option plan	—	—	1,252	—	1,252
Common stock issued upon exercise of stock options	185,045	2	1,435	—	1,437
Common stock issued under stock purchase plan	140,694	1	3,160	—	3,161
Repurchase and retirement of common stock	(2,129,100)	(21)	(5,847)	(53,439)	(59,307)
Balance, December 31, 1997	32,781,439	$328	$ —	$ 35,275	$35,603

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Stockholders' Equity

During 1997 and 1996, the Company repurchased 2,129,100 shares of its common stock for $59,307,000 and 3,148,400 shares for $99,586,000, respectively. As of December 31, 1997, the Company had authorization to repurchase up to 1,021,700 additional shares under the current common stock repurchase program.

HARRAH'S ENTERTAINMENT, INC.

Consolidated Statements of Stockholders' Equity

(In thousands)	Common Stock Shares Outstanding	Common Stock Amount	Paid-in Capital	Retained Earnings	Unrealized Gain on Marketable Equity Securities	Deferred Compensation Related to Restricted Stock	Total
Balance-December 31, 1994	102,403	$10,240	$350,196	$265,574	$ —	$ (2,573)	$623,437
Net income				78,846			78,846
Spin-off of Promus Hotel Corporation				(139,582)			(139,582)
Unrealized gain on available-for-sale securities, less deferred tax provision of $6,746					10,552		10,552
Net shares issued under incentive compensation plans, including income tax benefit of $6,616	271	27	12,587			(318)	12,296
Balance-December 31, 1995	102,674	10,267	362,783	204,838	10,552	(2,891)	585,549
Net income				98,897			98,897
Unrealized gain on available-for-sale securities, less deferred tax provision of $26,112					40,842		40,842
Treasury stock purchases	(759)	(76)		(12,938)			(13,014)
Net shares issued under incentive compensation plans, including income tax benefit of $1,576	1,055	106	23,158			(15,792)	7,472
Balance-December 31, 1996	102,970	10,297	385,941	290,797	51,394	(18,683)	719,746
Net income				99,388			99,388
Realization of gain due to sale of equity interest in New Zealand subsidiary, net of deferred taxes of $14,653					(22,735)		(22,735)
Decline in market value of other available-for-sale securities, less deferred tax provision of $16,362					(25,775)		(25,775)
Treasury stock purchases	(2,234)	(223)		(40,799)			(41,022)
Net shares issued under incentive compensation plans, including income tax benefit of $702	300	30	2,984			2,887	5,901
Balance-December 31, 1997	101,036	$10,104	$388,925	$349,386	$2,884	$(15,796)	$735,503

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Summary of Significant Accounting Policies

Treasury Stock. Shares of Harrah's common stock held in treasury are reflected in the Consolidated Balance Sheets and Consolidated Statements of Stockholders' Equity as if they were retired.

4 (In Part): Stockholders' Equity

Pursuant to a plan approved by Harrah's Board of Directors in October 1996 and which expired on December 31, 1997, the Company repurchased 2,993,700 shares of its common stock at an average price of $18.05 per share. The repurchased shares are held in treasury.

SUN MICROSYSTEMS, INC.

Consolidated Statements of Stockholders' Equity

(In thousands, except share amounts)	Common stock Shares	Common stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury stock Shares	Treasury stock Amount	Currency Translation Additional and Other	Total Stock-holders' Equity
Balances at June 30, 1994	425,576,800	$72	$1,066,571	$879,135	(50,171,500)	$(329,245)	$11,790	$1,628,323
Issuance of stock, net of employee repurchases	(66,876)	—	—	(29,494)	23,190,140	159,285	—	129,791
Treasury stock purchased	—	—	—	—	(4,470,956)	(36,107)	—	(36,107)
Net income	—	—	—	355,842	—	—	—	355,842
Tax benefit and other	—	—	22,907	—	—	—	21,839	44,746
Balances at June 30, 1995	425,509,924	72	1,089,478	1,205,483	(31,452,316)	(206,067)	33,629	2,122,595
Issuance of stock, net of employee repurchases	(40,468)	—	—	(19,516)	14,561,928	131,493	—	111,977
Issuance of restricted stock	850,662	—	19,012	—	—	—	—	19,012
Treasury stock purchased	—	—	—	—	(37,465,488)	(522,336)	—	(522,336)
Net income	—	—	—	476,388	—	—	—	476,388
Tax benefit and other	—	—	55,859	—	—	—	(12,009)	43,850
Balances at June 30, 1996	426,320,118	72	1,164,349	1,662,355	(54,355,876)	(596,910)	21,620	2,251,486
Issuance of stock, net of employee repurchases	(10,000)	—	—	(14,710)	10,378,115	137,574	—	122,864
Treasury stock purchased	—	—	—	—	(16,072,619)	(456,090)	—	(456,090)
Exercise of warrants	4,225,768	1	1,611	—	—	—	—	1,612
Net income	—	—	—	762,420	—	—	—	762,420
Tax benefit and other	—	—	63,837	—	—	—	(4,192)	59,645
Issuance of common stock dividend	—	215	—	(215)	—	—	—	—
Balances at June 30, 1997	430,535,886	$288	$1,229,797	$2,409,850	(60,050,380)	$(915,426)	$17,428	$2,741,937

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Stockholders' Equity

Common Stock Repurchase Programs

In December 1990, the Board of Directors approved a systematic common stock repurchase program related to the 1990 Employee Stock Purchase Plan. In fiscal 1997, the Company repurchased 2,919,632 shares at a cost of approximately $88 million under this program (3,077,488 shares at a cost of approximately $63 million in fiscal 1996).

In June 1995, the Board of Directors approved a plan to repurchase approximately 48 million shares of the Company's common stock. During fiscal 1997 the Company repurchased 8,904,258 shares at a cost of approximately $236 million under this program (34,388,000 shares at a cost of approximately $460 million in 1996).

In August 1996, the Board of Directors approved a systematic common stock repurchase program related to the 1990 Long-Term Equity Incentive Plan. In fiscal 1997, the Company repurchased 4,248,729 shares at a cost of approximately $132 million under this program.

When the treasury shares are reissued, any excess of the average acquisition cost of the shares over the proceeds from reissuance is charged to retained earnings.

Tax Benefit From ESOP Dividends

THE STANLEY WORKS

Consolidated Statements of Changes in Shareholders' Equity

(Millions of dollars, except per share amounts)	Common Stock	Capital In Excess of Par Value	Retained Earnings	Foreign Currency Translation Adjustment	ESOP Debt	Treasury Stock	Shareholders' Equity
Balance December 31, 1994	$115.4	$70.1	$937.8	$(56.3)	$(253.7)	$(69.1)	$744.2
Net earnings			59.1				59.1
Currency translation adjustment				(14.3)			(14.3)
Cash dividends declared- $.71 per share			(62.6)				(62.6)
Issuance of common stock		(1.7)				13.9	12.2
Purchase of common stock						(16.7)	(16.7)
ESOP debt					9.4		9.4
ESOP tax benefit			3.3				3.3
Balance December 30, 1995	115.4	68.4	937.6	(70.6)	(244.3)	(71.9)	734.6
Two-for-one stock split	115.5	(66.9)	(48.6)				—
Net earnings			96.9				96.9
Currency translation adjustment				25.1			25.1
Cash dividends declared- $.73 per share			(65.2)				(65.2)
Issuance of common stock		(6.2)	(5.1)			53.4	42.1
Purchase of common stock						(71.0)	(71.0)
Tax benefit related to stock options		4.7	.3				5.0
ESOP debt					9.5		9.5
ESOP tax benefit			3.1				3.1
Balance December 28, 1996	230.9	—	919.0	(45.5)	(234.8)	(89.5)	780.1
Net loss			(41.9)				(41.9)
Currency translation adjustment				(39.8)			(39.8)
Cash dividends declared- $.77 per share			(68.6)				(68.6)
Issuance of common stock			(13.4)			61.1	47.7
Purchase of common stock						(92.2)	(92.2)
Tax benefit related to stock options			8.7				8.7
ESOP debt					11.0		11.0
ESOP tax benefit			2.8				2.8
Balance January 3, 1998	$230.9	$ —	$806.6	$(85.3)	$(223.8)	$(120.6)	$607.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

K (In Part): Employee Benefit Plans

Employee Stock Ownership Plan (ESOP)

The Savings Plan provides opportunities for tax-deferred savings, enabling eligible U.S. employees to acquire a proprietary interest in the company. Such employees may contribute from 1% to 15% of their salary to the Plan. The company contributes an amount equal to one-half of the first 7% of employee contributions. The amounts in 1997, 1996 and 1995 under the matching arrangement were $8.2 million, $8.4 million and $8.3 million, respectively.

Shares of the company's common stock held by the ESOP were purchased with the proceeds of external borrowings in 1989 and borrowings from the company in 1991. The external ESOP borrowings are guaranteed by the company and are included in long-term debt. Shareholders' equity reflects both the internal and the external borrowing arrangements.

Shares are released to participant accounts based on principal and interest payments of the underlying debt. These shares along with allocated dividends and shares purchased on the open market are assigned to fund share requirements of the employee contributions, the associated employer match and the dividends earned on participant account balances.

Net ESOP activity recognized is based on total debt service and share purchase requirements less employee contributions and dividends on ESOP shares. The company's net ESOP activity resulted in income of $15.2 million in 1997, $8.6 million in 1996 and $2.6 million in 1995.

Dividends on ESOP shares, which are charged to shareholders' equity as declared, were $15.2 million, $15.1 million and $14.8 million in 1997, 1996 and 1995,

respectively. Interest costs incurred by the ESOP on external debt for 1997, 1996 and 1995 were $4.0 million, $4.8 million and $5.5 million, respectively. ESOP shares not yet allocated to participants are treated as outstanding for purposes of computing earnings per share. As of January 3, 1998, the number of ESOP shares allocated to participant accounts was 8,954,931 and the number of unallocated shares was 10,007,568.

TEXACO INC. (DEC)

Statement of Consolidated Stockholders' Equity

(Millions of dollars)	1997	1996	1995
Retained Earnings			
Balance at beginning of year	$8,292	$7,186	$7,463
Add:			
Net income	2,664	2,018	607
Tax benefit associated with dividends on unallocated ESOP Convertible Preferred Stock	4	5	8
Deduct: Dividends declared on			
Common stock ($1.75 per share in 1997, $1.65 per share in 1996 and $1.60 per share in 1995)	918	859	832
Preferred stock			
Series B ESOP Convertible Preferred Stock	40	42	43
Series F ESOP Convertible Preferred Stock	4	4	4
Market Auction Preferred Shares (Series G, H, I and J)	11	12	13
Balance at end of year	9,987	8,292	7,186

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (In Part): Employee Benefit Plans

Employee Stock Ownership Plans (ESOP)
Texaco recorded ESOP expense of $2 million in 1997, $15 million in 1996 and $28 million in 1995. Company contributions to the Employees Thrift Plan of Texaco Inc. and the Employees Savings Plan of Texaco Inc. (the Plans) amounted to $2 million in 1997, $26 million in 1996 and $17 million in 1995. These Plans are designed to provide participants with a benefit of approximately 6% of base pay. Included in the 1996 and 1995 ESOP expense is $9 million and $11 million, respectively, in connection with a 1995 employee incentive award program.

In 1997, 1996 and 1995, the company paid $44 million, $46 million and $47 million, respectively, in dividends on Series B and Series F stock. The dividends are applied by the trustee to fund interest payments which amounted to $7 million, $10 million and $14 million for 1997, 1996 and 1995, respectively, as well as to reduce principal on the ESOP loans. Dividends on the shares of Series B and Series F used to service debt of the Plans are tax deductible to the company. In December 1997, a portion of the original Thrift Plan ESOP loan was refinanced through a company loan. The refinancing will extend the ESOP for a period of up to six years.

Reflected in Texaco's long-term debt are the Plans' original ESOP loans guaranteed by Texaco Inc. Commensurate with each repayment on the original and refinanced ESOP loans, there is a reduction in the remaining ESOP-related unearned employee compensation included as a component of stockholders' equity.

Change in Year End of Subsidiary

NIKE, INC.

Consolidated Statement of Shareholders' Equity

	Common Stock				Capital In Excess Of Stated Value	Foreign Currency Translation Adjustment	Retained Earnings	Total
	Class A		Class B					
(In thousands)	Shares	Amount	Shares	Amount				
Balance at May 31, 1994	26,679	$159	46,521	$2,704	$108,284	$(15,123)	$1,644,925	$1,740,949
Stock options exercised			241	2	8,954			8,956
Conversion to Class B Common Stock	(784)	(4)	784	4				—
Repurchase of Class B Common Stock			(2,130)	(13)	(4,801)		(138,106)	(142,920)
Stock issued pursuant to contractual obligations			134	1	9,999			10,000
Translation of statements of non-U.S. operations						16,708		16,708
Net income							399,664	399,664
Dividends on Redeemable Preferred Stock							(30)	(30)
Dividends on Common Stock							(68,638)	(68,638)
Balance at May 31, 1995	25,895	155	45,550	2,698	122,436	1,585	1,837,815	1,964,689
Stock options exercised			756	3	32,848			32,851
Conversion to Class B Common Stock	(655)	(2)	655	2				—
Repurchase of Class B Common Stock			(200)	(1)	(451)		(18,304)	(18,756)
Two-for-one Stock Split October 30, 1995	25,880		45,748					
Translation of statements of non-U.S. operations						(18,086)		(18,086)
Net income							553,190	553,190
Dividends on Redeemable Preferred Stock							(30)	(30)
Dividends on Common Stock							(82,458)	(82,458)
Balance at May 31, 1996	51,120	153	92,509	2,702	154,833	(16,501)	2,290,213	2,431,400
Stock options exercised			1,475	3	55,817			55,820
Conversion to Class B Common Stock	(279)	(1)	279	1				—
Two-for-one Stock Split October 23, 1996	50,870		93,296					
Translation of statements of non-U.S. operations						(14,832)		(14,832)
Net income							795,822	795,822
Dividends on Redeemable Preferred Stock							(30)	(30)
Dividends on Common Stock							(108,249)	(108,249)
Net income for the month ended May 1996, due to the change in fiscal year-end of certain non-U.S. operations (Note 1)							(4,093)	(4,093)
Balance at May 31, 1997	101,711	$152	187,559	$2,706	$210,650	$(31,333)	$2,973,663	$3,155,838

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Consolidation:
The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated. Prior to fiscal year 1997, certain of the Company's non-U.S. operations reported their results of operations on a one month lag which allowed more time to compile results. Beginning in the first quarter of fiscal year 1997, the one month lag was eliminated. As a result, the May 1996 charge from operations for these entities of $4,093,000 was recorded to retained earnings in the first quarter of the current year.

Preferred Stock Redemption

LOCKHEED MARTIN CORPORATION

Consolidated Statement of Stockholders' Equity

(In millions)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned ESOP Shares	Total Stockholders' Equity
Balance at December 31, 1994	$1,000	$199	$734	$4,470	$(317)	$6,086
Net earnings	—	—	—	682	—	682
Dividends declared on preferred stock ($3.00 per share)	—	—	—	(60)	—	(60)
Dividends declared on common stock ($1.34 per share)	—	—	—	(254)	—	(254)
Repurchases of common stock	—	(2)	(148)	—	—	(150)
Stock awards and options, and ESOP activity	—	2	97	—	30	129
Balance at December 31, 1995	1,000	199	683	4,838	(287)	6,433
Net earnings	—	—	—	1,347	—	1,347
Dividends declared on preferred stock ($3.00 per share)	—	—	—	(60)	—	(60)
Dividends declared on common stock ($1.60 per share)	—	—	—	(302)	—	(302)
Stock awards and options, and ESOP activity	—	2	151	—	35	188
Stock exchanged for Materials shares	—	(8)	(742)	—	—	(750)
Balance at December 31, 1996	1,000	193	92	5,823	(252)	6,856
Net earnings	—	—	—	1,300	—	1,300
Dividends declared on preferred stock ($2.65 per share)	—	—	—	(53)	—	(53)
Dividends declared on common stock ($1.60 per share)	—	—	—	(299)	—	(299)
Stock awards and options, and ESOP activity	—	1	161	—	36	198
Redemption of preferred stock	(1,000)	—	(228)	(1,598)	—	(2,826)
Balance at December 31, 1997	$ —	$194	$ 25	$ 5,173	$(216)	$ 5,176

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (In Part): Stockholders' Equity and Related Items

Capital Structure. At December 31, 1997, the authorized capital of the Corporation was composed of $750 million shares of common stock (194.4 million shares issued), 50 million shares of series preferred stock (no shares issued), and 20 million shares of Series A preferred stock (no shares outstanding). Approximately 70 million common shares have been reserved for issuance under benefit and incentive plans.

The Series A preferred stock, which was redeemed in November, 1997 in connection with the GE Transaction, had a par value of $1 per share (liquidation preference of $50 per share). The Corporation issued all of the authorized shares of Series A preferred stock to GE in 1993 in connection with the acquisition of the GE Aerospace businesses. Dividends were cumulative and paid at an annual rate of $3.00 per share, or 6%.

Adjustment To Prior Period Transaction

THE DUN & BRADSTREET CORPORATION

Consolidated Statements of Shareholders' Equity

(Dollar amounts in millions, except per share data)	Common Stock ($1 Par Value)	Paid-in Capital	Retained Earnings	Treasury Stock	Cumulative Translation Adjustment	Minimum Pension Liability Adjustment	Total Shareholders' Equity
Balance, January 1, 1995	$188.4	$67.2	$2,323.7	$(1,077.2)	$(183.5)	$ —	$1,318.6
Net Income			320.8				320.8
Cash Dividends ($2.63 per share)			(446.1)				(446.1)
Treasury Shares Reissued Under Stock Options and Deferred Compensation Plans (741,526)		2.8		34.2			37.0
Treasury Shares Reissued Under Restricted Stock Plan (174,100)				8.0			8.0
Treasury Shares Acquired (1,297,138)				(72.3)			(72.3)
Change in Cumulative Translation Adjustment					6.2		6.2
Unrealized Gains on Investments			10.3				10.3
Balance, December 31, 1995	188.4	70.0	2,208.7	(1,107.3)	(177.3)	—	1,182.5
Net Loss			(44.4)				(44.4)
Cash Dividends ($1.82 per share)			(310.8)				(310.8)
Stock Dividend to Shareholders of Cognizant and AC Nielsen, including 800,000 Treasury Shares			(1,370.2)	49.5	79.8		(1,240.9)
Treasury Shares Reissued Under Stock Options and Deferred Compensation Plans (1,525,935)		2.6		59.0			61.6
Treasury Shares Reissued Under Restricted Stock Plan (16,410)				4.7			4.7
Treasury Shares Acquired (923,199)				(25.6)			(25.6)
Change in Cumulative Translation Adjustment					(55.8)		(55.8)
Unrealized Losses on Investments			(3.0)				(3.0)
Balance, December 31, 1996	188.4	72.6	480.3	(1,019.7)	(153.3)	—	(431.7)
Net Income			160.4				160.4
Cash Dividends ($.88 per share)			(150.6)				(150.6)
Adjustment to Stock Dividend to Shareholders of Cognizant and ACNielsen			(11.3)				(11.3)
Treasury Shares Reissued Under Stock Options and Deferred Compensation Plans (2,010,091)		7.6	(72.4)	115.6			50.8
Treasury Shares Reissued Under Restricted Stock Plan (20,884)				.2			.2
Treasury Shares Acquired (2,271,851)				(60.1)			(60.1)
Change in Cumulative Translation Adjustment					(9.3)		(9.3)
Minimum Pension Liability Adjustment						(37.4)	(37.4)
Unrealized Losses on Investments			(1.2)				(1.2)
Balance, December 31, 1997	$188.4	$80.2	$405.2	$(964.0)	$(162.6)	$(37.4)	$(490.2)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (In Part): Reorganization and Discontinued Operations

On November 1, 1996, the Company reorganized into three publicly traded independent companies by spinning off through a tax-free distribution two of its businesses to shareholders (the "Distribution"). The Distribution resulted in the following three companies: 1) The Dun & Bradstreet Corporation, consisting of Dun & Bradstreet, the operating company ("D&B"), Moody's and Reuben H. Donnelley ("Donnelley"); 2) ACNielsen; and 3) Cognizant, consisting of IMS International, Inc. ("IMS"), Gartner Group, Nielsen Media Research, Pilot Software, Cognizant Technology Solutions Corporation, Cognizant Enterprises and Erisco. In connection with the Distribution, DBS and NCH were sold. On October 10, 1996, following receipt of a ruling from the Internal Revenue Service that the transaction would be tax-free to the Company and its U.S. shareholders, the Company's Board of Directors declared a dividend distribution to shareholders of record on October 21, 1996, consisting of one share of Cognizant common stock for each share of the Company's common stock and one share of ACNielsen common stock for every three shares of the Company's common stock held on such record date. The Distribution was effected on November 1, 1996. These transactions resulted in a non-cash dividend that reduced shareholders' equity by $1,240.9 million. During 1997, adjustments to the dividend of $11.3 million were recorded, primarily as a result of employee benefits plan revisions.

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 4-5: PRESENTATION OF CHANGES IN ADDITIONAL PAID-IN CAPITAL

	1997	**1996**	**1995**	**1994**
Statement of stockholders' equity	454	433	430	421
Statement of additional paid-in capital	5	9	6	7
Schedule in notes	52	62	69	74
No statement or schedule but changes disclosed	6	6	6	6
Balance unchanged during year	16	18	27	28
	533	**528**	**538**	**536**
Additional paid-in capital account not presented	67	72	62	64
Total Companies	**600**	**600**	**600**	**600**

STOCK SPLITS

Table 4-6 shows the number of survey companies disclosing stock splits and summarizes the accounting treatments for stock splits. Examples of disclosures of stock splits follow.

TABLE 4-6: STOCK SPLITS

	1997	**1996**	**1995**	**1994**
Ratio				
Less than three-for-two	3	2	5	3
Three-for-two (50%) to two-for-one	10	12	10	9
Two-for-one (100%)	60	44	31	27
Greater than two-for-one	7	5	2	9
Total Companies	**80**	**63**	**48**	**48**
Account charged				
Additional paid-in capital	23	23	19	23
Retained earnings	16	12	9	9
No charge	41	28	20	16
Total Companies	**80**	**63**	**48**	**48**

BALDOR ELECTRIC COMPANY

Consolidated Statements of Shareholders' Equity

(In thousands, except per share amounts)	Common Stock Shares	Common Stock Amount	Additional Capital	Retained Earnings	Cumulative Translation Adjustments	Treasury Stock (at cost)	Total
Balance at December 31, 1994	18,310	$1,847	$25,871	$160,024	$449	$(3,929)	$184,262
Stock option plans (net of shares exchanged)	332	47	6,605			(3,587)	3,065
Translation adjustments					797		797
Net earnings				32,305			32,305
Securities valuation adjustment, net of deferred taxes of $233				364			364
Three-for-two common stock split effected in the form of a 50% stock dividend	9,228	923		(923)			
Cash dividends at $0.26 per common share				(9,416)			(9,416)
Balance at December 30, 1995	27,870	2,817	32,476	182,354	1,246	(7,516)	211,377
Stock option plans (net of shares exchanged)	380	45	5,290			(1,433)	3,902
Translation adjustments					(900)		(900)
Net earnings				35,173			35,173
Securities valuation adjustment, net of deferred taxes of $11				35			35
Cash dividends at $0.30 per common share				(10,498)			(10,498)
Common stock repurchased	(2,210)					(42,009)	(42,009)
Contribution to benefit plans	160		(654)			3,899	3,245
Balance at December 28, 1996	26,200	2,862	37,112	207,064	346	(47,059)	200,325
Stock option plans (net of shares exchanged)	263	33	4,365			(1,988)	2,410
Translation adjustments					(963)		(963)
Net earnings				40,365			40,365
Four-for-three common stock split effected in the form of a 33% stock dividend	8,999	900		(900)			
Cash dividends at $0.36 per common share				(12,958)			(12,958)
Contributions to benefit plans	115		647			2,242	2,889
Acquisitions	452		2,482			8,818	11,300
Miscellaneous adjustments				66			66
Balance at January 3, 1998	36,029	$3,795	$44,606	$233,637	$(617)	$(37,987)	$243,434

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note F (In Part): Shareholders' Equity

On November 13, 1997, the Company's Board of Directors authorized a four-for-three stock split effected in the form of a 33% stock dividend payable December 15, 1997, to shareholders of record on December 1, 1997. This resulted in the issuance of 8,999,078 additional shares of common stock. All per share and weighted average share amounts have been restated to reflect this stock split.

THE CLOROX COMPANY

Statements of Consolidated Stockholders' Equity

In thousands, except share and per-share amounts.	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Shares Shares	Treasury Shares Amount	Cumulative Translation Adjustments and Other
Balance, June 30, 1994							
As previously reported	55,422,297	$55,422	$106,422	$876,832	(2,050,041)	$(107,146)	$(22,245)
2-for-1 stock split effective September 2, 1997	55,422,297	55,422	(55,422)		(2,050,041)		
Balance, June 30, 1994	110,844,594	110,844	51,132	876,832	(4,100,082)	(107,146)	(22,245)
Net earnings				200,832			
Dividends ($0.96 per share)				(102,272)			
Employee stock plans and other			1,793	(4,012)	710,422	17,199	(1,187)
Treasury stock acquired					(2,650,970)	(78,270)	
Translation adjustments							413
Balance, June 30, 1995	110,844,594	110,844	52,925	971,380	(6,040,630)	(168,217)	(23,019)
Net earnings				222,092			
Dividends ($1.06 per share)				(110,447)			
Employee stock plans and other			3,435	(4,236)	725,500	14,936	(9,949)
Treasury stock acquired					(2,533,812)	(98,112)	
Translation adjustments							(11,545)
Balance, June 30, 1996	110,844,594	110,844	56,360	1,078,789	(7,848,942)	(251,393)	(44,513)
Net earnings				249,442			
Dividends ($1.16 per share)				(119,963)			
Employee stock plans and other			10,443	(744)	1,095,886	16,381	(1,213)
Treasury stock acquired					(927,000)	(54,063)	
Translation adjustments							(14,324)
Balance, June 30, 1997	110,844,594	$110,844	$66,803	$1,207,524	(7,680,056)	$(289,075)	$(60,050)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 (In Part): Significant Accounting Policies

Stock Split - On July 15, 1997, the Company's Board of Directors authorized a 2-for-1 split of its common stock effective September 2, 1997, in the form of a stock dividend for stockholders of record at the close of business on July 28, 1997. All share and per-share amounts in the accompanying consolidated financial statements have been restated to give effect to the stock split.

COCA-COLA ENTERPRISES INC.

Consolidated Statements of Share-Owners' Equity

(In millions except per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Reinvested Earnings	Currency Translations	Treasury Stock	Share-Owners' Equity
Balances at December 31, 1994	$29	$144	$1,301	$70	$21	$(226)	$1,339
Issuance of management stock performance awards	—	—	18	—	—	—	18
Unamortized cost of management stock performance awards	—	—	(18)	—	—	—	(18)
Expense amortization of management stock performance awards	—	—	36	—	—	—	36
Forfeiture of management stock performance awards	—	—	—	—	—	(1)	(1)
Purchase of common stock for treasury	—	—	—	—	—	(41)	(41)
Exercise of employee stock options	—	1	9	—	—	—	10
Currency translations	—	—	—	—	17	—	17
Dividends on common stock (per share - $0.05)	—	—	—	(6)	—	—	(6)
Dividends on preferred stock	—	—	—	(2)	—	—	(2)
Preferred stock accretion	1	—	—	—	—	—	1
Net-income	—	—	—	82	—	—	82
Balances at December 31, 1995	30	145	1,346	144	38	(268)	1,435
• • •	•	• •	• •	•	• •	• •	•
Issuance of management stock performance awards	—	—	57	—	—	—	57
Unamortized cost of management stock performance awards	—	—	(57)	—	—	—	(57)
Expense amortization of management stock performance awards	—	—	89	—	—	—	89
Exercise of employee stock options	—	1	12	—	—	—	13
Tax effect of management stock compensation plans	—	—	12	—	—	—	12
Currency translations	—	—	—	—	(37)	—	(37)
Conversion of preferred stock to common stock	(134)	—	94	—	—	40	—
Dividends on common stock (per share - $0.10)	—	—	—	(32)	—	—	(32)
Dividends on preferred stock	—	—	—	(2)	—	—	(2)
Conversion of executive deferred compensation to equity	—	—	18	—	—	—	18
3-for-1 common stock split (refer to Note 10)	—	295	(295)	—	—	—	—
Net income	—	—	—	171	—	—	171
Balances at December 31, 1997	$—	$443	$1,364	$374	$(16)	$(383)	$1,782

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Earnings Per Share

On April 21, 1997, the Company's share owners approved an amendment to the Company's certificate of incorporation to increase authorized common shares from 500 million to 1 billion and to effect a 3-for-1 stock split with no change in par values, effective for share owners of record on May 1, 1997. To reflect the split, common stock was increased and additional paid-in capital was decreased by $295 million. For periods prior to the effective date of the stock split, outstanding shares and per share data contained in this report, except for dividends per share, have been restated to reflect the impact of the split.

In the first quarter of 1997, dividends in the amount of $0.025 per common share was declared for share owners of record on April 1, 1997. After the 3-for-1 stock split, quarterly dividends were also declared in the amount of $0.025 per common share. Dividends are at the discretion of the Company's Board of Directors.

DOVER CORPORATION (DEC)

Consolidated Statements Of Retained Earnings

(in thousands except per share figures)	1997	1996	1995
Balance at beginning of year	$1,470,009	$1,152,187	$1,268,114
Net earnings	405,431	390,223	278,311
	1,875,440	1,542,410	1,546,425
Deductions:			
Stock split	91,757	—	56,793
Treasury stock retired	—	—	273,900
Common stock cash dividends of $.36 per share ($.32 in 1996; $.28 in 1995)	80,347	72,401	63,545
Balance at end of year	$1,703,336	$1,470,009	$1,152,187

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Capital Stock, Additional Paid-in Capital And Treasury Stock

On December 15, 1997, the Company effected a 2-for-1 common stock split in the form of a stock dividend. This resulted in the issuance of 117,238,546 additional shares of common stock (including 380,220 shares attributable to stock options exercised during 1997 prior to the split), the payment of $250,000 in fees, and a transfer of $25,731,904 from paid-in capital and $91,756,642 from retained earnings. All references to per share amounts throughout this report have been restated to reflect this stock split.

(In thousands)	Common Stock $1 Par Value	Additional Paid-in Capital	Treasury Stock	
			Shares	Amount
Balance at December 31, 1995	$116,563	$ 6,424	2,893	$ 53,730
Stock options exercised	291	7,155	36	1,607
Treasury stock purchased	—	—	1,400	61,208
Stock issued	4	239	—	—
Balance at December 31, 1996	$116,858	$13,818	4,329	$116,545
Stock split	116,858	(25,731)	4,329	—
Stock options exercised	781	12,241	72	1,960
Treasury stock purchased	—	—	3,182	84,307
Stock issued	10	330	—	—
Balance at December 31, 1997	$234,507	$ 658	11,912	$202,812

KELLOGG COMPANY

Consolidated Statement Of Shareholders' Equity

(millions)	Common stock shares	Common stock amount	Capital in excess of par value	Retained earnings	Treasury stock shares	Treasury stock amount	Currency translation adjustment	Total shareholders' equity
Balance, January 1, 1995	310.4	$77.6	$68.6	$3,801.2	88.7	$(1,980.6)	($159.3)	$1,807.5
Stock options exercised	.7	.2	36.6					36.8
Common stock repurchases					5.7	(374.7)		(374.7)
Net earnings				490.3				490.3
Dividends				(328.5)				(328.5)
Currency translation adjustments							(34.6)	(34.6)
Other					—	(5.9)		(5.9)
Balance, December 31, 1995	311.1	77.8	105.2	3,963.0	94.4	(2,361.2)	(193.9)	1,590.9
Stock options exercised	.4	.1	18.7					18.8
Common stock repurchases					7.4	(535.7)		(535.7)
Net earnings				531.0				531.0
Dividends				(343.7)				(343.7)
Currency translation adjustments							27.6	27.6
Other					.1	(6.5)		(6.5)
Balance, December 31, 1996	311.5	77.9	123.9	4,150.3	101.9	(2,903.4)	(166.3)	1,282.4
Stock options exercised (pre-split)	.6	.1	31.9		(.1)	2.1		34.1
Common stock repurchases (pre-split)					3.9	(290.9)		(290.9)
Other (pre-split)					.1	(6.0)		(6.0)
Retirement of treasury stock	(105.3)	(26.3)	(55.8)	(3,095.8)	(105.3)	3,177.9		—
Two-for-one stock split	206.8	51.7	(51.7)		.5	—		—
Stock options exercised (post-split)	1.2	.3	44.3		(.1)	2.1		46.7
Common stock repurchases (post-split)					3.1	(135.1)		(135.1)
Net earnings				546.0				546.0
Dividends				(360.1)				(360.1)
Currency translation adjustments							(115.6)	(115.6)
Other (post-split)					.1	(4.0)		(4.0)
Balance, December 31, 1997	414.8	$103.7	$92.6	$1,240.4	4.1	($157.3)	($281.9)	$997.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Common stock split

On August 1, 1997, the Company's Board of Directors approved a 2-for-1 stock split to shareholders of record at the close of business August 8, 1997, effective August 22, 1997, and also authorized retirement of 105.3 million common shares (pre-split) held in treasury. All per share and shares outstanding data in the Consolidated Statement of Earnings and Notes to Consolidated Financial Statements have been retroactively restated to reflect the stock split.

PHILIP MORRIS COMPANIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (In Part): Capital Stock

In February 1997, the Company's Board of Directors declared a three-for-one split of the Company's common stock, effected by a distribution on April 10, 1997, of two shares for each share held of record at the close of business on March 17, 1997. In addition, the par value of the Company's common stock was changed from $1.00 to $0.33⅓ per share and authorized shares of common stock were increased from 4 billion to 12 billion shares. All references in the consolidated financial statements to shares and related prices, weighted average number of shares, per share amounts and stock plan data have been adjusted to reflect the split.

PITNEY BOWES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Capital stock and capital in excess of par value

On December 18, 1997, the company's stockholders voted to amend the Restated Certificate of Incorporation to increase the number of authorized common shares from 240,000,000 to 480,000,000 shares and reduce the par value per common share from $2 to $1. This action resulted in a two-for-one split of the company's common stock as previously approved by the Board of Directors. All previously reported common share and per common share data has been restated.

SCHERING-PLOUGH CORPORATION (DEC)

Statements of Consolidated Retained Earnings

(Amounts in millions, except per share figures)	1997	1996	1995
Retained Earnings, Beginning of Year	$5,081	$4,342	$3,978
Net income	1,444	1,213	887
Cash dividends on common shares (per share: 1997, $.735; 1996, $.64; and 1995, $.5625)	(542)	(474)	(416)
Effect of 2-for-1 stock split	(310)	—	(107)
Retained Earnings, End of Year	$5,673	$5,081	$4,342

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Dollars in millions

Shareholders' Equity (In Part):

On April 22, 1997, the Board of Directors voted to increase the number of authorized common shares from 600 million to 1.2 billion and approved a 2-for-1 stock split. Distribution of the split shares was made on June 3, 1997. All per share amounts herein have been adjusted to reflect the split.

A summary of activity in common shares, paid-in capital and treasury shares follows:

(number of shares in millions)	Common Shares	Paid-in Capital	Treasury Shares Number	Treasury Shares Amount
Balance at January 1, 1995	$ 252	$ 133	66	$2,672
Effect of 1995 2-for-1 stock split	251	(145)	65	—
Stock incentive plans	—	62	(2)	2
Purchase of treasury shares	—	—	10	494
Balance at December 31, 1995	503	50	139	3,168
Stock incentive plans	—	92	(3)	4
Settlement of warrants	3	(23)	—	—
Purchase of treasury shares	—	—	6	388
Shares issued for acquisition	1	53	—	—
Balance at December 31, 1996	507	172	142	3,560
Effect of 1997 2-for-1 stock split	508	(198)	142	—
Stock incentive plans	—	122	(4)	27
Purchase of treasury shares	—	—	2	132
Balance at December 31, 1997	$1,015	$ 96	282	$3,719

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.

TABLE 4-7: CHANGES IN ADDITIONAL PAID-IN CAPITAL

	Number of Companies			
	1997	1996	1995	1994
Credits				
Common stock issued				
Employee benefits	401	395	412	402
Business combinations	70	58	47	34
Preferred stock conversions	30	28	23	28
Debt conversions/ extinguishments	20	22	23	26
Public offerings	24	24	15	42
Stock compensation tax benefits	116	99	102	84
Put options/warrants	13	8	—	—
Purchase or retirement of capital stock	12	8	6	5
Warrants issued or exercised	8	12	7	4
Other-Described	47	37	52	50
Charges				
Purchase or retirement of capital stock	110	101	90	77
Treasury stock issued for less than cost	69	74	73	61
Conversion of preferred stock	14	12	15	13
Stock issue cost	3	3	3	3
Other-Described	66	59	48	67

Common Stock Issued in Connection With Employee Benefit Plans

ALPHA INDUSTRIES, INC

Consolidated Statements Of Stockholders' Equity

(in thousands)	Common stock Shares	Common stock Par value	Additional paid-in capital	Retained earnings (Accumulated deficit)	Treasury stock	Unearned compensation restricted stock
Balance April 3, 1994	7,787	$1,947	$27,325	$(4,585)	$(331)	$(95)
Net income	—	—	—	2,847	—	—
Employee Stock Purchase Plan	29	7	92	—	—	—
Issuance of restricted stock	31	8	139	—	—	(147)
Amortization of unearned compensation restricted stock	—	—	—	—	—	64
Issuance 1,110 treasury shares to ESOP	—	—	11	—	1	—
Exercise of stock options	147	37	354	—	—	—
Balance April 2, 1995	7,994	1,999	27,921	(1,738)	(330)	(178)
Net income	—	—	—	3,794	—	—
Stock offering net of expenses	1,840	460	24,802	—	—	—
Employee Stock Purchase Plan	17	4	126	—	—	—
Issuance of restricted stock	9	2	49	—	—	(51)
Amortization of unearned compensation restricted stock	—	—	—	—	—	61
Issuance 18,334 treasury shares to ESOP	—	—	197	—	23	—
Repurchase 4,500 shares of restricted stock	—	—	—	—	(14)	14
Exercise of stock options	79	19	373	—	—	—
Balance March 31, 1996	9,939	2,484	53,468	2,056	(321)	(154)
Net loss	—	—	—	(15,572)	—	—
Employee Stock Purchase Plan	15	4	104	—	—	—
Amortization of unearned compensation restricted stock	—	—	—	—	—	35
Issuance 100,580 treasury shares to 401(k) plan	—	—	702	—	129	—
Repurchase 12,667 shares of restricted stock	—	—	(53)	—	(3)	45
Exercise of stock options	172	43	419	—	—	—
Balance March 30, 1997	10,126	$2,531	$54,640	$(13,516)	$(195)	$(74)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Common Stock

Stock Purchase Plan

In December 1989, the Company adopted an employee stock purchase plan. The plan was amended in October 1992 to provide for six month offering periods. Under the plan, eligible employees may purchase common stock through payroll deductions of up to 10% of compensation. The price per share is the lower of 85% of the market price at the beginning or end of the offering period. The plan originally provided for purchases by employees of up to an aggregate of 300,000 shares through December 31, 1995. During fiscal 1996, the employee stock purchase plan was amended and extended through December 31, 1998. Shares of 15,076, 16,836, and 28,875, were purchased under this plan in fiscal 1997, 1996, and 1995, respectively.

Note 8. Employment Benefit Plan

On March 31, 1995, the Company merged its Employee Stock Ownership Plan into the Alpha Industries, Inc. Saving and Retirement Plan also known as the 401(k) plan. All of the Company's employees who are at least 21 years old and have completed six months of service (1,000 hours in a 12 month period) with the Company are eligible to receive a Company contribution. Discretionary Company contributions are determined by the Board of Directors and may be in the form of cash or the Company's stock. The Company contributes a match of 100% of the first 1% and a 50% match on the next 4% of an employee's salary for employees with 5 years or less

of service. For employees with more than 5 years of service the Company contributes a 100% match on the first 1% and a 75% match on the next 5% of an employee's salary. For fiscal 1997, the Company contributed 110,956 shares of the Company's common stock valued at $835,000 to the 401(k) plan. During fiscal 1996, the Company contributed $101,000 for the first three quarters and accrued $208,000 that was distributed in the form of the Company's stock in fiscal 1997.

Under the previous 401(k) plan all of the Company's employees who were at least 21 years old and had completed one year of service (1,000 hours in a 12 month period) with the Company were eligible to receive a Company matching contribution. The Company contributed $.50 for each $1.00 contributed by employees, up to a maximum Company matching contribution of $500 per employee for fiscal 1995. For fiscal year 1995, the Company contributed $232,000.

Under the previous Employee Stock Ownership Plan contributions were determined by the Board of Directors and contributed to a trust created to acquire shares of the Company's common stock and other assets for the exclusive benefit of the participants. The Company accrued a contribution of $226,000 for fiscal 1995 that was distributed during fiscal 1996.

AMERADA HESS CORPORATION

Statement of Consolidated Changes in Common Stock and Capital in Excess of Par Value

	Common stock		Capital in
Thousands of dollars	Number of shares	Amount	excess of par value
Balance at January 1, 1995	92,995,755	$92,996	$743,537
Distribution to trustee under executive incentive compensation and stock ownership plan (net)	15,500	15	715
Balance at December 31, 1995	93,011,255	93,011	744,252
Distribution to trustee under executive incentive compensation and stock ownership plans (net)	211,750	212	11,300
Common stock acquired and retired	(154,700)	(155)	(1,247)
Employee stock options exercised	5,000	5	254
Balance at December 31, 1996	93,073,305	93,073	754,559
Distribution to trustee under executive incentive compensation and stock ownership plans (net)	719,000	719	38,145
Common stock acquired and retired	(2,368,100)	(2,368)	(19,419)
Employee stock options exercised	27,000	27	1,346
Balance at December 31, 1997	91,451,205	$91,451	$774,631

QUALCOMM INCORPORATED

Consolidated Statements of Stockholders' Equity

(In thousands)	Shares	Common Stock Amount	Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total
Balance at September 30, 1994	51,486	$5	$287,508	$(25,343)	$262,170
Exercise of stock options	1,458	—	9,318	—	9,318
Tax benefit from exercise of stock options	—	—	8,102	—	8,102
Issuance of common stock, net of issuance costs of $17,364	11,500	1	485,761	—	485,762
Issuance for Employee Stock Purchase Plan	249	—	4,085	—	4,085
Net income	—	—	—	30,180	30,180
Balance at September 30, 1995	64,693	6	794,774	4,837	799,617
Exercise of stock options	1,510	1	14,277	—	14,278
Tax benefit from exercise of stock options	—	—	654	—	654
Issuance for Employee Stock Purchase Plans and Executive Retirement Plans	332	—	9,337	—	9,337
Net income	—	—	—	21,027	21,027
Balance at September 30, 1996	66,535	7	819,042	25,864	844,913
Exercise of stock options	1,208	—	19,979	—	19,979
Tax benefit from exercise of stock options	—	—	54,812	—	54,812
Issuance for Employee Stock Purchase Plans and Executive Retirement Plans	381	—	12,540	—	12,540
Net income	—	—	—	91,934	91,934
Balance at September 30, 1997	68,124	$7	$906,373	$117,798	$1,024,178

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (In Part): Employee Benefit Plans

Employee Stock Purchase Plans. The Company has employee stock purchase plans for all eligible employees to purchase shares of common stock at 85% of the lower of the fair market value on the first or the last day of each six-month offering period. Employees may authorize the Company to withhold up to 15% of their compensation during any offering period, subject to certain limitations. The 1991 Employee Stock Purchase Plan, as amended, authorizes up to 2,000,000 shares to be granted no later than August 2001. The 1996 Non-Qualified Employee Stock Purchase Plan authorizes up to 25,000 shares to be granted at anytime. During fiscal 1997, 1996 and 1995, shares totaling 370,000, 326,000 and 249,000 were issued under the plans at an average price of $33.77, $28.55 and $16.40 per share, respectively. At September 30, 1997, 554,000 shares were reserved for future issuance.

Executive Retirement Plans. The Company has voluntary retirement plans that allow eligible executives to defer up to 100% of their income on a pretax basis. On a quarterly basis, participants receive up to a 7.5% match of their deferral in the Company's common stock based on the then current market price, to be issued to the participant upon eligible retirement. The income deferred and the Company match are unsecured and subject to the claims of general creditors of the Company. The plans authorize up to 100,000 shares to be allocated to participants at anytime. During fiscal 1997 and 1996, approximately 11,000 and 6,000 shares, respectively, were allocated under the plans and the Company's matching contribution during fiscal 1997 and 1996 amounted to $0.5 million and $0.3 million, respectively. At September 30, 1997, 83,000 shares were reserved for future allocation.

Purchase Method Acquisitions

QUAKER STATE CORPORATION

Consolidated Statement of Stockholders' Equity

(in thousands except shares and per share)	Capital Stock	Additional Capital	Retained Earnings	Foreign Currency Translation Adjustment	Treasury Stock	Unearned compen-sation	Total
Balance, December 31, 1994	$31,517	$120,131	$104,286	$(709)	$(467)	$(2,908)	$251,850
Net income	—	—	12,100	—	—	—	12,100
Cash dividends ($.40 per share)	—	—	(12,867)	—	—	—	(12,867)
103,030 shares of capital stock issued under incentive plans	47	661	—	—	789	(117)	1,380
Change in foreign currency translation	—	—	—	598	—	—	598
1,260,403 shares issued for acquisitions	1,260	18,276	—	—	—	—	19,536
Purchase of 30,529 shares	—	—	—	—	(442)	—	(442)
Balance, December 31, 1995	32,824	139,068	103,519	(111)	(120)	(3,025)	272,155
Net income	—	—	13,723	—	—	—	13,723
Cash dividends ($.40 per share)	—	—	(13,762)	—	—	—	(13,762)
187,453 shares of capital stock issued under incentive plans	187	2,345	—	—	—	(646)	1,886
Change in foreign currency translation	—	—	—	522	—	—	522
3,310,702 shares issued for acquisitions	3,311	46,147	—	—	—	—	49,458
Purchase of 1,585,135 shares	—	—	—	—	(25,313)	—	(25,313)
Balance, December 31, 1996	36,322	187,560	103,480	411	(25,433)	(3,671)	298,669
Net income	—	—	23,088	—	—	—	23,088
Cash dividends ($.40 per share)	—	—	(14,117)	—	—	—	(14,117)
90,611 shares of capital stock issued under incentive plans	91	1,229	—	—	—	(139)	1,181
Change in foreign currency translation	—	—	—	(278)	—	—	(278)
1,564,203 shares issued for acquisitions	1,564	21,945	—	—	—	—	23,509
96,477 restricted shares forfeited	—	—	—	—	(1,340)	1,340	—
Purchase of 9,534 shares	—	—	—	—	(151)	—	(151)
Balance, December 31, 1997	$37,977	$210,734	$112,451	$133	$(26,924)	$(2,470)	$331,901

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisitions

In 1997, the Company acquired substantially all the net assets of Auto-Shade, L.L.C. and Auto-Shade (Overseas) L.L.C. ("Axius") for $51.3 million in cash. The acquisition resulted in $40.5 million of goodwill, brands and other intangible assets. In connection with the acquisition, the Company recorded accruals of $2.4 million primarily related to severance and facility exit costs. In addition, the Company acquired substantially all the stock of Rain-X Corporation ("Rain-X") for $23.2 million in cash, the issuance of 1,104,203 shares of capital stock with a market value of $16.8 million, and the payment of $1.8 million to satisfy certain indebtedness. The acquisition resulted in $40.1 million of goodwill, brands and other intangible assets. Additional consideration may be payable by the Company depending upon the sales performance of Rain-X products during the next 15 years.

The Company also made various other acquisitions in 1997 for $33.5 million in cash, 460,000 shares of capital stock with a market value of $6.7 million and a note payable for $10.3 million. These acquisitions resulted in $48.6 million of goodwill, brands and other intangible assets.

Preferred Stock Conversion

ASHLAND INC.

Statements of Consolidated Stockholders' Equity

(In millions)	Preferred stock	Common stock	Paid-in capital	Retained earnings	Loan to LESOP	Other	Total
Balance at October 1, 1994	$293	$61	$159	$1,126	$(33)	$(11)	$1,595
Net income				24			24
Dividends							
Preferred stock				(19)			(19)
Common stock, $1.10 a share				(68)			(68)
Issued common stock under							
Share offering program		2	49				51
Acquisition of operations of other companies		1	40				41
Stock incentive plans			7				7
LESOP loan repayments					22		22
Other changes			1			1	2
Balance at September 30, 1995	293	64	256	1,063	(11)	(10)	1,655
Net income				211			211
Dividends							
Preferred stock				(19)			(19)
Common stock, $1.10 a share				(70)			(70)
Issued common stock under							
Stock incentive plans			18				18
Employee savings plan			6				6
LESOP loan repayments					11		11
Other changes						2	2
Balance at September 30, 1996	293	64	280	1,185	—	(8)	1,814
Net income				279			279
Dividends							
Preferred stock				(9)			(9)
Common stock, $1.10 a share				(76)			(76)
Issued common stock under							
Preferred stock conversion	(290)	9	281				—
Stock incentive plans		2	44				46
Employee savings plan			1				1
Preferred stock redemption	(3)						(3)
Other changes			(1)			(27)	(28)
Balance at September 30, 1997	$—	$75	$605	$1,379	$—	$(35)	$2,024

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note J (In Part): Capital Stock

In March 1997, Ashland called for redemption the 6 million outstanding shares of its $3.125 Cumulative Convertible Preferred Stock. Each preferred share was convertible into 1.546 shares of Ashland common stock, plus cash for fractional shares. Almost 99% of the series was submitted for conversion to common stock by the March 31 deadline. The remaining preferred shares were redeemed at a price of $51.88 per share plus 19.1 cents per share of accrued and unpaid dividends.

OPTICAL COATING LABORATORY, INC.

Consolidated Statements Of Stockholders' Equity

(Amounts in thousands)	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Foreign Currency Translation
Balance at November 1,1994			8,978	$90	$39,967	$12,055	$(75)
Shares issued on purchase of Netra			165	1	1,584		
Shares issued to Employee Stock Ownership Plan			82	1	794		
Exercise of stock options, including tax benefit and shares issued to directors			264	3	2,116		
Series C preferred stock issued for cash net of issuance expenses	12	$11,357					
Foreign currency translation adjustment for the year							155
Net income for the year						7,391	
Dividend on preferred stock						(462)	
Dividend on common stock						(1,083)	
Balance at October 31, 1995	12	11,357	9,489	95	44,461	17,901	80
Shares issued to Employee Stock Ownership Plan			39	1	439		
Exercise of stock options, including tax benefit and shares issued to directors			233	2	2,319		
Foreign currency translation adjustment for the year							(131)
Net income for the year						5,196	
Series C preferred stock issuance expenses		(48)					
Dividend on preferred stock						(960)	
Dividend on common stock						(1,153)	
Balance at October 31, 1996	12	11,309	9,761	98	47,219	20,984	(51)
Shares issued to Employee Stock Ownership Plan			15		159		
Exercise of stock options, including tax benefit and shares issued to directors			268	3	2,524		
Conversion of Series C preferred stock to common stock	(6)	(5,750)	555	5	5,821		
Foreign currency translation adjustment for the year							(591)
Net income for the year						7,125	
Dividend on preferred stock						(693)	
Dividend on common stock						(1,199)	
Balance at October 31, 1997	6	$5,559	10,599	$106	$55,723	$26,217	$(642)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Stockholders' Equity

Preferred Stock.
In 1995, as part of the financing of the acquisition of a controlling interest in Flex Products, Inc., the Company issued 12,000 shares of 8% Series C Convertible Redeemable Preferred Stock (the "Series C Preferred Stock") in consideration for $1,000 per share. The Series C Preferred Stock is convertible into common stock at any time by the holders at a conversion price of $10.50 per common share (subject to adjustment in certain circumstances). The Series C Preferred Stock is redeemable at the option of the Company commencing two years from the date of issuance (if the Company's common stock is trading at $17 per share or more for any 20 consecutive day period) and, after three years, unconditionally, at 108% of the purchase price per share, declining to 100% over four years. The holders of the

Series C Preferred Stock are entitled to receive a cumulative annual dividend of $80 per share, which is payable quarterly and has preference to any other dividends being paid by the Company.

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During fiscal 1997, 5,750 shares of the Company's 8% Series C Convertible Redeemable Preferred Stock, plus accrued dividends on those shares, were converted into approximately 555,000 shares of common stock at a conversion price of $10.50 per share.

Debt Conversion

GENCORP INC.

Consolidated Statements of Shareholders' Equity

(Dollars in millions)	Common Stock Shares	Common Stock Amount	Other Capital	Retained Earnings (Deficit)	Cumulative Translation Adjustments
Balance at November 30, 1994	32,075,182	$ 3	$ 5	$ (16)	$ 1
Net income				38	
Currency translation adjustments					7
Cash dividends- $.60 per share				(20)	
Shares issued to employee saving plans	981,916	—	12		
Shares issued under stock incentive plans, net	345,351	—	5		
Balance at November 30, 1995	33,402,449	3	22	2	8
Net income				42	
Currency translation adjustments					(1)
Cash dividends - $.60 per share				(20)	
Shares issued under stock option and incentive plans, net	77,198	—	—		
Balance at November 30, 1996	33,479,647	3	22	24	7
Net income				137	
Currency translation adjustments					(15)
Cash dividends - $.60 per share				(22)	
Conversion of subordinated debentures	7,151,686	1	114		
Shares issued under stock option and incentive plans, net	694,126	—	10		
Balance at November 30, 1997	41,325,459	$ 4	$146	$139	$(8)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note L (In Part): Long-term Debt and Credit Lines

During the second quarter of 1997, the Company called its $115,000,000 8% Convertible Subordinated Debentures Due August 1, 2002 (Debentures) for redemption. In the third quarter of 1997, substantially all of the Debentures were tendered for conversion into GenCorp common stock at a conversion price of $16.065 per share (equivalent to a conversion rate of approximately 62.247 shares of common stock per $1,000 principal amount of Debentures).

HASBRO, INC.

Consolidated Statements Of Shareholders' Equity

(Thousands of Dollars)	Common Stock	Additional Paid-in Capital	Retained Earnings	Foreign Currency Translation	Treasury Stock	Total Shareholders' Equity
Balance, December 25, 1994	$44,043	282,151	1,071,416	14,526	(16,719)	1,395,417
Net earnings	—	—	155,571	—	—	155,571
Purchase of treasury stock	—	—	—	—	(15,228)	(15,228)
Stock option and warrant transactions	—	(2,872)	—	—	9,536	6,664
Dividends declared	—	—	(28,050)	—	—	(28,050)
Currency translation and other	—	9	2,305	8,924	—	11,238
Balance, December 31, 1995	44,043	279,288	1,201,242	23,450	(22,411)	1,525,612
Net earnings	—	—	199,912	—	—	199,912
Three-for-two stock split	22,027	(22,027)	—	—	—	—
Purchase of treasury stock	—	—	—	—	(83,657)	(83,657)
Stock option and warrant transactions	—	25,063	—	—	24,834	49,897
Dividends declared	—	—	(34,559)	—	—	(34,559)
Currency translation and other	10	598	(3,804)	(1,963)	—	(5,159)
Balance, December 29, 1996	66,080	282,922	1,362,791	21,487	(81,234)	1,652,046
Net earnings	—	—	134,986	—	—	134,986
Purchase of treasury stock	—	—	—	—	(134,880)	(134,880)
Stock options and warrant transactions	—	57,378	—	—	41,287	98,665
Dividends declared	—	—	(41,783)	—	—	(41,783)
Conversion of 6% debt	3,820	149,264	—	—	—	153,084
Currency translation and other	—	(117)	2,315	(26,204)	5	(24,001)
Balance, December 28, 1997	$69,900	489,447	1,458,309	(4,717)	(174,822)	1,838,117

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Thousands of Dollars Except Share Data)

(7) Long-Term Debt

Long-term debt of $149,382 at December 29, 1996 consisted of Hasbro's 6% Convertible Subordinated Notes Due 1998. Substantially all of these notes were converted into 7,636,562 shares of common stock during 1997.

Public Offerings

B/E AEROSPACE, INC.

Consolidated Statements Of Stockholders' Equity

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Currency Translation Adjustment	Total Stockholders' Equity
Balance, February 26, 1994	15,985	$159	$118,357	$19,484	$(4,007)	$133,993
Sale of stock under employee stock purchase plan	15	—	132	—	—	132
Employee benefit plan matching contribution	96	1	720	—	—	721
Net loss	—	—	—	(12,066)	—	(12,066)
Foreign currency translation adjustment	—	—	—	—	2,551	2,551
Balance, February 25, 1995	16,095	160	119,209	7,418	(1,456)	125,331
Sale of stock under employee stock purchase plan	74	1	403	—	—	404
Exercise of stock options	121	2	896	—	—	898
Employee benefit plan matching contribution	102	1	858	—	—	859
Net loss	—	—	—	(83,413)	—	(83,413)
Foreign currency translation adjustment	—	—	—	—	78	78
Balance, February 24, 1996	16,393	164	121,366	(75,995)	(1,378)	44,157
Sale of stock under employee stock purchase plan	58	—	482	—	—	482
Exercise of stock options	1,362	14	11,650	—	—	11,664
Employee benefit plan matching contribution	75	1	1,316	—	—	1,317
Sale of common stock under public offering, net of expenses	4,005	40	93,896	—	—	93,936
Net earnings	—	—	—	13,709	—	13,709
Foreign currency translation adjustment	—	—	—	—	496	496
Balance, February 22, 1997	21,893	$219	$228,710	$(62,286)	$ (882)	$165,761

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share and per share data)

12 (In Part): Stockholders' Equity

On December 18, 1996, the Company issued approximately 4,005,000 shares of common stock to the public at a price of $25.00 per share. The net proceeds of the offering were $93,936. The Company used approximately $57,600 of the net proceeds to repay outstanding balances under various credit facilities.

THE ESTEE LAUDER COMPANIES INC.

Consolidated Statements Of Stockholders' Equity

(In millions)	Capital Stock	Paid-in Capital	Retained Earnings	Unrealized Investment Gains, Net	Partnership Equity	Cumulative Translation Adjustments	Total Stockholders' Equity
Balance at June 30, 1994	$41.5	$ 11.6	$505.6	$—	$—	$19.0	$577.7
Preferred stock dividends			(25.3)				(25.3)
Common stock dividends			(11.0)				(11.0)
Exchange of Class B nonvoting Common Stock for Cumulative Redeemable Preferred Stock		(11.7)	(348.3)				(360.0)
Repurchases and redemptions	(1.2)	0.1					(1.1)
Unrealized investment gains, net				2.1			2.1
Contribution of partnership equity					2.5		2.5
Translation adjustments						29.0	29.0
Net earnings for the year			121.2				121.2
Balance at June 30, 1995	40.3	—	242.2	2.1	2.5	48.0	335.1
Recapitalization	(39.1)	58.0	(16.4)		(2.5)		—
Common stock issued, net of issuance costs (Note 2)		59.3					59.3
Share grants		4.3					4.3
Preferred stock dividends			(44.8)				(44.8)
Common stock dividends			(69.6)				(69.6)
Dividend of interests in corporations and partnerships			(19.6)				(19.6)
Unrealized investment gains, net				0.8			0.8
Translation adjustments						(31.7)	(31.7)
Net earnings for the year			160.4				160.4
Balance at June 30, 1996	1.2	121.6	252.2	2.9	—	16.3	394.2
Common stock issued, net of issuance costs (Note 2)		38.1					38.1
Stock option programs		5.4					5.4
Share grants		0.2					0.2
Preferred stock dividends			(23.4)				(23.4)
Common stock dividends			(40.0)				(40.0)
Translation adjustments						(24.4)	(24.4)
Net earnings for the year			197.6				197.6
Balance at June 30, 1997	$ 1.2	$165.3	$ 386.4	$2.9	$ —	$ (8.1)	$547.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Public Offerings

In February 1997, the Company completed a secondary public offering of 8,064,750 shares of Class A Common Stock at an initial offering price of $47.00 per share. Of the 8,064,750 shares of Class A Common Stock offered, 849,750 shares were issued and sold by the Company, pursuant to an underwriters' over-allotment provision, and 7,215,000 shares were sold by members of the Lauder family.

In November 1995, the Company completed an initial public offering of 17,606,252 shares of Class A Common Stock at an initial offering price of $26.00 per share. Of the 17,606,252 shares of Class A Common Stock offered, 2,731,252 shares were issued and sold by the Company and 14,875,000 shares were sold by members of the Lauder family. Prior to the Offering, there was no public market for the Company's capital stock.

The Company did not receive any of the proceeds from the sales of the shares sold by the Lauder family members. The net proceeds to the Company from the secondary and initial public offerings, after deducting applicable underwriting discounts and offering expenses,

were $38.1 and $59.3 million, respectively. These net proceeds to the Company were used for general corporate purposes and to repay short-term debt.

Stock Option Tax Benefit

MINNTECH CORPORATION

Consolidated Statements Of Stockholders' Equity

	Common Stock				
	Shares Issued and Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Total
Balances April 1, 1994	6,163,757	$308,187	$8,161,543	$20,234,676	$28,704,406
Exercise of stock options, net of 25,465 shares surrendered in payment	221,001	11,051	898,355	—	909,406
Tax benefit from exercise of stock options	—	—	64,200	—	64,200
Dividend paid	—	—	—	(623,250)	(623,250)
Increase of unrealized holding losses on investments	—	—	—	(153,803)	(153,803)
Foreign currency translation adjustment	—	—	—	231,588	231,588
Net earnings	—	—	—	5,919,857	5,919,857
Balances March 31, 1995	6,384,758	319,238	9,124,098	25,609,068	35,052,404
Exercise of stock options, net of 40,555 shares surrendered in payment	250,376	12,519	1,966,540	—	1,979,059
Tax benefit from exercise of stock options	—	—	555,860	—	555,860
Dividend paid	—	—	—	(652,542)	(652,542)
Reduction of unrealized holding losses on investments	—	—	—	80,120	80,120
Foreign currency translation adjustment	—	—	—	(112,868)	(112,868)
Net earnings	—	—	—	4,308,239	4,308,239
Balances March 31, 1996	6,635,134	331,757	11,646,498	29,232,017	41,210,272
Exercise of stock options	40,579	2,029	484,765	—	486,794
Tax benefit from exercise of stock options	—	—	11,368	—	11,368
Dividend paid	—	—	—	(667,471)	(667,471)
Reduction of unrealized holding losses on investments	—	—	—	51,703	51,703
Foreign currency translation adjustment	—	—	—	(286,947)	(286,947)
Net loss	—	—	—	(3,371,663)	(3,371,663)
Balances March 31, 1997	6,675,713	$333,786	$12,142,631	$24,957,639	$37,434,056

Sale Of Put Options/Warrants

THE GILLETTE COMPANY

Consolidated Statement Of Stockholders' Equity

(Millions of dollars)	Preferred Shares	Unearned ESOP Compensation	Common Stock	Additional Paid-in Capital	Earnings Reinvested	Treasury Stock	Currency Translation and Pension Adjustments	Total Stockholders' Equity
Balance at December 31, 1994	$98	$(44)	$664	$958	$3,029	$(1,047)	$(401)	$3,257
Net income	—	—	—	—	1,069	—	—	1,069
Cumulative translation adjustments	—	—	—	—	—	—	(100)	(100)
Minimum liability adjustment	—	—	—	—	—	—	(20)	(20)
Dividends declared	—	—	—	—	(394)	—	—	(394)
Stock option and purchase plans (3,284,028 shares)	—	—	3	82	—	—	—	85
Conversion of Series C ESOP preferred stock (89,051 shares)	(1)	—	—	—	—	1	—	—
Purchase of Duracell treasury stock (504,974 shares)	—	—	—	(28)	—	—	—	(28)
Earned ESOP compensation	—	10	—	—	—	—	—	10
Balance at December 31, 1995	97	(34)	667	1,012	3,704	(1,046)	(521)	3,879
Net income	—	—	—	—	949	—	—	949
Cumulative translation adjustments	—	—	—	—	—	—	(22)	(22)
Minimum liability adjustment	—	—	—	—	—	—	1	1
Dividends declared	—	—	—	—	(484)	—	—	(484)
Stock option and purchase plans (4,362,980 shares)	—	—	4	146	—	—	—	150
Conversion of Series C ESOP preferred stock (111,066 shares)	(2)	—	—	1	—	1	—	—
Purchase of Gillette treasury stock (210,400 shares)	—	—	—	—	—	(11)	—	(11)
Earned ESOP compensation	—	9	—	—	—	—	—	9
Balance at December 31, 1996	95	(25)	671	1,159	4,169	(1,056)	(542)	4,471
Net income	—	—	—	—	1,427	—	—	1,427
Net results of year-end harmonization	—	—	—	—	(89)	—	—	(89)
Cumulative translation adjustments	—	—	—	—	—	—	(268)	(268)
Dividends declared	—	—	—	—	(486)	—	—	(486)
Stock option and purchase plans (4,859,121 shares)	—	—	5	206	—	—	—	211
Conversion of Series C ESOP preferred stock (150,722 shares)	(2)	—	—	1	—	1	—	—
Purchase of Gillette treasury stock (618,600) shares)	—	—	—	—	—	(53)	—	(53)
Proceeds from sale of put options	—	—	—	27	—	—	—	27
Contingent liability of put options	—	—	—	(407)	—	—	—	(407)
Earned ESOP compensation	—	8	—	—	—	—	—	8
Balance at December 31, 1997	$93	$(17)	$676	$986	$5,021	$(1,108)	$(810)	$4,841

Dividends declared per common share in 1997, 1996 and 1995 were $.86, $.72 and $.60, respectively, for Gillette, and in 1996 and 1995, $1.16 and $1.04, respectively, for Duracell.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Share Repurchase Program

On September 18, 1997, the Company's Board of Directors authorized a share repurchase program to purchase up to 25 million shares in the open market or in privately negotiated transactions, depending on market conditions and other factors. The Company repurchased 618,600 shares for $53 million in 1997.

During 1997, the Company sold equity put options as an enhancement to its ongoing share repurchase program. These options provide the Company with an additional source to supplement open market purchases of its common stock. The options were priced based on the market value of the Company's stock at the date of issuance. The redemption value of the options, which represents the options' price multiplied by the number of shares under option, is presented in the accompanying consolidated balance sheet as "Contingent Redemption Value of Common Stock Put Options." At December 31, 1997, no shares of outstanding common stock were subject to repurchase under the terms and conditions of these options.

Gillette and Duracell terminated their existing share repurchased programs after the merger was announced in 1996. Gillette repurchased 210,400 shares for $11 million in 1996. During 1995, Duracell repurchased 504,974 shares for $28 million.

THE PERKIN-ELMER CORPORATION

Consolidated Statements Of Shareholders' Equity

(Dollar Amounts And Shares In Thousands)	Common Stock $1.00 Par Value	Capital In Excess Of Par Value	Retained Earnings	Foreign Currency Translation Adjustments	Unrealized Gain On Investment	Minimum Pension Liability Adjustment	Treasury Stock	
							At Cost	Shares
Balance At June 30, 1994	$45,600	$178,739	$181,130	$5,521	$ —	$(36,259)	$(84,299)	(2,651)
Net income			66,877					
Cash dividends declared			(28,618)					
Share repurchases							(40,297)	(1,386)
Shares issued under stock plans			(3,929)				14,208	477
Tax benefit related to employee stock options		34						
Minimum pension liability adjustment						1,814		
Restricted stock plan		(2,074)	8				2,066	70
Foreign currency translation adjustments				4,284				
Other			(105)					
Balance At June 30,1995	45,600	176,699	215,363	9,805	—	(34,445)	(108,322)	(3,490)
Net income			13,944					
Cash dividends declared			(29,095)					
Share repurchases							(41,028)	(800)
Shares issued under stock plans			(5,627)				52,283	1,559
Tax benefit related to employee stock options		5,280						
Minimum pension liability adjustment						5,080		
Restricted stock plan		4,079					993	30
Unrealized gain on investment					23,245			
Foreign currency translation adjustments				(9,359)				
Other			28				(1,081)	
Balance At June 30, 1996	45,600	186,058	194,613	446	23,245	(29,365)	(97,155)	(2,701)
Net income			115,155					
Cash dividends declared			(29,536)					
Share repurchases							(25,126)	(428)
Shares issued under stock plans			(1,459)				32,970	1,146
Tax benefit related to employee stock options		4,568						
Minimum pension liability adjustment						28,660		
Restricted stock plan		6,098					5,580	187
Sale of equity investment					(23,245)			
Sale of equity put warrants		1,846						
Foreign currency translation adjustments				(713)				
Other			(13)				(1,355)	
Balance At June 30, 1997	$45,600	$198,570	$278,760	$ (267)	$ —	$ (705)	$(85,086)	(1,796)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (In Part): Shareholders' Equity

Equity Put Warrants - During the first quarter of fiscal 1997, the Company sold in a private placement 600,000 put warrants on shares of its common stock. Each warrant obligated the Company to purchase the shares from the holder, at specified prices, if the closing price of the common stock was below the exercise prices on the maturity date. The cash proceeds from the sale of the put warrants were $1.8 million and have been included in capital in excess of par value. During fiscal 1997, all 600,000 warrants expired unexercised.

Treasury Stock Issued to Foundation

HONEYWELL INC. (DEC)

NOTES TO FINANCIAL STATEMENTS
(Dollars in Millions Except Per Share Amounts)

17 (In Part): Capital Stock

	Common Stock	Additional Paid-In Capital	Treasury Stock
Balance December 31, 1994	$282.4	$446.9	$(1,576.5)
Purchase of treasury stock-3,090,400 shares			(129.3)
Issued for Honeywell Foundation Pledge-1,000,000 treasury shares		13.4	21.7
Issued for employee stock plans-1,814,714 shares		27.6	33.9
152,296 shares canceled	(0.2)	(6.6)	
Balance December 31, 1995	$282.2	$481.3	$(1,650.2)
Purchase of treasury stock-2,904,000 shares			(163.2)
Issued for Honeywell Foundation Pledge-450,000 treasury shares		8.3	9.2
Issued for employee stock plans-2,399,438 shares		55.8	40.7
317,192 shares canceled	(0.5)	(16.6)	
Balance December 31, 1996	$281.7	$528.8	$(1,763.5)
Purchase of treasury stock-2,250,600 shares			(154.3)
Issued for Honeywell Foundation Pledge-285,700 treasury shares		7.9	5.7
Issued for employee stock plans-1,892,638 shares		84.4	32.8
176,489 shares canceled	(0.2)	(12.7)	
Balance December 31, 1997	$281.5	$608.4	$(1,879.3)

Stock Pledge. In 1993, Honeywell pledged to the Honeywell Foundation a five-year option to purchase 2,000,000 shares of common stock at $33 per share. This option is transferable to charitable organizations and exercisable in whole or in part, subject to certain conditions, from time to time during its term. Shares purchased under the option totaled 285,700 in 1997, 450,000 in 1996 and 1,000,000 in 1995.

Forward Stock Purchase Contract Premium

MAYTAG CORPORATION (DEC)

Statements Of Consolidated Shareowners' Equity

In thousands	1997	1996	1995
Common stock			
Balance at beginning of period	$146,438	$146,438	$146,438
Balance at end of period	146,438	146,438	146,438
Additional paid-in capital			
Balance at beginning of period	471,158	472,602	477,153
Stock issued under stock option plans	(7,375)	(2,324)	(2,301)
Stock issued under restricted stock awards, net	(86)	(176)	(867)
Conversion of subordinated debentures			(1,941)
Additional ESOP shares issued	(139)	(264)	(629)
Tax benefits of ESOP dividends and stock options	6,640	1,320	1,187
Forward stock purchase contract premium	14,592		
Put option premiums	9,856		
Balance at end of period	494,646	471,158	472,602
Retained earnings			
Balance at beginning of period	423,552	344,346	420,174
Net income (loss)	180,290	136,429	(20,476)
Dividends on common stock	(61,724)	(57,223)	(55,352)
Balance at end of period	542,118	423,552	344,346
Treasury stock			
Balance at beginning of period	(405,035)	(255,663)	(218,745)
Purchase of common stock for treasury	(138,051)	(164,439)	(54,775)
Stock issued under stock option plans	29,309	8,435	7,295
Stock issued under restricted stock awards, net	3,212	3,951	2,305
Conversion of subordinated debentures			6,071
Additional ESOP shares issued	2,450	2,681	2,186
Balance at end of period	(508,115)	(405,035)	(255,663)
Employee stock plans			
Balance at beginning of period	(55,204)	(57,319)	(60,816)
Stock issued under restricted stock awards, net	7	310	1,776
ESOP shares allocated	6,781	1,805	1,721
Balance at end of period	(48,416)	(55,204)	(57,319)
• • • • • •			
Total shareowners' equity	$615,809	$573,990	$637,351

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shareowners' Equity (In Part):

In the second quarter of 1997, the Company's Board of Directors authorized the repurchase of up to 15 million additional shares beyond the previous share repurchase authorizations of 5 million shares and 10.8 million shares. Under these authorizations the Company has repurchased approximately 15.8 million shares at a cost of $357 million.

Four million of the shares repurchased by the Company in 1997 are subject to a future contingent purchase price adjustment to be settled based on the difference in the market price of the Company's common stock at the time of settlement compared to the market price of the Company's common stock as of August 20, 1997. The forward stock purchase contract allows the Company to determine the method of settlement. The Company's objective in this transaction is to reduce the average price of repurchased shares. As of December 31, 1997, the cost to settle the transaction would be approximately $53 million.

In connection with the share repurchase program, the Company sold put options which gave the purchaser the right to sell shares of the Company's common stock to the Company at specified prices upon exercise of the options. The put option contracts allow the Company to determine the method of settlement. The Company's objective in selling put options is to reduce the average price of repurchased shares. In 1997, the Company received $9.9 million in net proceeds from the sale of put options. As of December 31, 1997, there were 2.8 million put options outstanding with strike prices ranging from $28.75 to $33.65 (the weighted average strike price was $32.33).

Par Value Reduced

PACCAR INC (DEC)

Consolidated Statements Of Stockholders' Equity

(millions except share data)	1997	1996	1995
Common Stock, $1 Par Value: ($12 Par Value-1996 And 1995)			
Balance at beginning of year	$466.4	$466.3	$466.3
Reduction in par value from $12 per share to $1 per share	(427.8)		
Stock split	38.9		
Stock options exercised	.3	.1	
Balance at end of year	$ 77.8	$466.4	$466.3
Additional Paid-In Capital:			
Balance at beginning of year	$219.0	$218.7	$218.2
Reduction in par value from $12 per share to $1 per share	427.8		
Stock split	(38.9)		
Other, including options exercised and tax benefit	2.0	.3	.5
Balance at end of year	$609.9	$219.0	$218.7
Retained Earnings:			
Balance at beginning of year	$757.7	$653.8	$556.5
Net income	344.6	201.0	252.8
Cash dividends declared on common stock, per share: 1997-$2.075; 1996-$1.25; 1995-$2.00	(161.5)	(97.1)	(155.5)
Balance at end of year	$940.8	$757.7	$653.8
Net Unrealized Investment Gains (Losses):			
Balance at beginning of year	$ .6	$ 2.2	$ (1.5)
Net unrealized gains (losses)	.3	(1.6)	3.7
Balance at end of year	$ .9	$ .6	$ 2.2
Currency Translation Adjustments:			
Balance at beginning of year	$ (85.7)	$ (89.8)	$ (65.0)
Translation gains (losses)	(45.9)	4.1	(24.8)
Balance at end of year	$ (131.6)	$ (85.7)	$ (89.8)
Total Stockholders' Equity	$1,497.8	$1,358.0	$1,251.2
Shares Of Capital Stock Common Stock Issued, $1 par Value:			
Balance at beginning of year	38,871,278	38,862,359	38,859,281
Stock options exercised	48,567	8,919	3,078
Stock split	38,906,927		
Balance at end of year	77,826,772	38,871,278	38,862,359

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

T (In Part): Stockholders' Equity

Reduction in Par Value and Increase in Number of Authorized Shares: At the Annual meeting held on April 29, 1997, the stockholders approved an amendment to the Certificate of Incorporation reducing the par value of the common stock from $12 to $1 per share, and increasing the number of authorized shares of common stock from 100 million to 200 million. As a result of the reduction in par value, the common stock account was reduced by $427,800,000 and the additional paid-in capital account was increased by the same amount.

Change From No Par Value To Par Value

ILLINOIS TOOL WORKS INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Common Stock, Additional Paid-in-Capital and Common Stock Held in Treasury

Transactions during 1997, 1996 and 1995 are shown below. On May 9, 1997, the stockholders approved a) an amendment to the Restated Certificate of Incorporation changing the number of authorized shares of common stock from 150,000,000 shares without par value to 350,000,000 shares with a par value of $.01 and b) a two-for-one split of the Company's common stock, with a distribution date of May 27, 1997, at a rate of one additional share for each common share held by stockholders of record on May 20, 1997. All per share data in this report in calculated on a post-split basis.

	Common Stock		Additional Paid-in Capital	Common Stock Held in Treasury	
In thousands except shares	Shares	Amount	Amount	Shares	Amount
Balance, December 31, 1994	114,100,500	$201,166	$ —	(142,568)	$(1,952)
During 1995-					
Stock options exercised	382,587	7,300	—	2,113	118
Shares surrendered on exercise of stock options	(4,626)	(243)	—	(2,113)	(118)
Tax benefits related to stock options exercised	—	2,528	—	—	—
Shares issued for acquisitions	3,876,477	27,501	—	—	—
Shares issued for stock incentive and restricted stock grants	14,091	1,436	—	6,300	86
Balance, December 31, 1995	118,369,029	239,688	—	(136,268)	(1,866)
During 1996-					
Stock options exercised	254,181	5,871	—	23,462	1,579
Shares surrendered on exercise of stock options	(11,791)	(462)	—	(23,462)	(1,579)
Tax benefits related to stock options exercised	—	3,176	—	—	—
Shares issued for acquisitions	5,408,704	25,510	—	—	—
Shares issued for stock incentive and restricted stock grants	—	81	—	1,800	25
Balance, December 31, 1996	124,020,123	273,864	—	(134,468)	(1,841)
During 1997-					
Adjustment to reflect the May 1997 stock split	124,020,123	—	—	(134,468)	—
Adjustment to reflect change in par value	—	(275,701)	275,701	—	
Stock options exercised	673,132	4,018	4,452	14,862	796
Shares surrendered on exercise of stock options	(33,162)	(10)	(744)	(14,862)	(796)
Tax benefits related to stock options exercised	—	—	7,758	—	—
Shares issued for acquisitions	1,181,228	289	(14)	—	—
Shares issued for stock incentive and restricted stock grants	4,460	39	—	1,200	8
Balance, December 31, 1997	249,865,904	$ 2,499	$287,153	(267,736)	$(1,833)
Authorized, December 31, 1997	350,000,000				

Adjustment of Employee Benefit Trust to Market

CONAGRA, INC.

Consolidated Statements of Common Stockholders' Equity

Columnar amounts in millions	Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Foreign Currency Translation Adjustment	Treasury Stock	EEF* Stock and Other	Total
Balance at May 29, 1994	252.7	$1,263.6	$338.0	$1,422.7	$(33.1)	$(117.2)	$(647.1)	$2,226.9
Shares issued								
Stock option and incentive plans	.2	.5	1.6				(1.8)	.3
EEF*: stock option, incentive and employee benefit plans			(9.5)				82.7	73.2
Fair market valuation of EEF shares			74.6				(74.6)	—
Acquisitions		.1	5.1			41.2		46.4
Conversion of preferred stock		.1	.1			.5		.7
Shares acquired								
Incentive plans						(13.6)	1.3	(12.3)
Treasury shares purchased						(117.8)		(117.8)
Foreign currency translation adjustment					(11.8)			(11.8)
Dividends declared								
Preferred stock				(24.0)				(24.0)
Common stock, $.80 per share				(181.8)				(181.8)
Net income				495.6				495.6
Balance at May 28, 1995	252.9	1,264.3	409.9	1,712.5	(44.9)	(206.9)	(639.5)	2,495.4
• •	• •	• •	• •	• •	• •	• •	•	•
Balance at May 26, 1996	253.0	1,264.9	423.1	1,683.5	(39.1)	(390.0)	(686.9)	2,255.5
Shares issued								
Stock option and incentive plans	.1	.4	1.4			.4		2.2
EEF*: stock option, incentive and other employee benefit plans			13.0				78.8	91.8
Fair market valuation of EEF shares			204.8				(204.8)	—
Acquisitions		.1	1.1			4.3		5.5
Shares acquired								
Incentive plans			(.1)			(10.1)	1.3	(8.9)
Treasury shares purchased						(259.7)		(259.7)
Foreign currency translation adjustment					7.6			7.6
Dividends declared								
Common stock, $1.06 per share				(237.3)				(237.3)
Net income				615.0				615.0
Balance at May 25, 1997	253.1	$1,265.4	$643.3	$2,061.2	$(31.5)	$(655.1)	$(811.6)	$2,471.7

*Employee Equity Fund (Note 9)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Employee Equity Fund

In fiscal 1993, the Company established a $700 million Employee Equity Fund ("EEF"), a newly formed grantor trust, to pre-fund future stock-related obligations of the Company's compensation and benefit plans. The EEF supports existing, previously approved employee plans that use ConAgra common stock and does not change those plans or the amounts of stock expected to be issued for those plans.

For financial reporting purposes the EEF is consolidated with ConAgra. The fair market value of the shares held by the EEF is shown as a reduction to common stockholders' equity in the Company's Consolidated Balance Sheets. All dividends and interest transactions between the EEF and ConAgra are eliminated. Differences between cost and fair value of shares held and/or released are included in consolidated additional paid-in capital.

Following is a summary of shares held by the EEF:

	1997	1996
Shares held	13,101,304	16,014,644
Cost—per share	$ 29.105	$ 29.105
Cost—total	381.3	466.1
Fair market value—per share	$ 60.500	$ 42.000
Fair market value—total	792.6	672.6

Common Stock Retirement

OCCIDENTAL PETROLEUM CORPORATION

Consolidated Statements of Stockholders' Equity

In millions	Non-redeemable Preferred Stock	ESOP Preferred Stock	Unearned ESOP Shares	Common Stock (Note 12)	Additional Paid-in Capital (Note 12)	Retained Earnings (Deficit)	Cumulative Foreign Currency Translation Adjustments
Balance, December 31, 1994	$1,325	$ —	$ —	$63	$5,004	$(1,929)	$ (6)
Net income	—	—	—	—	—	511	—
Dividends on common stock	—	—	—	—	(318)	—	—
Dividends on preferred stock	—	—	—	—	(93)	—	—
Issuance of common stock	—	—	—	1	28	—	—
Pension liability adjustment	—	—	—	—	—	16	—
Exercises of options and other, net	—	—	—	—	10	—	18
Balance, December 31, 1995	$1,325	$ —	$ —	$64	$4,631	$(1,402)	$ 12
Net income	—	—	—	—	—	668	—
Dividends on common stock	—	—	—	—	(325)	—	—
Dividends on preferred stock	—	—	—	—	(93)	—	—
Issuance of common stock	—	—	—	2	240	—	—
Issuance of preferred stock	—	1,400	(1,394)	—	(6)	—	—
Pension liability adjustment	—	—	—	—	—	8	—
Exercises of options and other, net	—	—	—	—	16	—	(6)
Balance, December 31, 1996	$1,325	$1,400	$(1,394)	$66	$4,463	$ (726)	$ 6
Net income (loss)	—	—	—	—	—	(390)	—
Dividends on common stock	—	—	—	—	(335)	—	—
Dividends on preferred stock	—	—	—	—	(88)	—	—
Issuance of common stock	—	—	—	—	23	—	—
Release of ESOP shares	—	—	46	—	(29)	—	—
Repurchase and retirement of common stock	—	—	—	(1)	(118)	—	—
Preferred stock conversions	(200)	—	—	3	197	—	—
Pension liability adjustment	—	—	—	—	—	17	—
Exercises of options and other, net	—	—	—	—	36	5	(20)
Balance, December 31, 1997	$1,125	$1,400	$(1,348)	$68	$4,149	$(1,094)	$(14)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (in part): Nonredeemable Preferred Stock, ESOP Preferred Stock and Common Stock

Common Stock Repurchase Program—In October 1997, the Occidental board of directors authorized the repurchase of up to 40 million shares of Occidental's common stock. The repurchases will be made in the open market or in privately negotiated transactions at the discretion of Occidental's management, depending upon financial and market conditions or as otherwise provided by the Securities and Exchange Commission and New York Stock Exchange rules and regulations. As of December 31, 1997, 4.1 million shares were repurchased and retired for a total cost of $119 million.

Costs of Tender Offer

INSILCO CORPORATION

Consolidated Statement of Stockholders' Equity (Deficit)

(In thousands)	Common Stock Par Value $.001	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Cumulative Translation Adjustment	Total Stockholders' Equity (Deficit)
Balance at December 31, 1994	$10	—	65,282	(78,743)	—	(13,451)
Net income	—	—	—	2,575	—	2,575
Shares issued upon exercise of stock options	—	—	226	—	—	226
Purchase of treasury stock	—	(6,813)	—	—	—	(6,813)
Tax benefit from reduction of valuation allowance for deferred tax assets	—	—	1,612	—	—	1,612
Tax benefit from exercise of stock options	—	—	72	—	—	72
Balance at December 31, 1995	10	(6,813)	67,192	(76,168)	—	(15,779)
Net income	—	—	—	39,053	—	39,053
Tax benefit from reduction of valuation allowance for deferred tax assets	—	—	10,237	—	—	10,237
Purchase of treasury stock	—	(3,932)	—	—	—	(3,932)
Restricted stock	—	—	3,300	—	—	3,300
Shares issued upon exercise of stock options	—	—	1,071	—	—	1,071
Reserved shares	—	—	(706)	—	—	(706)
Tax benefit from exercise of stock options	—	—	402	—	—	402
Foreign currency translation adjustment	—	—	—	—	(244)	(244)
Balance at December 31, 1996	10	(10,745)	81,496	(37,115)	(244)	33,402
Net income	—	—	—	81,644	—	81,644
Repurchase of shares	(5)	—	(92,710)	(127,285)	—	(220,000)
Costs of Tender Offer	—	—	(889)	—	—	(889)
Purchase of treasury stock	—	(5,523)	—	—	—	(5,523)
Restricted stock	—	—	571	—	—	571
Shares issued upon exercise of stock options	—	—	8,255	—	—	8,255
Tax benefit from exercise of stock options	—	—	3,277	—	—	3,277
Foreign currency translation adjustment	—	—	—	—	(3,065)	(3,065)
Balance at December 31, 1997	$ 5	(16,268)	—	(82,756)	(3,309)	(102,328)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In part): Stockholders' Equity (Deficit)

On July 10, 1997, the Company, using the proceeds from the sale of the Rolodex Business, purchased (i) 2,805,194 shares from Water Street Corporate Recovery Fund I, L.P. ("Water Street") (the Company's largest stockholder which is an investment partnership of which Goldman, Sachs & Co. is the general partner) at $38.50 per share in cash for an aggregate purchase price of $107,999,969 and (ii) 51,948 shares from Robert L. Smialek, the President and Chairman of the Board of the Company, at $38.50 per share in cash, for an aggregate purchase price of $1,999,998. On August 12, 1997, the Company completed a tender offer (the "Tender Offer"), pursuant to which it purchased 2,857,142 shares at a price of $38.50 per share in cash. At the completion of the Tender Offer, the number of outstanding shares were reduced to approximately 4.1 million.

ESOP Termination

SPAN-AMERICA MEDICAL SYSTEMS, INC.

Statements of Shareholders' Equity

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Guaranteed ESOP Obligation	Total
Balance at October 1, 1994	3,226,997	$4,432,931	$145,834	$10,767,609	($427,094)	$14,919,280
Net income for the 1995 fiscal year				978,083		978,083
ESOP loan repayments					70,375	70,375
Common stock purchased and retired	(96,300)	(454,536)				(454,536)
Common stock issued based on Healthflex acquisition agreement	37,740	210,852				210,852
Cash dividends paid or declared ($.10 per share)				(324,592)		(324,592)
Common stock issued to Directors	7,000	35,875				35,875
Balance at September 30, 1995	3,175,437	4,225,122	145,834	11,421,100	(356,719)	15,435,337
Net income for the 1996 fiscal year				545,054		545,054
ESOP loan repayments					70,375	70,375
Common stock purchased and retired	(5,566)	(33,484)				(33,484)
Common stock issued on exercise of stock options	15,000	50,250				50,250
Common stock issued to Directors	6,000	38,250				38,250
Common stock issued based on Healthflex acquisition agreement	50,171	236,757				236,757
Cash dividends paid or declared ($.10 per share)				(323,224)		(323,224)
Balance at September 28, 1996	3,241,042	4,516,895	145,834	11,642,930	(286,344)	16,019,315
Net income for the 1997 fiscal year				1,611,916		1,611,916
ESOP termination	(42,875)	(193,670)	(92,674)		286,344	—
Common stock purchased and retired	(113,303)	(542,343)				(542,343)
Common stock issued to Directors	9,000	41,250				41,250
Common stock issued based on Healthflex acquisition agreement	31,474	169,613				169,613
Cash dividends paid or declared ($.10 per share)				(320,242)		(320,242)
Balance at September 27, 1997	3,125,338	$3,991,745	$53,160	$12,934,604	$ —	$16,979,509

NOTES TO FINANCIAL STATEMENTS

12 (In part): Employee Benefit and Incentive Plans

The Company previously had an Employee Stock Ownership Plan (the "ESOP") for the benefit of its employees. The ESOP was terminated effective September 30, 1996, the end of the 1996 plan year. In connection with this termination, all participants became fully vested in the allocated shares on that date. In December 1996, the Company purchased from the ESOP 42,875 remaining unallocated shares of common stock for approximately $194,000 ($4.52 per share), the fair market value on the purchase date. The ESOP used the proceeds of this sale of unallocated shares to reduce the principal balance of two bank loans which had been used to fund the ESOP's stock purchase. These loans were guaranteed by the Company.

OTHER COMPONENTS OF STOCKHOLDERS' EQUITY

Current accounting standards require that certain items such as (1) foreign currency translation adjustments, (2) unrealized gains and losses on certain investments in debt and equity securities, (3) minimum pension liability adjustments, and (4) unearned compensation expense related to stock issuances to employees be presented as separate components of stockholders' equity. *Statement of Financial Accounting Standards No. 130,* which is effective for fiscal years beginning after December 15, 1997, defines items 1-3 as items of other comprehensive income and as such must be reported "in a financial statement that is displayed with the same prominence as other financial statements".

Examples of presentations of Comprehensive Income for early adopters of *SFAS No. 130* as well as examples of reporting changes in stockholder's equity for items 1-4 follow.

Comprehensive Income

FIRST DATA CORPORATION

Consolidated Statements Of Stockholders' Equity

(In millions)	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Common Shares	Paid-In Capital	Treasury Stock Shares	Treasury Stock Cost
Balance, January 1, 1995	$2,400.9		$1,274.5	$(23.6)	416.0	$1,280.6	(5.4)	$(130.6)
Comprehensive income								
Net loss	(84.2)	$(84.2)	(84.2)					
Other comprehensive income:								
Unrealized gains on securities	66.7	66.7						
Foreign currency translation adjustment	(4.0)	(4.0)						
Minimum pension liability adjustment	(20.4)	(20.4)						
Other comprehensive income		42.3		42.3				
Comprehensive income		$(41.9)						
• • • • • • • • • • • • • •								
Balance, December 31, 1995	3,145.1		1,146.5	18.7	448.0	2,025.5	(1.4)	(45.6)
Comprehensive income								
Net income	636.5	$636.5	636.5					
Other comprehensive income:								
Unrealized losses on securities	(13.7)	(13.7)						
Foreign currency translation adjustment	16.6	16.6						
Minimum pension liability adjustment	4.7	4.7						
Other comprehensive income		7.6		7.6				
Comprehensive income		$644.1						
• • • • • • • • • • • • • •								
Balance, December 31, 1996	3,709.8		1,610.7	26.3	448.9	2,106.3	(0.9)	(33.5)
Comprehensive income								
Net income	356.7	$356.7	356.7					
Other comprehensive income:								
Unrealized gains on securities	25.8	25.8						
Foreign currency translation adjustment	(1.4)	(1.4)						
Minimum pension liability adjustment	15.1	15.1						
Other comprehensive income		39.5		39.5				
Comprehensive income		$396.2						
• • • • • • • • • • • • • •								
Balance, December 31, 1997	$3,657.3		$1,509.9	$65.8	448.9	$2,137.4	(2.0)	$(55.8)

THE GOODYEAR TIRE & RUBBER COMPANY

Consolidated Statement of Shareholders' Equity

(Dollars in millions except per share)	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income: Foreign Currency Translation	Accumulated Other Comprehensive Income: Minimum Pension Liability	Total Shareholders' Equity
Balance at December 31, 1994 (after deducting 44,271,227 treasury shares)	151,407,285	$151.4	$918.5	$2,194.5	$(421.7)	$(39.5)	$2,803.2
Comprehensive income:							
Net income for 1995				611.0			
Foreign currency translation					(60.0)		
Minimum pension liability (net of tax of $6.6)						13.2	
Total comprehensive income							564.2
Cash dividends 1995-$.95 per share				(144.5)			(144.5)
Common stock issued from treasury:							
Dividend Reinvestment and Stock Purchase Plan	105,028	.1	4.2				4.3
Stock compensation plans	2,011,998	2.0	52.5				54.5
Balance at December 31, 1995 (after deducting 42,154,357 treasury shares)	153,524,311	153.5	975.2	2,661.0	(481.7)	(26.3)	3,281.7
Comprehensive income:							
Net income for 1996				101.7			
Foreign currency translation					(26.7)		
Minimum pension liability (net of tax of $4.1)						(4.7)	
Total comprehensive income							70.3
Cash dividends 1996-$1.03 per share				(159.7)			(159.7)
Common stock issued from treasury:							
Dividend Reinvestment and Stock Purchase Plan	91,310	.1	4.3				4.4
Stock compensation plans	2,434,353	2.5	79.9				82.4
Balance at December 31, 1996 (after deducting 39,628,694 treasury shares)	156,049,974	156.1	1,059.4	2,603.0	(508.4)	(31.0)	3,279.1
Comprehensive income:							
Net income for 1997				558.7			
Foreign currency translation					(269.6)		
Minimum pension liability (net of tax of $1.6)						2.9	
Total comprehensive income							292.0
Cash dividends 1997-$1.14 per share				(178.3)			(178.3)
Common stock acquired	(1,478,2000	(1.5)	(76.9)				(78.4)
Common stock issued from treasury:							
Dividend Reinvestment and Stock Purchase Plan	56,399	.1	3.1				3.2
Stock compensation plans	1,960,610	1.9	76.0				77.9
Balance at December 31, 1997 (after deducting 39,089,885 treasury shares)	156,588,783	$156.6	$1,061.6	$2,983.4	$(778.0)	$(28.1)	$3,395.5

THE LUBRIZOL CORPORATION

Consolidated Statements of Shareholders' Equity

(Dollars in Thousands)	Number of Shares Outstanding	Common Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 1994	64,844,560	$84,059	$734,533	$13,447	$832,039
Comprehensive income:					
Net income 1995			151,615		151,615
Other comprehensive income (loss)				(10,465)	(10,465)
Comprehensive income					141,150
Cash dividends			(59,414)		(59,414)
Common shares-treasury:					
Shares purchased	(1,982,969)	(2,604)	(63,987)		(66,591)
Shares issued upon exercise of stock options	89,697	1,799			1,799
Balance, December 31, 1995	62,951,288	83,254	762,747	2,982	848,983
Comprehensive income:					
Net income 1996			169,802		169,802
Other comprehensive income (loss)				(6,450)	(6,450)
Comprehensive income					163,352
Cash dividends			(59,033)		(59,033)
Common shares - treasury:					
Shares purchased	(4,496,427)	(5,982)	(129,206)		(135,188)
Shares issued upon exercise of stock options	67,815	1,262			1,262
Balance, December 31, 1996	58,522,676	78,534	744,310	(3,468)	819,376
Comprehensive income:					
Net income 1997			154,869		154,869
Other comprehensive income (loss)				(36,937)	(36,937)
Comprehensive income					117,932
Cash dividends			(58,469)		(58,469)
Common shares - treasury:					
Shares purchased	(1,812,841)	(2,538)	(67,526)		(70,064)
Shares issued upon exercise of stock options	257,059	6,673			6,673
Balance, December 31, 1997	56,966,894	$82,669	$773,184	$(40,405)	$815,448

Note 7 (In part): Shareholders' Equity

In June 1997, FASB issued SFAS 130 - Reporting Comprehensive Income, which becomes effective in 1998; however, earlier application is permitted. SFAS 130 requires presentation of comprehensive income (net income plus all other changes in net assets from non owner sources) and its components in the financial statements. The company elected to early adopt SFAS 130 and has changed the format of its consolidated statements of shareholders' equity to present comprehensive income.

Components of other comprehensive income (loss) consists of the following:

	1997	1996	1995
Foreign currency translation adjustments	$(36,941)	$(6,663)	$12,957
Change in unrealized gains on marketable securities			(35,645)
Income tax benefit	4	213	12,223
Other comprehensive income (loss)	$(36,937)	$(6,450)	$(10,465)

The change in unrealized gain on marketable securities during 1995 includes reclassification adjustments for $38.5 million of gains realized in income from the sale of the securities. The 1995 income tax benefit includes a benefit of $12.5 million related to the change in unrealized gain (including $13.5 million for reclassification of realized gains). Accumulated other comprehensive income or loss shown in the consolidated statements of shareholders' equity at December 31, 1997, 1996 and 1995 is solely comprised of the accumulated foreign currency translation adjustment, net of tax effects.

MCDONALD'S CORPORATION

Consolidated Statement of Shareholders' Equity

(In millions except per share data)	Preferred stock issued*	Common stock issued		Additional paid-in capital	Guarantee of ESOP Notes	Retained earnings	Accumulated other comprehensive income	Common stock in treasury		Total shareholders' equity
	Amount	Shares	Amount					Shares	Amount	
Balance at Dec. 31, 1994	$674.2	830.3	$92.3	$286.0	$(234.4)	$8,625.9	$(114.9)	(136.6)	$(2,443.7)	$6,885.4
Net income						1,427.3				1,427.3
Translation adjustments (including taxes of $9.0)							27.8			27.8
Comprehensive income										1,455.1
Common stock cash dividends ($.26 per share)						(181.4)				(181.4)
Preferred stock cash dividends (per share: $1.01 for Series B, $1.16 for Series C and $1.93 for Series E depository share; net of tax benefits of $1.6)						(40.5)				(40.5)
Preferred stock conversion	(316.2)			25.3				8.8	144.6	(146.3)
ESOP Notes payment					19.0					19.0
Treasury stock acquisitions								(8.8)	(321.0)	(321.0)
Common equity put options expiration									56.2	56.2
Stock option exercises and other (including tax benefits of $42.2)			76.1	1.2		6.0	57.5	134.8		
Balance at Dec. 31, 1995	358.0	830.3	92.3	387.4	(214.2)	9,831.3	(87.1)	(130.6)	(2,506.4)	7,861.3
• •	•	•	• •	•	•	•	• •	•	•	•
Net income						1,642.5				1,642.5
Translation adjustments (including tax benefits of $104.0)							(295.4)			(295.4)
Comprehensive income										1,347.1
Common stock cash dividends ($.32 per share)						(221.2)				(221.2)
Preferred stock cash dividends ($1.93 per Series E depository share)						(25.3)				(25.3)
ESOP Notes payment					21.4					21.4
Treasury stock acquisitions								(16.2)	(765.0)	(765.0)
Common equity put options issuance									(80.3)	(80.3)
Series E preferred stock redemption	(358.0)									(358.0)
Stock option exercises and other (including tax benefits of $79.2)				125.0	0.5			7.3	89.2	214.7
Balance at Dec. 31, 1997	$0.0	830.3	$8.3	$699.2	$(171.3)	$12,569.0	$(470.5)	(144.6)	$(3,783.1)	$8,851.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of significant accounting policies (in part)

Comprehensive income

In 1997, the Company adopted SFAS No. 130, Reporting Comprehensive Income. This statement establishes rules for the reporting of comprehensive income and its components. Comprehensive income consists of net income and foreign currency translation adjustments and is presented in the Consolidated Statement of Shareholders' Equity. The adoption of SFAS 130 had no impact on total shareholders' equity. Prior year financial statements have been reclassified to conform to the SFAS 130 requirements.

NALCO CHEMICAL COMPANY

Statements of Consolidated Common Shareholders' Equity

(in millions, except per share figures)	Common Stock Issued	Capital in Excess of Par Value of Shares	Common Stock Reacquired: Number of Shares	Common Stock Reacquired: Cost	Retained Earnings	Accumulated Other Comprehensive Income: Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income: Foreign Currency Translation Adjustments	Comprehensive Income
Balance at January 1, 1995	$15.1	$25.5	12.4	$(317.7)	$840.6	$(5.7)	$(39.3)	
Net earnings					153.7			$153.7
Other comprehensive income:								
Minimum pension liability adjustment-net of tax benefit of $0.2						(0.3)		(0.3)
Currency translation adjustments-net of tax benefit of $0.9							(8.7)	(8.7)
Dividends on preferred stock-net of tax benefit of $4.2					(11.2)			
Dividends on common stock ($0.99 per share)					(66.9)			
Treasury stock transactions			1.3	(42.4)				
Stock issued under option, benefit and other plans		2.3	(0.5)	9.8				
Balance at December 31, 1995	15.1	27.8	13.2	(350.3)	916.2	(6.0)	(48.0)	$144.7
Net earnings					154.5			$154.5
Other comprehensive income:								
Minimum pension liability adjustment						(0.1)		(0.1)
Currency translation adjustments-net of tax of $0.5							8.1	8.1
Dividends on preferred stock-net of tax benefit of $3.9					(11.4)			
Dividends on common stock ($1.00 per share)					(67.3)			
Treasury stock transactions			0.7	(26.3)				
Stock issued under option, benefit and other plans		3.4	(0.6)	12.4				
Balance at December 31, 1996	15.1	31.2	13.3	(364.2)	992.0	(6.1)	(39.9)	$162.5
Net earnings					158.9			$158.9
Other comprehensive income:								
Minimum pension liability adjustment-net of tax benefit of $0.8						(1.2)		(1.2)
Currency translation adjustments-net of tax benefit of $0.1							(41.7)	(41.7)
Dividends on preferred stock-net of tax benefit of $3.5					(11.5)			
Dividends on common stock ($1.00 per share)					(66.7)			
Treasury stock transactions			2.0	(75.7)				
Stock issued under option, benefit and other plans		9.6	(1.0)	19.5				
Balance at December 31, 1997	$15.1	$40.8	14.3	$(420.4)	$1,072.7	$(7.3)	$(81.6)	$116.0

THE TIMKEN COMPANY

Consolidated Statement Of Shareholders' Equity

		Common Stock		Earnings	Accumulated	
(Thousands of dollars)	Total	Stated Capital	Other Paid-in Capital	Invested in the Business	other Comprehensive Income	Treasury Stock
Balance at January 1, 1995	$732,891	$53,064	$254,002	$440,083	$(14,252)	$(6)
Net income	112,350			112,350		
Foreign currency translation adjustments (net of income tax benefit of $1,473)	173				173	
Total comprehensive income	112,523					
Dividends-$0.555 per share	(34,631)			(34,631)		
Issuance of 585,538 shares of common stock [(1)]	10,565		10,565			
Purchase of 8,528 shares for treasury	(170)					(170)
Balance at December 31, 1995	821,178	53,064	264,567	517,802	(14,079)	(176)
Net income	138,937			138,937		
Foreign currency translation adjustments (net of income tax benefit of $958)	1,280				1,280	
Total comprehensive income	140,217					
Dividends-$0.60 per share	(37,678)			(37,678)		
Issuance of 341,788 shares of common stock[(1)]	6,273		6,273			
Purchase of 724,600 shares for treasury	(13,786)					(13,786)
Issuance of 329,976 shares from treasury[(1)]	6,024					6,024
Balance at December 31, 1996	922,228	53,064	270,840	619,061	(12,799)	(7,938)
Net income	171,419			171,419		
Foreign currency translation adjustments (net of income tax benefit of $3,401)	(22,516)				(22,516)	
Minimum pension liability adjustment (net of income tax benefit of $1,589)	(2,711)				(2,711)	
Total comprehensive income	146,192					
Dividends-$0.66 per share	(41,447)			(41,447)		
Issuance of 32,224 shares of common stock[(1)]	3,033		3,033			
Purchase of 697,100 shares for treasury	(18,083)					(18,083)
Issuance of 897,985 shares from treasury[(1)]	20,153					20,153
Balance at December 31, 1997	$1,032,076	$53,064	$273,873	$749,033	$(38,026)	$(5,868)

(1) Share activity was in conjunction with stock options and various benefit and dividend reinvestment plans. In 1997, the majority of shares issued from treasury related to the exercise of stock options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In part): Significant Accounting Policies

Comprehensive Income: Effective in the fourth quarter 1997, the company adopted SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this Statement had no impact on the company's net income or shareholders' equity. SFAS No. 130 requires the company's change in the minimum pension liability and the foreign currency translation adjustments to be included in other comprehensive income. Prior years' financial statements have been reclassified to conform to these requirements.

PENTAIR, INC. (DEC)

Consolidated Statements of Comprehensive Income

In thousands	1997	1996	1995
Net Income	$91,600	$74,509	$77,200
Other Comprehensive Income, Net of Tax:			
Foreign Currency Translation Adjustments	(10,504)	(3,072)	(765)
Unrealized Gains on Securities:			
Unrealized Holding Gains Arising During the Period	1,891	906	1,581
Less Reclassification Adjustment for (Gains)/Losses Included in Net Income	(3,856)	(31)	111
Minimum Pension Liability Adjustment	(669)	(770)	2,060
Other Comprehensive Income (Loss)	(13,138)	(2,967)	2,987
Comprehensive Income	$78,462	$71,542	$80,187
Related Tax (Expense) Benefit of Other Comprehensive Income:			
Foreign Currency Translation Adjustments	$6,716	$2,065	$521
Unrealized Gains on Securities:			
Unrealized Holding Gains Arising During the Period	(1,018)	(488)	(851)
Less Reclassification Adjustment for (Gains)/Losses Included in Net Income	2,076	17	(60)
Minimum Pension Liability	427	492	(1,317)

Foreign Currency Translation Adjustment

JLG INDUSTRIES, INC. (JUL)

Consolidated Statement Of Shareholders' Equity

(In thousands except per share data)	Capital Stock Shares	Capital Stock Par Value	Additional Paid-in Capital	Equity Adjustment from Translation	Retained Earnings	Treasury Stock
Balances at July 31, 1994	41,906	$8,816	$4,984	($1,899)	$36,884	($3,079)
Net income for the year					20,758	
Dividends paid: $.0092 per share					(389)	
Aggregate translation adjustment, net of deferred tax benefit of $837				100		
Stock option transactions	553	111	985			
Contribution to employee benefit plan	366		640			519
Retirement of treasury stock		(362)	(2,198)			2,560
Balances at July 31, 1995	42,825	8,565	4,411	(1,799)	57,253	
Net income for the year					42,108	
Dividends paid: $.015 per share					(648)	
Aggregate translation adjustment, net of deferred tax benefit of $737				(261)		
Stock option transactions	557	111	3,468			
Balances at July 31, 1996	43,382	8,676	7,879	(2,060)	98,713	
Net income for the year					46,148	
Dividends paid: $.02 per share					(872)	
Aggregate translation adjustment, net of deferred tax benefit of $1,228				(120)		
Stock option transactions	344	69	3,512			
Balances at July 31, 1997	43,726	$8,745	$11,391	($2,180)	$143,989	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary Of Significant Accounting Policies (In Part)

Translation of Foreign Currencies

The financial statements of the Company's Australian operation are measured in its local currency and then translated into U.S. dollars. All balance sheet accounts have been translated using the current rate of exchange at the balance sheet date. Results of operations have been translated using the average rates prevailing throughout the year. Translation gains or losses resulting from the changes in the exchange rates from year-to-year are accumulated in a separate component of shareholders' equity.

The financial statements of the Company's European operation are prepared using the U.S. dollar as its functional currency. The transactions of this operation that are denominated in foreign currencies have been remeasured in U.S. dollars, and any resulting gain or loss is reported in income.

Unrealized Gains/Losses On Certain Investments

ASARCO INCORPORATED (DEC)

Consolidated Statement Of Changes In Common Stockholders' Equity

(Dollars In Thousands)	1997	1996	1995
Common Stock			
Balance at beginning and end of year 45,039,878 shares	$679,991	$679,991	$679,991
Unrealized Gain On Securities Reported At Fair Value			
Balance at beginning of year	56,311	131,600	91,627
Net increase (decrease) in fair value	(44,657)	(75,289)	39,973
Balance at end of year	11,654	56,311	131,600
Retained Earnings			
Balance at beginning of year	1,066,191	976,107	853,169
Net earnings	143,392	138,336	169,153
Dividends paid to common stockholders	(33,604)	(34,174)	(29,645)
Treasury stock issued at less than cost	(4,266)	(7,813)	(15,656)
Foreign currency adjustment	(11,914)	(6,265)	(914)
Balance at end of year	1,159,799	1,066,191	976,107
Treasury Stock			
Balance at beginning of year	(65,548)	(80,214)	(107,400)
Purchased	(101,366)	(568)	(1,130)
Used for corporate purposes	9,343	15,234	28,316
Balance at end of year	(157,571)	(65,548)	(80,214)
1997-5,377,339 shares			
1996-2,216,015 shares			
1995-2,469,125 shares			
Total Common Stockholders' Equity	$1,693,873	$1,736,945	$1,707,484

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Investments

During 1997 the Company sold 106.3 million shares of Grupo Mexico for proceeds of $322.5 million, resulting in a pre-tax gain of $73.3 million ($47.6 million after-tax). At December 31, 1997, the value of the Company's remaining interest in Grupo Mexico is $78.9 million representing the exercise price of shares subject to an option granted as part of the restructuring of the Company's investment in 1994. These shares are carried on the books of the Company at $50.2 million. The Company's results for the year ended 1996 include a $60.1 million pre-tax gain ($39.0 million after-tax) on the sale of its 15% interest in MIM Holdings Limited (MIM) and an $11.1 million pre-tax gain ($7.2 million after-tax) on the sale of a 25% interest in its Silver Bell copper mine to Mitsui & Co.

In accordance with the provisions of SFAS No. 115, available-for-sale securities are carried at fair value. Unrealized gains at December 31, 1997 of $11.6 million (net of deferred taxes of $6.3 million), compared with unrealized gains of $56.3 million (net of deferred taxes of $30.3 million) at December 31, 1996, were included as a component of stockholders' equity.

Minimum Pension Liability Adjustments

BOWATER INCORPORATED

Consolidated Statement of Capital Accounts

(In thousands, except per-share amounts)	LIBOR Preferred Stock	Series B Convertible Preferred Stock	Series C Cumulative Preferred Stock	Common Stock	Additonal Paid-in Capital	Retained Earnings	Equity Adjustments	Treasury Stock
Balance at Dec. 31, 1995	$49,619	$111,333	$25,465	$39,501	$410,007	$541,205	$(13,128)	$(10,938)
Net income	—	—	—	—	—	200,154	—	—
Dividends on:								
Common ($.80 per share)	—	—	—	—	—	(30,241)	—	—
LIBOR ($2.42 per share)	—	—	—	—	—	(2,420)	—	—
Series B ($6.58 per share)	—	—	—	—	—	(8,050)	—	—
Series C ($8.40 per share)	—	—	—	—	—	(2,220)	—	—
Increase in stated value of LIBOR preferred stock	127	—	—	—	—	(127)	—	—
Foreign currency translation	—	—	—	—	—	—	(289)	—
Stock options exercised	—	—	—	480	11,795	—	—	—
Tax benefit on exercise of stock options	—	—	—	—	2,431	—	—	—
Partial redemption of LIBOR preferred stock	(25,000)	—	—	—	—	—	—	—
Conversion of Series B preferred into common stock	—	$(111,333)	—	4,013	107,310	—	—	—
Pension plan additional minimum liability, net of taxes of $670	—	—	—	—	—	—	1,047	—
Purchase of common stock	—	—	—	—	—	—	—	(98,762)
Use of treasury stock	—	—	—	—	55	—	—	169
Balance at Dec. 31, 1996	$24,746	$ —	$25,465	$43,994	$531,598	$698,301	$(12,370)	$(109,531)
Net income	—	—	—	—	—	53,691	—	—
Dividends on:								
Common ($.80 per share)	—	—	—	—	—	(32,164)	—	—
LIBOR ($.79 per share)	—	—	—	—	—	(393)	—	—
Series C ($8.40 per share)	—	—	—	—	—	(2,220)	—	—
Increase in stated value of LIBOR preferred stock	254	—	—	—	—	(254)	—	—
Foreign currency translation	—	—	—	—	—	—	(2,500)	—
Stock options exercised	—	—	—	934	23,573	—	—	—
Tax benefit on exercise of stock options	—	—	—	—	7,919	—	—	—
Redemption of LIBOR preferred stock	(25,000)	—	—	—	—	—	—	—
Pension plan additional minimum liability, net of tax benefit of $372	—	—	—	—	—	—	(579)	—
Purchase of common stock	—	—	—	—	—	—	—	(66,845)
Use of treasury stock	—	—	—	—	6	—	—	76
Balance at December 31, 1997	$ —	$ —	$25,465	$44,928	$563,096	$716,961	$(15,449)	$(176,300)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19 (in part): Pension Plans

The provisions of SFAS No. 87, "Employers' Accounting for Pensions," required the company to record an additional minimum liability of $21,271,000 and $20,303,000 at December 31, 1997 and 1996, respectively. This liability represents the amount by which the accumulated benefit obligation exceeds the sum of the fair market value of plan assets and accrued amounts previously recorded. The additional liability may be offset by an intangible asset to the extent of previously unrecognized prior service cost. The intangible asset is included on the line item entitled "Other assets" in the Consolidated Balance Sheet at December 31, 1997 and 1996. The remaining amount is recorded as a reduction to a separate component of shareholders' equity on the Consolidated Balance Sheet entitled "Equity adjustments," net of related tax benefits.

UNITED TECHNOLOGIES CORPORATION

Consolidated Statement Of Changes In Shareowners' Equity

In millions of Dollars (except per share amounts)	Common Stock	Treasury Stock	Retained Earnings	Other Changes in Equity
December 31, 1994	$2,148	$(947)	$2,790	$(239)
Common Stock issued under employee plans (3.5 million shares)	101			
Common Stock repurchased (5.7 million shares)		(221)		
Net income			750	
Dividends on Common Stock ($1.025 per share)			(252)	
Dividends on ESOP Stock ($4.80 per share)			(27)	
Currency translation:				
Deferred foreign currency translation and hedging adjustments				(36)
Income tax benefits				9
Minimum pension liability:				
Pension adjustment				(76)
Income tax benefits				30
Other			(9)	
December 31, 1995	2,249	(1,168)	3,252	(312)
Common Stock issued under employee plans (1.8 million shares)	96	1		
Common Stock repurchased (8.0 million shares)		(459)		
Net income			906	
Dividends on Common Stock ($1.10 per share)			(265)	
Dividends on ESOP Stock ($4.80 per share)			(30)	
Currency translation:				
Deferred foreign currency translation and hedging adjustments				2
Income taxes				(9)
Minimum pension liability:				
Pension adjustment				94
Income taxes				(37)
Other			(14)	
December 31, 1996	2,345	(1,626)	3,849	(262)
Common Stock issued under employee plans (2.2 million shares)	143	3		
Common Stock repurchased (11.2 million shares)		(849)		
Net income			1,072	
Dividends on Common Stock ($1.24 per share)			(291)	
Dividends on ESOP Stock ($4.80 per share)			(32)	
Currency translation:				
Deferred foreign currency translation and hedging adjustments				(225)
Income taxes				(6)
Minimum pension liability:				
Pension adjustment				(12)
Income tax benefits				4
Other			(40)	
December 31, 1997	$2,488	$(2,472)	$4,558	$(501)

Unearned Compensation Expense

BASSETT FURNITURE INDUSTRIES, INCORPORATED

Consolidated Statements of Stockholders' Equity

(dollars in thousands)	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Retained earnings	Unrealized holding gains	Unamortized stock compensation
Balance, December 1, 1994	14,086,815	$70,434	$ —	$221,950	$2,809	$ —
Net income	—	—	—	22,903	—	—
Cash dividends	—	—	—	(11,197)	—	—
Issuance of Common Stock to non-employee directors	1,839	9	40	—	—	—
Purchase and retirement of Common Stock	(429,701)	(2,148)	(40)	(7,937)	—	—
Net change in unrealized holding gains	—	—	—	—	2,081	—
Balance, November 30, 1995	13,658,953	68,295	—	225,719	4,890	—
Net income	—	—	—	18,501	—	—
Cash dividends	—	—	—	(10,626)	—	—
Issuance of Common Stock to non-employee directors	985	5	20	—	—	—
Purchase and retirement of Common Stock	(584,343)	(2,922)	(20)	(11,1770)	—	—
Net change in unrealized holding gains	—	—	—	—	(1,204)	—
Balance, November 30, 1996	13,075,595	65,378	—	222,417	3,686	—
Net loss	—	—	—	(19,609)	—	—
Cash dividends	—	—	—	(13,041)	—	—
Issuance of Common Stock to non-employee directors	4,288	21	86	—	—	—
Purchase and retirement of Common Stock	(60,000)	(300)	(44)	(1,006)	—	—
Issuance of Restricted Common Stock to officers	31,396	157	714	—	—	(871)
Amortization of stock compensation	—	—	—	—	—	11
Stock option grants	—	—	1,682	—	—	—
Net change in unrealized holding gains	—	—	—	—	1,889	—
Balance, November 30, 1997	13,051,279	$65,256	$2,438	$188,761	$5,575	$(860)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

H (in part): Capital Stock and Stock Compensation

During 1997, the Company issued 31,396 shares of restricted Common Stock under the 1993 Long Term Incentive Stock Option Plan as compensation for certain key salaried employees. These shares carry dividend and voting rights. Sale of these shares is restricted prior to the date of vesting, which is five years from the date of grant. Shares issued under this plan were recorded at their fair market value on the date of the grant with a corresponding charge to stockholders' equity. The unearned portion is being amortized as compensation expense on a straight-line basis over the related vesting period. Compensation expense related to this grant was $11 in 1997.

MEDIA GENERAL, INC.

Consolidated Statements of Stockholders' Equity

(In thousands, except shares and per share amounts)	Common Stock Class A	Common Stock Class B	Additional Paid-in Capital	Unearned Compensation	Retained Earnings
Balance at December 25, 1994	$128,699	$2,783	$6,787	$(1,676)	$196,770
Net income	—	—	—	—	53,232
Cash dividends ($0.48 per share)	—	—	—	—	(12,695)
Exercise of options on 81,436 Class A shares	407	—	699	—	—
Issuance of 88,305 Class A shares under restricted stock plan	442	—	2,050	(2,492)	—
Income tax benefits relating to restricted share dividends and exercised options	—	—	557	—	—
Issuance of 5,646 Class A shares under dividend reinvestment plan	28	—	149	—	—
Amortization and forfeitures of unearned compensation	(50)	—	(174)	1,595	—
Balance at December 31, 1995	129,526	2,783	10,068	(2,573)	237,307
Net income	—	—	—	—	70,498
Cash dividends ($0.50 per share)	—	—	—	—	(13,238)
Purchase and retirement of 44,212 Class A shares	(221)	—	(1,238)	—	—
Exercise of options on 88,621 Class A shares	443	—	1,470	—	—
Income tax benefits relating to restricted share dividends and exercised options	—	—	1,016	—	—
Issuance of 5,408 Class A shares under dividend reinvestment plan	27	—	149	—	—
Amortization and forfeitures of unearned compensation	(24)	—	(72)	1,319	—
Balance at December 29, 1996	129,751	2,783	11,393	(1,254)	294,567
Net loss	—	—	—	—	(10,490)
Cash dividends ($0.53 per share)	—	—	—	—	(14,129)
Exercise of options on 131,024 Class A shares	655	—	1,991	—	—
Issuance of 91,000 Class A shares under restricted stock plan	455	—	2,406	(2,861)	—
Income tax benefits relating to restricted share dividends and exercised options	—	—	918	—	—
Issuance of 5,373 Class A shares under dividend reinvestment plan	27	—	157	—	—
Amrotization and forfeitures of unearned compensation	(26)	—	(132)	2,015	—
Balance at December 28, 1997	$130,862	$2,783	$16,733	$(2,100)	$269,948

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (in part): Common Stock and Stock Options

Restricted shares of the Company's Class A common stock were granted to certain key employees under the 1991 restricted stock plan. The Company will not make any future awards under the plan and past awards are not affected. At December 28, 1997, 78,700, and 114,300 shares granted in 1995 and 1991, respectively, remain restricted under the terms of the plan. Shares were awarded in the name of each of the participants; these shares have all the rights of other Class A shares, subject to certain restrictions and forfeiture provisions. Restrictions on the shares expire no more than ten years after the date of the award, or earlier if certain performance targets are met.

Unearned compensation was recorded at the date of the restricted stock awards based on the market value of shares. Unearned compensation, which is shown as a separate component of stockholder's equity, is being amortized to expense over a vesting period (not exceeding ten years) based upon expectations of meeting certain performance targets. The amount amortized to expense in 1997, 1996 and 1995 was $1,843,000, $1,198,000 and $1,361,000, respectively.

PEERLESS MFG. CO.

Consolidated Statements of Changes in Stockholders' Equity

	Common stock	Additional paid-in capital	Cumulative foreign currency translation adjustment	Retained earnings	Unamortized value of restricted stock grants
Balances as of July 1, 1995	$1,436,742	$2,383,870	$(76,063)	$7,381,682	$(49,841)
Net earnings	—	—	—	1,226,246	—
Issuance of 12,000 shares of common stock	12,000	123,000	—	—	(135,000)
Forfeiture of 2,000 shares of common stock	(2,000)	(18,500)	—	—	20,500
Translation adjustment	—	—	132,173	—	—
Cash dividends paid ($.50 per share)	—	—	—	(721,122)	—
Amortization of restricted stock grants	—	—	—	—	67,234
Income tax expense related to restricted stock plans	—	5,058	—	—	—
Balances as of June 30, 1995	1,446,742	2,493,428	56,110	7,886,806	(97,107)
Net earnings	—	—	—	789,721	—
Translation adjustment	—	—	(32,268)	—	—
Cash dividends paid ($.50 per share)	—	—	—	(723,384)	—
Amortization of restricted stock grants	—	—	—	—	63,357
Income tax expense related to restricted stock plans	—	(3,549)	—	—	—
Balances as of June 30, 1996	1,446,742	2,489,879	23,842	7,953,143	(33,750)
Net earnings	—	—	—	537,416	—
Issuance of 8,000 shares of common stock	8,000	72,250	—	—	(80,250)
Forfeiture of 4,000 shares of common stock	(4,000)	(38,750)	—	—	42,750
Stock options exercised	1,250	10,312	—	—	—
Translation adjustment	—	—	(117,786)	—	—
Cash dividends paid ($.50 per share)	—	—	—	(727,149)	—
Cash dividends declared ($.125 per share)	—	—	—	(182,624)	—
Amortization of restricted stock grants	—	—	—	—	26,625
Income tax benefit related to restricted stock plans	—	1,530	—	—	—
Balances as of June 30, 1997	$1,451,992	$2,535,221	$(93,944)	$7,580,786	$(44,625)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note F (in part): Stockholders' Equity

The Company has a 1985 restricted stock plan (the 1985 Plan) under which 75,000 shares of common stock were reserved for awards to employees. Restricted stock grants made under the 1985 Plan vest over a five-year period. The Company awarded 12,000 shares (fair value at date of grant of $135,000) in fiscal 1995 and 8,000 shares (fair value at date of grant of $80,250), of which 3,000 shares were subsequently forfeited, in fiscal 1997. Compensation expense for stock grants is charged to earnings over the five-year restriction period and amounted to $26,625, $63,357 and $67,234 in fiscal 1997, 1996, and 1995, respectively. The tax effect of differences between compensation expense for financial statement and income tax purposes is charged or credited to additional paid-in capital.

VISHAY INTERTECHNOLOGY, INC. (DEC)

Consolidated Statements Of Stockholders' Equity

(In thousands, except share amounts)	1997	1996	1995
Common Stock:			
Beginning balance	$5,373	$5,114	$2,257
Stock issued (28,486; 10,556; and 5,777,300 shares)	3	1	576
Stock dividends (2,687,692; 2,558,069; and 1,091 shares)	269	256	—
Stock split	—	—	2,275
Stock repurchased (110,000 shares)	—	—	(11)
Conversions from Class B (16,513; 19,423; and 325,509 shares)	1	2	17
Ending balance	5,646	5,373	5,114
Class B convertible Common Stock:			
Beginning balance	756	722	377
Stock dividends (378,187 and 361,108 shares)	38	36	—
Stock split	—	—	362
Conversions to Common (16,513; 19,423; and 325,509 shares)	(1)	(2)	(17)
Ending balance	793	756	722
Capital in excess of par value:			
Beginning balance	825,949	734,316	509,966
Stock issued	778	618	230,534
Stock dividends	85,170	90,932	—
Stock split	—	—	(2,637)
Stock repurchased	—	—	(3,567)
Stock appreciation rights	8,200	—	—
Tax effects relating to stock plan	68	83	20
Ending balance	920,165	825,949	734,316
Retained earnings:			
Beginning balance	107,762	146,370	53,734
Net earnings	53,302	52,616	92,667
Stock dividends	(85,477)	(91,224)	(31)
Ending balance	75,587	107,762	146,370
Unearned compensation:			
Beginning balance	(370)	(364)	(20)
Stock issued under stock plans (28,486; 10,556; and 27,300 shares)	(566)	(262)	(519)
Amounts expensed during the year	292	256	175
Ending balance	(644)	(370)	(364)
• • • • • •			
Total Stockholders' Equity	$959,648	$945,230	$907,853

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In part): Stockholders' Equity

Unearned compensation relating to Common Stock issued under employee stock plans is being amortized over periods ranging from three to five years. At December 31, 1997, 219,776 shares are available for issuance under stock plans.

ESOP

EATON CORPORATION

Statements of Consolidated Shareholders' Equity

	Common Shares				Foreign	Shares in trust		
(Millions)	Shares	Amount	Capital in excess of par value	Retained earnings	currency translation adjustments	ESOP	Deferred compensation plans	Total shareholders' equity
Balance at January 1, 1995	78.0	$39	$806	$988	$(71)	$(82)		$1,680
Net income				399				399
Cash dividends paid, net of Employee Stock Ownership Plan (ESOP) tax benefit				(116)				(116)
Issuance of shares under employee benefit plans, including tax benefit	.4		14	(1)				13
Net unrealized loss on available-for-sale securities				(6)				(6)
Purchase of shares	(.8)		(8)	(32)				(40)
Shares allocated to employees						29		29
Net translation adjustments					16			16
Balance at December 31, 1995	77.6	39	812	1,232	(55)	(53)		1,975
Net income				349				349
Cash dividends paid, net of ESOP tax benefit				(123)				(123)
Issuance of shares under employee benefit plans, including tax benefit	.5		23	(1)				22
Net unrealized loss on available-for-sale securities				(4)				(4)
Purchase of shares	(1.1)		(12)	(51)				(63)
Shares allocated to employees						17		17
Issuance of shares to trust	.1		7				$(7)	
Net translation adjustments					(13)			(13)
Balance at December 31, 1996	77.1	39	830	1,402	(68)	(36)	(7)	2,160
Net income				410				410
Cash dividends paid, net of ESOP tax benefit				(132)				(132)
Issuance of shares under employee benefit plans, including tax benefit	.9		47	(2)				45
Put option obligation, net			(18)					(18)
Net unrealized loss on available-for-sale securities				(10)				(10)
Purchase of shares	(3.7)	(2)	(40)	(292)				(334)
Shares allocated to employees						16		16
Issuance of shares to trust	.2		20				(20)	
Net translation adjustments					(71)			(71)
Other	.2		5					5
Balance at December 31, 1997	74.7	$37	$844	$1,376	$(139)	$(20)	$(27)	$2,071

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shareholders' Equity (in part)

The Company sponsors a Share Purchase and Investment Plan (SPIP) for United States operations under which eligible participating employees may choose to contribute up to 15% of their base pay. The Company matches employee contributions up to 6% of a participant's base pay as limited by United States income tax regulations. The matching contribution, which is determined each quarter based on net income per Common Share, ranges from 25% to 100% of a participant's contribution and is invested in the Company's Common Shares.

In 1989, the Company prefunded, through 1999, a portion of anticipated matching contributions to the SPIP by creating an Employee Stock Ownership Plan (ESOP) under the SPIP and selling 5 million Common Shares for $150 million to the ESOP. The shares held by the ESOP which have not yet been allocated to employee accounts are included in shareholders' equity as "Shares in Trust-ESOP" and the notes payable of the ESOP, which are guaranteed by the Company, are included in long-term debt. Unallocated shares in the ESOP are released at historical cost based on the ratio of the annual principal payment on the notes payable compared to the original principal amount of the notes payable and allocated to employee accounts. Cash dividends paid on shares in the ESOP are charged against retained earnings and, along with Company contributions, are used to repay the principal and interest due on the notes payable. Unallocated shares in the ESOP, which are considered outstanding for purposes of computing net income per Common Share, at the end of 1997 and 1996 (in millions) were .8 and 1.2, respectively. Compensation expense related to the SPIP match, including the effect of shares released by the ESOP at historical cost, (in millions) was $6 in 1997, $10 in 1996 and $17 in 1995.

The Company has plans which permit eligible employees and directors to defer a portion of their compensation. The Company has deposited $65 million of marketable securities and Common Shares into a trust to fund a portion of these liabilities. The marketable securities are included in other assets and the shares, with a fair value of $27 million, are included in shareholders' equity.

INGERSOLL-RAND COMPANY (DEC)

Consolidated Statement of Shareholders' Equity

(In millions except share amount)	1997	1996	1995
Common stock, $2 par value:			
Balance at beginning of year	$220.6	$219.4	$218.3
Exercise of stock options	2.7	1.1	1.0
Issuance of shares under stock plans	0.1	0.1	0.1
Stock split 3-for-2	111.4	—	—
Balance at end of year	334.8	220.6	219.4
Capital in excess of par value:			
Balance at beginning of year	143.5	121.6	42.4
Exercise of stock options including tax benefits	49.9	17.5	14.6
Issuance of shares under stock plans	2.7	1.8	2.0
Sale of treasury shares to LESOP	—	—	62.7
Allocation of LESOP shares to employees	7.7	2.6	(0.1)
Stock split 3-for-2	(111.4)	—	—
Balance at end of year	92.4	143.5	121.6
Earnings retained for use in the business:			
Balance at beginning of year	1,869.6	1,595.5	1,403.7
Net earnings	380.5	358.0	270.3
Cash dividends	(93.6)	(83.9)	(78.5)
Balance at end of year	2,156.5	1,869.6	1,595.5
Unallocated leveraged employee stock ownership plan:			
Balance at beginning of year	(55.6)	(70.2)	—
Purchase of treasury shares	—	—	(73.1)
Allocation of shares to employees	14.2	14.6	2.9
Balance at end of year	(41.4)	(55.6)	(70.2)
Treasury stock-at-cost:			
Common stock, $2 par value:			
Balance at beginning of year	(11.5)	(11.5)	(53.1)
Purchase of treasury shares	(33.0)	—	—
Sale of treasury shares to LESOP	—	—	41.6
Balance at end of year	(44.5)	(11.5)	(11.5)
Foreign currency equity adjustment:			
Balance at beginning of year	(75.8)	(59.3)	(80.0)
Adjustments due to:			
Translation changes	(77.5)	(10.2)	20.7
Dispositions	(3.1)	(6.3)	—
Balance at end of year	(156.4)	(75.8)	(59.3)
Total shareholders' equity	$2,341.4	$2,090.8	$1,795.5
Shares of Capital Stock:			
Unallocated leveraged employee stock ownership plan:			
Common stock, $2 par value:			
Balance at beginning of year	1,534,004	1,937,198	—
Purchase of treasury shares	—	—	2,878,008
LESOP shares allocated to employees	(448,800)	(403,194)	(940,810)
Stock split 3-for-2	626,547	—	—
Balance at end of year	1,711,751	1,534,004	1,937,198

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Leveraged Employee Stock Ownership Plan:

At the time of its acquisition by the company, Clark sponsored a Leveraged Employee Stock Ownership Plan (LESOP) for eligible employees. In connection with the acquisition, the company purchased the LESOP's shares for $176.6 million. The company determined it would continue the LESOP to fund certain employee benefit plans. Accordingly, on September 28, 1995, the company sold 2,878,008 shares (pre-1997 stock split) of its common stock held in treasury to the LESOP, for a price of $36.25 per share (the closing price of the common stock on September 27, 1995, on the New York Stock Exchange) or an aggregate of $104.3 million. At December 31, 1997, approximately 1.7 million shares (post-1997 stock split) remain unallocated and the $41.4 million paid by the LESOP for those unallocated shares is classified as a reduction of shareholders' equity pending allocation to participants. At December 31, 1997, the LESOP owed the company $22.8 million payable in monthly installments through 2001. Company contributions to the LESOP and dividends on unallocated shares are used to make loan principal and interest payments. With each principal and interest payment, the LESOP allocates a portion of the common stock to participating employees.

Section 5: Statement of Cash Flows

Effective for fiscal years ending after July 15, 1988, *Statement of Financial Accounting Standards No. 95* requires enterprises to present a Statement of Cash Flows which classifies cash receipts and payments by operating, investing, and financing activities. *SFAS No. 95* supersedes *APB Opinion No. 19* which required a statement summarizing changes in financial position.

SFAS No. 95 "encourages" enterprises to use the direct method of reporting cash flows from operating activities. Ten survey companies used the direct method.

This section reviews the format and content of the Statement of Cash Flows.

PRESENTATION IN ANNUAL REPORT

Table 5-1 shows where in relation to other financial statements a Statement of Cash Flows is presented in an annual report. As shown in Table 5-1, a Statement of Cash Flows is usually presented as the last financial statement or after the income statement and balance sheet but before the statement of changes in stockholders' equity.

TABLE 5-1: PRESENTATION IN ANNUAL REPORT

	1997	1996	1995	1994
Final statement	310	320	317	315
Follows income statement and balance sheet	261	250	249	249
Between income statement and balance sheet	29	30	34	36
Total Companies	**600**	**600**	**600**	**600**

TITLE

As indicated in Table 5-2, the survey companies, with a few exceptions, used the title set forth in *SFAS No. 95* to identify a Statement of Cash Flows.

TABLE 5-2: TITLE

	1997	1996	1995	1994
Cash Flows	583	577	583	583
Cash Flow	17	23	17	17
Total Companies	**600**	**600**	**600**	**600**

CASH FLOWS FROM OPERATING ACTIVITIES

Paragraphs 21-24 of *SFAS No. 95* define those transactions and events which constitute operating cash receipts and payments. *SFAS No. 95* recommends that the direct method, as defined in paragraph 27, be used to report net cash flow from operating activities. Most of the survey companies used the indirect method (reconciling net income to net cash flow from operating activities) to report net cash flow from operating activities. Regardless of whether the direct or indirect method is used, paragraph 29 of *SFAS No. 95* requires that a reconciliation of net income to net cash flow from operating activities be presented and that interest and income tax payments be disclosed.

Table 5-3 shows the methods used to report cash flows from operating activities. Companies using the direct method usually present the reconciliation of net income to net cash flow from operating activities as a schedule at the bottom of the Statement of Cash Flows or on the page adjacent to the Statement. Companies using the indirect method usually present the reconciliation within the Statement of Cash Flows.

Table 5-4 shows where in the financial statements interest and income tax payments are disclosed. Those survey companies disclosing the amount of interest payments in the notes to financial statements did so usually in a note discussing debt or in a note discussing details about the Statement of Cash Flows. Those survey companies disclosing the amount of income tax payments in the notes to financial statements did so usually in a note discussing income taxes or in a note discussing details about the Statement of Cash Flows.

Examples of reporting cash flows from operating activities follow.

TABLE 5-3: METHOD OF REPORTING CASH FLOWS FROM OPERATING ACTIVITIES

	1997	1996	1995	1994
Indirect method	590	589	585	586
Direct method	10	11	15	14
Total Companies	**600**	**600**	**600**	**600**

TABLE 5-4: INTEREST AND INCOME TAX PAYMENTS

	1997	1996	1995	1994
Interest Payments				
Notes to financial statements	323	325	329	344
Bottom of Statement of Cash Flows	248	245	243	230
Within Statement of Cash Flows	12	19	17	16
Amount not disclosed	17	11	11	10
Total Companies	**600**	**600**	**600**	**600**
Income Tax Payments				
Notes to financial statements	325	332	332	348
Bottom of Statement of Cash Flows	247	244	240	227
Within Statement of Cash Flows	18	16	22	19
Amount not disclosed	10	8	6	6
Total Companies	**600**	**600**	**600**	**600**

Direct Method

COLLINS INDUSTRIES, INC. (OCT)

Consolidated Statements of Cash Flows

	1997	1996	1995
Cash flow from operations:			
Cash received from customers	$159,086,052	$150,944,345	$141,425,892
Cash paid to suppliers and employees	(147,534,561)	$142,919,078)	(132,956,101)
Interest paid, net	(1,759,087)	(2,265,324)	(3,209,818)
Income taxes paid	(1,650,700)	—	—
Cash provided by operations	8,141,704	5,759,943	5,259,973
Cash flow from investing activities:			
Capital expenditures	(1,731,543)	(862,889)	(551,528)
Sale of property and equipment	16,500	668,038	643,667
Expenditures for other assets	(97,995)	(176,305)	(237,519)
Other, net	—	57,863	(57,034)
Cash used in investing activities	(1,813,038)	(313,293)	(202,414)
Cash flow from financing activities:			
Net reduction in short-term borrowings	—	—	(4,301,111)
Principal payments of long-term debt and capitalized leases	(5,087,017)	(6,019,948)	(19,782,293)
Addition to long-term debt	—	—	16,055,400
Purchase of common stock and other capital transactions	(754,230)	(14,250)	—
Payment of dividends	(553,672)	—	—
Cash used in financing activities	(6,394,919)	(6,034,198)	(8,029,004)
Net decrease in cash	(66,253)	(587,548)	(2,971,445)
Cash at beginning of year	255,405	842,953	3,814,398
Cash at end of year	$189,152	$255,405	$842,953
Reconciliation of net income (loss) to net cash provided by operations:			
Net income (loss)	$7,243,216	$5,012,067	$(340,759)
Depreciation and amortization	1,781,740	2,019,938	2,513,541
Common stock issued for benefit of employees	—	108,170	106,365
Decrease (increase) in receivables, net	1,564,036	(934,517)	700,827
Decrease (increase) in inventories	(2,070,863)	(148,432)	1,614,442
Decrease (increase) in prepaid expenses	(921,723)	(58,522)	329,517
Increase (decrease) in accounts payable	471,931	(425,847)	276,782
Increase (decrease) in accrued expenses	82,651	223,521	(261,519)
Gain on sale of property and equipment	(9,284)	(36,435)	(99,667)
Loss on early extinguishment of debt	—	—	420,444
Cash provided by operations	$8,141,704	$5,759,943	$5,259,973

FLOWERS INDUSTRIES, INC. (JUN)

Consolidated Statement of Cash Flows

(Amounts in thousands)	1997	1996	1995
Cash flows from operating activities:			
Cash received from customers	$1,438,870	$1,232,963	$1,117,262
Interest received	824	7,741	7,159
Sale of distributor notes receivable	65,984		
Other	6,080	5,416	5,890
Cash provided by operating activities	1,511,728	1,246,120	1,130,311
Cash paid to suppliers and employees	1,373,583	1,161,431	1,009,931
Interest paid	25,955	8,582	6,465
Income taxes paid	32,729	16,748	20,379
Cash disbursed for operating activities	1,432,267	1,186,761	1,026,775
Net cash provided by operating activities (See Schedule 1)	79,461	59,359	93,536
Cash flows from investing activities:			
Purchase of property, plant and equipment	(77,510)	(75,542)	(73,466)
Acquisition of businesses		(28,118)	(17,018)
Divestiture of businesses	200	1,061	22,679
Decrease in divestiture receivables	417	173	
Investment in unconsolidated affiliate		(61,352)	
Escrow funds			4,835
Other	63	(6,485)	(1,845)
Net cash disbursed for investing activities	(76,830)	(170,263)	(64,815)
Cash flows from financing activities:			
Dividends paid	(36,299)	(33,344)	(31,257)
Purchase of treasury stock	(289)	(1,303)	(4,426)
Increase in short-term notes payable—commercial paper	40,792		
Increase in long-term notes payable	524,400	356,625	151,391
Payments of long-term notes payable	(525,194)	(217,871)	(132,351)
Net cash received from (disbursed for) financing activities	3,410	104,107	(16,643)
Net increase (decrease) in cash and cash equivalents	6,041	(6,797)	12,078
Cash and cash equivalents—beginning of year	25,039	31,836	19,758
Cash and cash equivalents—end of year	$31,080	$25,039	$31,836

Schedule 1.
Schedule Reconciling Earnings to Net Cash Provided by Operating Activities

Net income	$62,324	$30,768	$42,301
Noncash expenses, revenues, losses and gains included in income:			
Depreciation and amortization	45,970	40,848	36,604
Gain on sale of distributor notes receivable	(43,244)		
Deferred income taxes	1,506	3,494	2,847
Gain on issuance of additional stock of unconsolidated affiliate		(4,111)	
Net income from investment in unconsolidated affiliate	(7,721)	(613)	
Changes in assets and liabilities, net of acquisitions and divestitures:			
Decrease (increase) in accounts receivable	7,863	(17,742)	(5,510)
(Increase) in inventories	(36,144)	(12,821)	(4,651)
(Increase) in prepaid expenses	(2,242)	(1,650)	(86)
Decrease in distributor notes receivable	65,954		
(Decrease) increase in accounts payable	(21,082)	28,029	5,859
Increase (decrease) in accrued taxes and other liabilities	6,277	(6,843)	16,172
	$79,461	$59,359	$93,536

Schedule 2.
Schedule of Noncash Investing and Financing Activities

Common stock issued in connection with the exercise of employee stock options	$2,971	$1,573	$ 663
Stock issued and held in escrow in connection with Restricted Stock Award and Equity Incentive Award		15,588	
Stock issued for acquisitions	4,000	1,299	18,945
Note receivable from divestiture of businesses	1,311	2,500	
Note payable issued in acquisition of business		15,000	
Undisbursed escrow funds available			2,165
Exercise of Restricted Stock Award and Equity Incentive Award	3,727	3,480	572
Stock released from escrow	2,565		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and Cash Equivalents

The Company considers deposits in banks, certificates of deposits and short-term investments with original maturities of three months or less as cash and cash equivalents.

The major components of cash and cash equivalents are as follows:

Amounts in thousands	June 28, 1997	June 29, 1996
Cash	$11,010	$10,484
Time deposits	20,070	14,555
Total	$31,080	$25,039

Reconciliation Of Net Income To Net Cash Flow From Operating Activities

AMERON INTERNATIONAL CORPORATION (NOV)

Consolidated Statements of Cash Flows

(Dollars in thousands)	1997	1996	1995
Operating Activities			
Net income	$19,372	$15,410	$12,452
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	15,729	16,078	16,065
Amortization	947	367	161
Provision (benefit) for deferred income taxes	809	(4,414)	(822)
Equity in earnings of affiliated companies	(3,990)	(2,298)	(3,844)
Dividends from affiliates companies	5,056	4,152	6,186
(Gain) loss from sale of assets	64	(576)	(730)
Other, net	1,789	884	144
Other changes in operating assets and liabilities, excluding business acquisitions:			
(Increase) decrease in receivables	(22,801)	2,405	(8,483)
Increase in inventories	(13,825)	(667)	(4,182)
(Increase) decrease in other current assets	1,151	(2,211)	(3,274)
Increase in long-term assets	(191)	(536)	(440)
Increase (decrease) in trade payables, accrued liabilities and income taxes	(11,264)	10,415	(2,511)
Increase (decrease) in long-term liabilities	(965)	5,570	9,445
Net cash (used in) provided by operating activities	(8,119)	44,579	20,167
Investing Activities			
Proceeds from sale of assets	2,287	1,371	1,126
Additions to property, plant and equipment	(24,860)	(25,227)	(16,154)
Business acquisitions	—	(29,032)	—
Investment in life insurance policies	(2,645)	(2,995)	(1,452)
Net cash used in investing activities	(25,218)	(55,883)	(16,480)
Financing Activities			
Net change in debt with maturities of three months or less	(525)	(471)	(1,061)
Issuance of debt	47,201	65,022	15,897
Repayment of debt	(17,000)	(43,277)	(9,849)
Dividends on common stock	(5,124)	(5,076)	(5,051)
Issuance of common stock	808	776	34
Net cash provided by (used in) financing activities	25,360	16,974	(30)
Effect of exchange rate changes on cash and cash equivalents	(556)	(212)	236
Net change in cash and cash equivalents	(8,533)	5,458	3,893
Cash and cash equivalents at beginning of year	18,381	12,923	9,030
Cash and cash equivalents at end of year	$9,848	$18,381	$12,923

CONCORD FABRICS INC. (AUG)

Consolidated Statements of Cash Flows

	1997	1996	1995
Cash flows from operating activities:			
Net earnings (loss)	$3,358,725	$937,918	$(2.983,501)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,724,099	1,813,123	1,991,438
Deferred income taxes	365,000	370,000	(110,000)
Provision for doubtful accounts	901,000	1,070,000	633,000
Loss on sale of equipment		52,569	
Loss on disposal of leasehold improvements	51,000		
Plant shut-down costs			1,110,000
Change in assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	4,884,129	(257,400)	6,456,456
Inventories	4,419,277	6,748,247	7,013,134
Prepaid and refundable income taxes	168,200	1,627,800	(2,051,000)
Prepaid expenses and other current assets	203,480	732,084	204,526
Other assets	(783,691)	(112,236)	(851,333)
Increase (decrease) in:			
Accounts payable	(2,639,270)	(1,990,962)	(6,267,344)
Accrued expenses and taxes	(889,544)	(1,002,044)	(2,741,735)
Income taxes			(992,637)
Other Liabilities	60,000	63,159	59,137
Net cash provided by operating activities	11,822,405	10,052,258	1,460,141
Cash flows from investing activities:			
Purchases of held to maturity securities	(45,193,998)		
Proceeds from sales of held to maturity securities	31,671,240		
Purchases of property, plant and equipment	(942,328)	(1,695,758)	(4,112,904)
Proceeds from sale of equipment	250,390	900,520	
Net cash used in investing activities	(14,214,696)	(795,238)	(4,112,904)
Cash flows from financing activities:			
Payments of notes payable			(9,000,000)
Proceeds from notes payable			20,000,000
Payments of notes payable—banks net		(2,000,000)	(7,600,000)
Issuance of Class A common stock pursuant to stock options exercised	30,311	123,885	37,500
Net cash provided by (used in) financing activities	30,311	(1,876,115)	3,437,500
Net (Decrease) Increase In Cash And Cash Equivalents	(2,361,980)	7,380,905	784,737
Cash and Cash Equivalents—Beginning Of Year	$9,743,024	$2,362,119	$1,577,382
Cash And Cash Equivalents—End of Year	$7,381,044	$9,743,024	$2,362,119

OXFORD INDUSTRIES, INC. (MAY)

Consolidated Statements of Cash Flows

($ in thousands)	1997	1996	1995
Cash Flows from Operating Activities:			
Net earnings	$19,647	$2,194	$10,575
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities			
Depreciation and amortization	9,078	8,851	7,804
Provision for environmental remediation	—	4,500	—
Gain on sale of property, plant and equipment	(285)	(108)	(1,169)
Loss on sale of business	—	338	—
Changes in working capital:			
Receivables	6,822	476	(8,797)
Inventories	(12,992)	35,556	(55,513)
Prepaid expenses	(2,333)	911	(621)
Trade accounts payable	9,848	(4,797)	9,308
Accrued expenses and other current liabilities	8,003	(1,050)	(3,390)
Deferred income taxes	1,219	(2,076)	132
Other noncurrent assets	(60)	(1,522)	284
Net cash provided by (used in) operating activities	38,947	43,273	(41,387)
Cash Flows from Investing Activities:			
Acquisitions	—	(11,644)	—
Proceeds from sale of business	—	1,991	—
Purchase of property, plant and equipment	(7,622)	(7,582)	(14,790)
Proceeds from sale of property, plant and equipment	1,676	1,604	2,721
Net cash (used in) investing activities	(5,946)	(15,631)	(12,069)
Cash Flows from Financing Activities:			
Short-term (repayments) borrowings	(21,500)	(18,000)	24,000
Long-term (repayments) borrowings	(2,109)	(5,060)	34,003
Proceeds from exercise of stock options	1,399	1,193	861
Purchase and retirement of common stock	(1,500)	—	—
Dividends on common stock	(6,993)	(6,985)	(6,410)
Net cash (used in) provided by financing activities	(30,703)	(28,852)	52,454
Net change in cash and cash equivalents	2,298	(1,210)	(1,002)
Cash and cash equivalents at beginning of period	1,015	2,225	3,227
Cash and cash equivalents at end of period	$ 3,313	$ 1,015	$ 2,225
Supplemental Disclosures of Cash Flow Information			
Cash Paid for:			
Interest	$ 4,072	$ 5,883	$ 4,103
Income taxes	12,423	1,879	10,397

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

5. Statement of Cash Flows. The Company consider cash equivalents to be short-term investments with original maturities of three months or less.

THE PENN TRAFFIC COMPANY (JAN)

Consolidated Statement of Cash Flows

(In thousands of dollars)	1998	1997	1996
Operating Activities:			
Net (loss)	$(61,126)	$(41,430)	$(79,625)
Adjustments to reconcile net (loss) to net cash (used in) provided by operating activities:			
Depreciation and amortization	73,422	76,328	75,375
Amortization of intangibles	15,544	16,377	17,104
Write-off of fixed assets			16,416
Write-off of intangible assets			32,809
Write-down of long-lived assets	26,982		46,847
Gain on sale of Sani-Dairy	(24,218)		
Other—net	(5,759)	(10,852)	(13,997)
Net change in assets and liabilities:			
Accounts receivable and prepaid expenses	2,758	9,256	(3,785)
Inventories	9,136	16,568	29,659
Accounts payable and accrued expenses	(5,213)	(50,388)	(6,653)
Deferred taxes	(38,234)	(12,792)	(31,808)
Deferred charges and other assets	2,178	(4,361)	(1,649)
Net Cash (Used in) Provided by Operating Activities	(4,530)	(1,294)	80,693
Investing Activities:			
Capital expenditures	(21,813)	(67,828)	(124,963)
Proceeds from sale-and-leaseback transactions		22,151	
Proceeds from sale of assets	9,880	12,297	3,423
Proceeds from sale of Sani-Dairy	37,067		
Other—net		96	
Net Cash (Used in) Provided by Investing Activities	25,114	(33,284)	(121,540)
Financing Activities:			
Increase in long-term debt		106,840	
Payments to settle long-term debt	(2,231)	(3,258)	(4,095)
Borrowing of revolver debt	369,483	430,200	588,300
Repayment of revolver debt	(378,700)	(487,500)	(520,900)
Reduction of capital lease obligations	(13,290)	(13,523)	(9,889)
Payment of debt issuance costs		(3,596)	(225)
Purchase of treasury stock			(625)
Other—net	9	70	347
Net Cash (Used in) Provided by Financing Activities	(24,729)	29,233	52,913
(Decrease) Increase in Cash and Cash Equivalents	(4,145)	(5,345)	12,066
Cash and cash equivalents at beginning of year	53,240	58,585	46,519
Cash and Cash Equivalents at End of Year	$49,095	$53,240	$58,585

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and Short-term Investments

Short-term investments are classified as cash and are stated at cost, which approximates market value. For the purpose of the Consolidated Statement of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Note 2 (In Part): Long-term Debt

Amounts maturing during each of the next five fiscal years are: $4,433,000 (Fiscal 1999); $2,682,000 (Fiscal 2000); $85,060,000 including $77,583,000 outstanding as of January 31, 1998, under the Company's secured revolving credit facility which matures in April 2000 (Fiscal 2001); $107,716,000 (Fiscal 2002); and $125,449,000 (Fiscal 2003). The Company incurred interest expense of $149,981,000, $144,854,000 and $136,359,000, including noncash amortization of deferred financing costs of $4,804,000, $4,565,000 and $4,297,000, for Fiscal 1998, Fiscal 1997 and Fiscal 1996, respectively. Interest paid amounted to $145,506,000, $138,437,000 and $128,936,000 for Fiscal 1998, Fiscal 1997 and Fiscal 1996, respectively.

Interest and Income Tax Payments

GENERAL ELECTRIC COMPANY (DEC)

Statement of Cash Flows

(In millions)	1997	1996	1995
Cash flows from operating activities			
Net earnings	$8,203	$7,280	$6,573
Adjustments to reconcile net earnings to cash provided from operating activities			
Depreciation and amortization	4,082	3,785	3,594
Deferred income taxes	284	1,145	1,047
Decrease (increase) in GE current receivables	250	118	(632)
Decrease (increase) in inventories	(386)	(134)	40
Increase (decrease) in accounts payable	200	641	244
Increase in insurance liabilities, reserves and annuity benefits	1,669	1,491	2,490
Provision for losses on financing receivables	1,421	1,033	1,117
All other operating activities	(1,483)	2,492	473
Cash from operating activities	14,240	17,851	14,946
Cash flows from investing activities			
Additions to property, plant and equipment	(8,388)	(7,760)	(6,447)
Dispositions of property, plant and equipment	2,251	1,363	1,542
Net increase in GECS financing receivables	(1,898)	(2,278)	(11,309)
Payments for principal businesses purchased	(5,245)	(5,516)	(5,641)
All other investing activities	(4,995)	(6,021)	(3,362)
Cash used for investing activities	(18,275)	(20,212)	(25,217)
Cash flows from financing activities			
Net change in borrowings (maturities of 90 days or less)	13,684	11,827	(3,487)
Newly issued debt (maturities longer than 90 days)	21,249	23,153	37,604
Repayments and other reductions (maturities longer than 90 days)	(23,787)	(25,906)	(18,580)
Net purchase of GE shares for treasury	(2,815)	(2,323)	(2,523)
Dividends paid to share owners	(3,411)	(3,050)	(2,770)
All other financing activities	785	28	259
Cash from (used for) financing activities	5,705	3,729	10,503
Increase (decrease) in cash and equivalents during year	1,670	1,368	232
Cash and equivalents at beginning of year	4,191	2,823	2,591
Cash and equivalents at end of year	$ 5,861	$ 4,191	$ 2,823
Supplemental disclosure of cash flows information			
Cash paid during the year for interest	$ (8,264)	$ (7,874)	$ (6,645)
Cash recovered (paid) during the year for income taxes	(1,937)	(1,392)	(1,483)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and Equivalents. Marketable securities with original maturities of three months or less are included in cash equivalents unless designated as available for sale and classified as investment securities.

TOKHEIM CORPORATION (NOV)

Consolidated Statement of Cash Flows

(Amounts in thousands)	1997	1996	1995
Cash Flows From Operating Activities:			
Net earnings (loss)	$2,094	$(2,009)	$3,231
Adjustments to reconcile net earnings (loss) to net cash provided from operating activities:			
Extraordinary loss on debt extinguishment	1,886	—	—
Depreciation and amortization	9,232	5,028	4,857
Gain on sale of property, plant, and equipment	(408)	(59)	(456)
Deferred income taxes	(139)	(251)	(33)
Changes in assets and liabilities (net of effects of the acquisition in 1996):			
Receivables, net	4,254	2,363	(6,140)
Inventories	5,975	(2,626)	89
Prepaid expenses	(2,001)	5,987	(877)
Accounts payable	5,116	(1,425)	1,648
Accrued expenses	(3,395)	4,249	2,132
U.S. and foreign income taxes	12	(912)	(349)
Other	(1,424)	(4,448)	(775)
Net cash provided from operating activities	21,202	5,897	3,347
Cash Flows From Investing Activities:			
Acquisition of Sofitam, net of cash acquired	—	(52,105)	—
Property, plant, and equipment additions	(11,154)	(3,061)	(5,559)
Proceeds from sale of property, plant and equipment	760	1,087	649
Net cash used in investing activities	(10,394)	(54,079)	(4,910)
Cash Flows From Financing Activities:			
Proceeds from senior subordinated notes	—	100,000	—
Redemption of senior subordinated notes	(10,000)	—	—
Proceeds from term debt	—	490	2,122
Payments on term debt and other	(3,747)	(32,290)	(819)
Net increase (decrease) notes payable, banks	1,770	(5,044)	559
Net increase in cash overdraft	1,874	7,237	199
Debt issuance costs	—	(11,506)	—
Proceeds from issuance of common stock	1,706	42	—
Treasury stock, net	(496)	(370)	273
Premiums paid on debt extinguishment	(1,390)	—	—
Preferred stock dividends	(1,512)	(1,543)	(1,580)
Net cash provided from (used in) financing activities	(11,795)	57,016	754
Effect of Translation Adjustments on Cash	(2,389)	(4,482)	41
Increase (decrease) in cash	(3,376)	4,352	(768)
Cash and Cash Equivalents:			
Beginning of year	9,814	5,462	6,230
End of year	$6,438	$9,814	$5,462

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

1 (In Part): Summary of Significant Accounting Policies

Cash Flows

For purposes of the Statement of Cash Flows, the Company considers all highly liquid investments purchased with an initial maturity of 90 days or less to be cash equivalents.

Supplemental disclosures of cash flow information:

	1997	1996	1995
Cash paid during the year for interest	$15,204	$4,918	$3,060
Cash paid during the year for income taxes	921	1,013	976
Noncash transactions primarily related to the issuance of treasury stock in settlement of RSP distributions	1	23	976
Noncash adjustments to certain assets and liabilities in connection with the settlement of the corporate reorganization	—	—	383
Liabilities assumed in the acquisition	—	113,776	—
Accrued merger and acquisition costs	—	9,799	—

Discontinued Operations

EG&G, INC. (DEC)

Consolidated Statement of Cash Flows

(Dollars in thousands)	1997	1996	1995
Cash Flows Provided by Operating Activities:			
Net income	$ 33,692	$ 60,156	$ 68,040
Deduct income from discontinued operations	(3,047)	(5,676)	(13,736)
Income from continuing operations	30,645	54,480	54,304
Adjustments to reconcile income from continuing operations to net cash provided by continuing operations:			
Asset impairment charge	28,200	—	—
Depreciation and amortization	44,612	40,936	39,426
Gains on dispositions and investments, net	(11,713)	(1,714)	(5,442)
Changes in assets and liabilities, net of effects from companies purchased and divested:			
Decrease (increase) in accounts receivable	(35,945)	(11,781)	17,535
Decrease (increase) in inventories	725	(6,659)	12,106
Increase in accounts payable	327	3,469	6,087
Decrease in accrued restructuring costs	(1,033)	(3,455)	(17,522)
Increase (decrease) in accrued expenses	8,726	(718)	27,609
Increase in noncurrent prepaid pension	(10,040)	(2,876)	(8,041)
Changes in prepaid and deferred taxes	(4,315)	8,793	(3,712)
Change in prepaid expenses and other	(18,047)	(7,237)	1,481
Net Cash Provided by Continuing Operations	32,142	73,238	123,831
Net Cash Provided by Discontinued Operations	2,696	6,920	26,334
Net Cash Provided by Operating Activities	34,838	80,158	150,165
Earnings retained by GECS	—	—	—
Cash Flows Provided by (Used in) Investing Activities:			
Capital expenditures	$(48,729)	$(80,490)	$(61,839)
Reimbursement of invested capital	27,000	—	—
Proceeds from dispositions of businesses and sales of property, plant and equipment	24,287	1,744	15,238
Cost of acquisitions, net of cash and cash equivalents acquired	(3,611)	—	—
Proceeds from sales of investment securities	4,129	9,447	10,584
Other	(1,156)	(2,000)	(2,754)
Net Cash Provided by (Used in) Investing Activities	1,920	(71,299)	(38,771)
Cash Flows Used in Financing Activities:			
Increase (decrease) in commercial paper	27,879	17,965	(49,814)
Other debt payments	(3,443)	(1,959)	(5,607)
Proceeds from issuance of long-term debt	—	—	115,000
Proceeds from issuance of common stock	6,667	4,844	3,661
Purchase of common stock	(28,104)	(30,760)	(135,079)
Cash dividends	(25,684)	(26,589)	(29,293)
Other	—	—	(1,763)
Net Cash Used in Financing Activities	(22,685)	(36,499)	(102,895)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(3,985)	(718)	1,281
Net Increase (Decrease) in Cash and Cash Equivalents	10,088	(28,358)	9,780
Cash and Cash Equivalents at Beginning of Year	47,846	76,204	66,424
Cash and Cash Equivalents at End of Year	$ 57,934	$ 47,846	$ 76,204
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest	$ 12,351	$13,526	$ 7,271
Income taxes	26,683	35,678	23,380

QUANEX CORPORATION (OCT)

Consolidated Statements of Cash Flow

(In thousands)	1997	1996	1995
Operating activities:			
Net income	$69,184	$30,368	$31,839
Adjustments to reconcile net income to cash provided by operating activities:			
Income from discontinued operations	(5,176)	(9,912)	(10,480)
Gain on sale of discontinued operations	(36,290)	—	—
Depreciation and amortization	37,865	36,654	29,410
Deferred income taxes	7,545	2,533	6,668
Deferred pension costs	(183)	318	76
Deferred postretirement welfare benefits	376	417	254
	73,321	60,378	57,767
Changes in assets and liabilities net of effects from acquisitions and dispositions:			
Decrease (increase) in accounts and notes receivable	2,957	7,798	(19,630)
Decrease (increase) in inventory	8,898	(17,568)	(3)
Increase (decrease) in accounts payable	112	(4,848)	12,863
Increase in accrued expenses	2,919	2,907	3,926
Other, net	(8,868)	900	(3,656)
Cash provided by continuing operations	79,339	49,567	51,267
Cash provided by discontinued operations	89	16,073	15,885
Cash provided by operating activities	79,428	65,640	67,152
Investment activities:			
Acquisition of Advanced Metal Forming, C.V., net of cash and equivalents acquired	(33,584)	—	—
Acquisition of Piper Impact, Inc., net of cash and equivalents acquired	(5,575)	(123,264)	—
Net proceeds from sale of LaSalle Steel Company	63,900	—	—
Capital expenditures, net of retirements	(68,916)	(34,699)	(21,615)
Capital expenditures of discontinued operations	(3,868)	(11,089)	(4,986)
Decrease in short-term investments	—	—	54,070
Other, net	(1,550)	(5,120)	(1,878)
Cash provided (used) by investment activities	(49,593)	(174,172)	25,591
Financing activities:			
Bank borrowings (repayments), net	(41,828)	160,000	—
Notes payable borrowings (repayments)	—	(10,000)	10,000
Purchase of Senior Notes	—	(44,667)	(59,500)
Repayments of long-term debt	—	—	(20,958)
Common dividends paid	(8,422)	(8,115)	(7,932)
Preferred dividends paid	—	—	(4,451)
Stock options exercised	8,357	1,179	454
Other, net	2,525	905	846
Cash provided (used) by financing activities	(39,368)	99,302	(81,541)
Effect of exchange rate changes on cash and equivalents	422	—	—
Increase (decrease) in cash and equivalents	(9,111)	(9,230)	11,202
Cash and equivalents at beginning of period	35,962	45,192	33,990
Cash and equivalents at end of period	$26,851	$35,962	$45,192

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Statements of Cash Flows
The Company generally considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Similar investments with original maturities beyond three months are considered short-term investments. For fiscal years 1997, 1996 and 1995 cash paid for income taxes was $13,906,000, $19,551,000, and $17,572,000, respectively. These amounts are before refunds of $471,000, $204,000 and $47,000, respectively. Cash paid for interest for fiscal 1997, 1996 and 1995 was $17,964,000, $12,084,000, and $10,324,000, respectively. Non-cash investing and financing activities in fiscal 1995 included the exchange of $84,920,000 of the Company's Cumulative Convertible Exchangeable Preferred Stock for the Company's 6.88% Convertible Subordinated Debentures due June 30, 2007, and the conversion of $1,330,000 of the Company's Cumulative Convertible Exchangeable Preferred Stock to the Company's common stock. (See Note 2 regarding acquisitions).

Extraordinary Items

ARMCO INC. (DEC)

Consolidated Statements of Cash Flows

(Dollars in millions)	1997	1996	1995
Cash Flows From Operating Activities:			
Net income	$ 76.8	$ 32.5	$ 29.8
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation expense	61.3	58.7	52.8
Undistributed earnings from discontinued operations	—	—	(6.3)
Net gain on sales of investments and assets	(4.5)	(8.9)	(28.4)
Extraordinary loss on retirement of debt	3.0	—	—
Special charges	—	8.8	—
Other	6.4	6.3	10.9
Change in assets and liabilities:			
Trade accounts and notes receivable	(9.1)	22.8	6.1
Inventories	(21.4)	(33.3)	(50.8)
Payables and accrued operating expenses	22.1	(13.2)	34.4
Employee benefit liabilities	(13.5)	(17.4)	(26.4)
Other assets and liabilities - net	(30.3)	(13.7)	(6.6)
Net cash provided by operating activities	90.8	42.6	15.5
Cash Flows From Investing Activities:			
Net proceeds from the sale of businesses and assets	7.7	14.0	31.5
Proceeds from the sale and maturity of liquid investments	0.3	—	29.7
Proceeds from the sale of investments	15.1	78.7	30.0
Purchase of liquid investments	(5.0)	(0.3)	(6.0)
Contributions to investees	—	(3.0)	(2.0)
Capital expenditures	(41.9)	(59.8)	(143.3)
Other	(0.2)	(2.7)	0.2
Net cash (used in) provided by investing activities	(24.0)	26.9	(59.9)
Cash Flows From Financing Activities:			
Proceeds from issuance of debt	151.1	5.5	5.0
Payments on debt	(177.7)	(24.3)	(8.1)
Dividends paid on preferred stock	(17.9)	(17.9)	(20.9)
Proceeds from issuance of common stock	0.1	—	2.4
Other	(1.4)	(0.7)	—
Net cash used in financing activities	(45.8)	(37.4)	(21.6)
Net change in cash and cash equivalents	21.0	32.1	(66.0)
Cash and cash equivalents:			
Beginning of year	168.9	136.8	202.8
End of year	$189.9	$168.9	$136.8
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 34.7	$ 35.1	$ 31.2
Income taxes	2.8	0.1	0.7
Supplemental schedule of non-cash investing and financing activities:			
Debt incurred or assets exchanged directly for property	—	—	16.2
Issuance of restricted stock	2.6	2.1	4.7
Notes receivable and stock in partial payment for asset sales	0.3	10.6	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

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

Investments

Armco considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist of commercial paper, repurchase agreements, Eurodollar time deposits and other money market instruments, including mutual funds.

Under the definitions provided in Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* Armco has securities which have been classified as held to maturity and are, therefore, recorded at amortized cost. The carrying amounts for these securities approximate fair value due to the short maturities of the instruments. At December 31, 1997 and 1996, these securities were as follows:

	1997	1996
Cash equivalents	$180.4	$139.5
Short-term liquid investments	5.0	0.3
Restricted collateral deposits	15.5	15.2
Total securities	$200.9	$155.0

The restricted collateral deposits are primarily invested in certificates of deposit which mature within one year and are principally used as security for equipment financing, self-insurance program, and environmental and litigation bonds. These securities are reported in Other current assets or Other investments. The classification is determined based on the expected term of the collateral requirement and not necessarily the maturity date of the underlying securities.

SERVICE CORPORATION INTERNATIONAL (DEC)

Consolidated Statements of Cash Flows

(Dollars in thousands)	1997	1996	1995
Cash flows from operating activities:			
Net income	$333,750	$265,298	$183,588
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	157,550	129,819	92,541
Provision for deferred income taxes	19,212	56,902	45,164
Extraordinary loss on early extinguishment of debt, net of income taxes	40,802	—	—
Gains from disposition (net)	(89,252)	(9,930)	(1,024)
Change in assets and liabilities net of effects from acquisitions:			
(Increase) in receivables	(174,429)	(167,338)	(115,888)
(Increase) in other assets	(24,904)	(36,781)	(36,496)
Increase (decrease) in other liabilities	36,045	(26,365)	7,473
Other	662	(1,748)	(3,860)
Net cash provided by operating activities	299,436	209,857	171,498
Cash flows from investing activities:			
Capital expenditures	(230,532)	(193,152)	(125,231)
Changes in prearranged funeral balances	(5,537)	(51,485)	(44,549)
Purchases of securities - insurance subsidiary	(1,407,588)	(1,212,305)	(86,014)
Sales of securities - insurance subsidiary	1,383,934	1,177,499	49,769
Proceeds from sales of property and equipment	46,908	30,121	12,655
Acquisitions, net of cash acquired	(409,731)	(279,320)	(693,627)
Loans issued by finance subsidiary	(98,446)	(86,858)	(38,184)
Principal payments received on loans by finance subsidiary	45,915	156,064	24,312
Proceeds from sale of equity investment	147,700	—	—
Purchases of equity investments	(87,643)	(39,752)	(16,076)
Other	(18,424)	19,062	(8,190)
Net cash used in investing activities	(633,444)	(480,126)	(925,135)
Cash flows from financing activities:			
Increase (decrease) in borrowings under revolving credit agreements	304,505	96,441	(453,959)
Long-term debt issued	650,000	300,000	862,848
Early extinguishment of debt	(449,998)	—	—
Payments of debt	(91,464)	(109,458)	(135,960)
Common stock issued	—	—	331,063
Dividends paid	(69,888)	(55,262)	(43,676)
Bank overdrafts and other	(6,401)	25,195	32,464
Net cash provided by financing activities	336,754	256,916	592,780
Net increase (decrease) in cash and cash equivalents	2,746	(13,353)	(160,857)
Cash and cash equivalents at beginning of period	44,131	57,484	218,341
Cash and cash equivalents at end of period	$ 46,877	$ 44,131	$ 57,484

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

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

Cash Equivalents: The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Note Six (In Part): Income Taxes

The Company made income tax payments of approximately $155,356, $99,377 and $65,859, for the three years ended December 31, 1997, respectively. The provision for income taxes for the year ended December 31, 1997, includes a decrease to deferred taxes of $5,491 related to enacted tax law changes in the United Kingdom and France.

Note Seven (In Part): Debt

Cash interest payments for the three years ended December 31, 1997 totaled $165,521, $150,961 and $111,609, respectively.

Cumulative Effect Of Accounting Change

COLUMBIA/HCA HEALTHCARE CORPORATION
(DEC)

Consolidated Statements of Cash Flows

(Dollars in millions)	1997	1996	1995
Cash flows from continuing operating activities:			
Net income (loss)	$ (305)	$1,505	$961
Adjustments to reconcile net income (loss) to net cash provided by continuing operating activities:			
Provision for doubtful accounts	1,420	1,196	994
Depreciation and amortization	1,238	1,143	976
Deferred income taxes	(163)	32	15
Write-down of long-lived assets	442	—	282
Loss (income) from discontinued operations	431	(44)	(39)
Extraordinary charges on extinguishments of debt	—	—	103
Cumulative effect of accounting change	56	—	—
Increase (decrease) in cash from operating assets and liabilities:			
Accounts receivable	(1,167)	(1,360)	(1,068)
Inventories and other assets	25	(14)	(157)
Income taxes	(619)	237	(80)
Accounts payable and accrued expenses	121	(145)	157
Other	4	39	120
Net cash provided by continuing operating activities	1,483	2,589	2,264
Cash flows from investing activities:			
Purchase of property and equipment	(1,422)	(1,391)	(1,513)
Acquisition of hospitals and health care entities	(411)	(748)	(1,478)
Investments in and advances to affiliates	(29)	(61)	(609)
Disposition of property and equipment	212	166	334
Change in other investments	(45)	(158)	(283)
Investment in net assets of discontinued operations, net	(1,060)	(26)	(103)
Other	9	(1)	42
Net cash used in investing activities	(2,746)	(2,219)	(3,610)
Cash flows from financing activities:			
Issuance of long-term debt	249	459	2,257
Net change in commercial paper and bank borrowings	2,453	(579)	1,230
Repayment of long-term debt	(318)	(303)	(1,969)
Repurchase of common stock, net	(1,082)	(20)	42
Payment of cash dividends and redemption of preferred stock purchase rights	(53)	(54)	(50)
Other	11	8	—
Net cash provided by (used in) financing activities	1,260	(489)	1,510
Change in cash and cash equivalents	(3)	(119)	164
Cash and cash equivalents at beginning of period	113	232	68
Cash and cash equivalents at end of period	$ 110	$ 113	$232
Interest payments	$ 471	$ 499	$479
Income tax payments net of refunds	$1,168	$ 709	$748

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with a maturity of three months or less when purchased. Carrying values of cash and cash equivalents approximate fair value due to the short-term nature of these instruments.

Cash Surrender Value

ALBERTSON'S, INC. (JAN)

Consolidated Statements of Cash Flows

(In thousands)	1998	1997	1996
Cash Flows From Operating Activities:			
Net earnings	$516,814	$493,779	$464,961
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	328,795	294,341	251,450
Net deferred income taxes	(1,299)	33,868	(590)
Increase in cash surrender value of Company-owned life insurance	(14,113)	(9,021)	(7,808)
Changes in operating assets and liabilities:			
Receivables and prepaid expenses	(24,262)	(19,992)	7,386
Inventories	(107,511)	(170,821)	(81,685)
Accounts payable	60,252	33,342	73,412
Other current liabilities	59,591	14,716	18,482
Self-insurance	12,619	(11,234)	9,406
Unearned income	21,705	(10,735)	34,960
Other long-term liabilities	12,081	(313)	15,682
Net cash provided by operating activities	864,672	647,930	785,596
Cash Flows From Investing Activities:			
Capital expenditures	(674,053)	(673,310)	(656,331)
Proceeds from disposals of land, buildings and equipment	37,098	31,095	23,267
Increase in other assets	(9,177)	(19,622)	(24,778)
Net cash used in investing activities	(646,132)	(661,837)	(657,842)
Cash Flows From Financing Activities:			
Proceeds from long-term borrowings	200,000	202,000	202,525
Payments on long-term borrowings	(8,995)	(88,202)	(211,463)
Net commercial paper activity	(45,692)	119,601	99,657
Proceeds from stock options exercised	3,600	3,328	4,902
Cash dividends paid	(156,261)	(146,060)	(126,672)
Stock purchased and retired	(193,974)	(55,008)	(77,814)
Net cash (used in) provided by financing activities	(201,322)	35,659	(108,865)
Net Increase in Cash and Cash Equivalents	17,218	21,752	18,889
Cash and Cash Equivalents at Beginning of Year	90,865	69,113	50,224
Cash and Cash Equivalents at End of Year	$108,083	$ 90,865	$ 69,113

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part):

Cash and Cash Equivalents. The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Investments, which consist of government-backed money market funds and repurchase agreements backed by government securities, are recorded at cost which approximates market value.

Supplemental Cash Flow Information

Selected cash payments and noncash activities were as follows (in thousands):

	1998	1997	1996
Cash payments for income taxes	$284,030	$288,590	$284,383
Cash payments for interest, net of amounts capitalized	65,930	59,284	45,131
Noncash investing and financing activities:			
Capitalized lease obligations incurred	22,228	12,005	7,926
Capitalized lease obligations terminated	1,632	3,240	1,232
Tax benefits related to stock options	3,974	3,310	4,064
Liabilities assumed in connection with asset acquisitions	150	692	

Refund of Security Deposits

MCDONALD'S CORPORATION (DEC)

Consolidated Statements of Cash Flows

(In millions)	1997	1996	1995
Operating activities			
Net income	$1,642.5	$1,572.6	$1,427.3
Adjustments to reconcile to cash provided by operations			
Depreciation and amortization	793.8	742.9	709.0
Deferred income taxes	(1.1)	32.9	(4.2)
Changes in operating working capital items			
Accounts receivable increase	(57.6)	(77.5)	(49.5)
Inventories, prepaid expenses and other current assets increase	(34.5)	(18.7)	(20.4)
Accounts payable increase	52.8	44.5	52.6
Taxes and other liabilities increase	221.9	121.4	171.3
Refund of U.S. franchisee security deposits	(109.6)		
Other	(65.9)	42.9	10.1
Cash provided by operations	2,442.3	2,461.0	2,296.2
Investing activities			
Property and equipment expenditures	(2,111.2)	(2,375.3)	(2,063.7)
Purchases of restaurant businesses	(113.6)	(137.7)	(110.1)
Sales of restaurant businesses	149.5	198.8	151.6
Property sales	28.9	35.5	66.2
Other	(168.8)	(291.6)	(153.0)
Cash used for investing activities	(2,217.2)	(2,570.3)	(2,109.0)
Financing activities			
Net short-term borrowings (repayments)	1,097.4	228.8	(272.9)
Long-term financing issuances	1,037.9	1,391.8	1,250.2
Long-term financing repayments	(1,133.8)	(841.3)	(532.2)
Treasury stock purchases	(755.1)	(599.9)	(314.5)
Common and preferred stock dividends	(247.7)	(232.0)	(226.5)
Series E preferred stock redemption	(358.0)		
Other	145.7	157.0	63.6
Cash provided by (used for) financing activities	(213.6)	104.4	(32.3)
Cash and equivalents increase (decrease)	11.5	(4.9)	154.9
Cash and equivalents at beginning of year	329.9	334.8	179.9
Cash and equivalents at end of year	$ 341.4	$ 329.9	$ 334.8
Supplemental cash flow disclosures			
Interest paid	$ 401.7	$ 369.0	$ 331.0
Income taxes paid	$ 650.8	$ 558.1	$ 667.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part):

Statement of Cash Flows

The Company considers short-term, highly liquid investments to be cash equivalents. The impact of fluctuating foreign currencies on cash and equivalents was not material.

Litigation Settlement

PHILLIPS PETROLEUM COMPANY (DEC)

Consolidated Statement of Cash Flows

(Millions of dollars)	1997	1996	1995
Cash Flows From Operating Activities			
Net income	$ 959	1,303	469
Adjustments to reconcile net income to net cash provided by operating activities			
Non-working capital adjustments			
Depreciation, depletion and amortization	863	941	871
Dry hole costs and leasehold impairment	91	117	66
Deferred taxes	283	163	9
J-Block settlement	161	—	—
Other	12	41	(77)
Working capital adjustments			
Increase (decrease) in aggregate balance of accounts receivable sold	—	(200)	200
Decrease (increase) in other accounts and notes receivable	245	(265)	(245)
Decrease (increase) in inventories	(33)	31	25
Decrease (increase) in prepaid expenses and other current assets	15	(26)	12
Increase (decrease) in accounts payable	(224)	295	130
Increase (decrease) in taxes and other accruals	(127)	(315)	136
Net Cash Provided by Operating Activities	2,245	2,085	1,596
Cash Flows From Investing Activities			
Capital expenditures and investments, including dry hole costs	(2,043)	(1,544)	(1,456)
Proceeds from asset dispositions	21	101	142
Long-term advances to affiliates and other investments	(34)	(98)	(39)
Net Cash Used for Investing Activities	(2,056)	(1,541)	(1,353)
Cash Flows From Financing Activities			
Issuance of debt	468	212	97
Repayment of debt	(569)	(226)	(106)
Purchase of common stock	(50)	—	—
Issuance of common stock	20	25	9
Issuance of company-obligated mandatory redeemable preferred securities	350	300	—
Redemption of preferred stock of subsidiary	(345)	—	—
Dividends paid on common stock	(353)	(329)	(313)
Other	(162)	22	(56)
Net Cash Provided by (Used for) Financing Activities	(641)	4	(369)
Increase (Decrease) in Cash and Cash Equivalents	(452)	548	(126)
Cash and cash equivalents at beginning of year	615	67	193
Cash and Cash Equivalents at End of Year	$ 163	615	67

NOTES TO FINANCIAL STATEMENTS

Note 1 (In Part): Accounting Policies

Cash Equivalents. Cash equivalents are highly liquid short-term investments that are readily convertible to know amounts of cash and generally have original maturities within three months from their date of purchase.

Note 8. J-Block Settlement

On June 2, 1997, Phillips Petroleum Company United Kingdom Limited and its co-ventures, Agip (U.K.) Limited and BG Exploration and Production Limited, reached a settlement with Enron Europe Limited (Enron) concerning J-Block gas production in the U.K. sector of the North Sea. Under the terms of the settlement agreement, Enron made an immediate cash payment of $440 million to the J-Block owners; the existing take-or-pay depletion contract was amended to become a firm long-term supply contract; and the fixed contract price for J-Block gas was reduced to reflect current market conditions for long-term gas sales contracts. The total contract gas quantity, however, remains essentially the same. Phillips' share of the $440 million cash payment was $161 million. The settlement concluded all J-Block litigation with Enron. The income associated with the cash payment will be recognized over the remaining term of the supply contract.

Note 17 – Cash-Flow Information

(Millions of dollars)	1997	1996	1995
Non-Cash Investing and Financing Activities			
Issuance of promissory notes to purchase property, plant and equipment	$ —	26	—
Contribution of non-cash net assets to equity-method affiliates	—	—	55
Fair market value of property, plant and equipment exchanged as part of a broader monetary transaction	49	—	—
Common stock issued to establish CBT	—	—	989
Cash Payments			
Interest			
Debt	$212	220	224
Taxes and other	22	31	19
	$234	251	243
Income taxes	$770	765	576

Sale of Receivables

RAYTHEON COMPANY (DEC)

Statements of Cash Flows

(In millions)	1997	1996	1995
Cash flows from operating activities			
Net income	$ 527	$ 761	$ 792
Adjustments to reconcile net income to net cash provided by operating activities, net of the effect of acquired companies			
Depreciation and amortization	457	369	371
Net gain on sale of operating units	(72)	—	(210)
Gain on sale of an investment	—	—	(29)
Sale of receivables	1,752	1,209	1,081
Increase in accounts receivable	(1,519)	(994)	(964)
(Increase) decrease in contracts in process	(585)	(581)	174
Decrease (increase) in inventories	54	(38)	45
Decrease (increase) in long-term receivables	43	(57)	(11)
Decrease in advance payments	(49)	(45)	(217)
Increase in accounts payable	128	49	37
Net change in federal and foreign income taxes	130	47	83
Increase (decrease) in other current liabilities	83	(374)	81
Other adjustments, net	14	(55)	(58)
Net cash provided by operating activities	963	291	1,175
Cash flows from investing activities			
Additions to property, plant and equipment	(459)	(406)	(329)
Disposals of property, plant and equipment	69	16	62
Increase in other assets	(84)	(31)	(174)
Payment for purchase of acquired companies, net of cash received	(3,087)	(584)	(2,341)
Proceeds from sale of operating units and investments	705	67	459
Net cash used in investing activities	(2,856)	(938)	(2,323)
Cash flows from financing activities			
Dividends	(189)	(190)	(182)
(Decrease) increase in short-term debt	(597)	1,007	140
Increase in long-term debt	2,889	4	1,463
Purchase of treasury shares	(94)	(306)	(320)
Proceeds under common stock plans	44	57	59
All other, net	—	3	(5)
Net cash provided by financing activities	2,053	575	1,155
Effect of foreign exchange rates on cash	(1)	—	1
Net increase (decrease) in cash and cash equivalents	159	(72)	8
Cash and cash equivalents at beginning of year	137	209	201
Cash and cash equivalents at end of year	$ 296	$ 137	$ 209

NOTES TO FINANCIAL STATEMENTS

Note A (In Part): Accounting Policies

Cash Equivalents and Marketable Securities
Cash and cash equivalents include only cash and short-term, highly liquid investments (those with original maturities of 90 days or less when purchased).

Note I (In Part): Notes Payable

Credit lines or commitments with banks were maintained by subsidiary companies amounting to $252 million and $188 million in 1997 and 1996, respectively. Compensating balance arrangements are not material. In addition, lines of credit with certain commercial banks exist as sources of direct borrowing and/or as a standby facility to support the issuance of commercial paper by the company. The lines of credit were $9.0 billion and $3.5 billion at December 31, 1997 and 1996, respectively. At December 31, 1997, $3.5 billion had been borrowed under the lines of credit. Total interest payments were $295 million, $257 million, and $160 million for 1997, 1996, and 1995, respectively.

Note K (In Part): Federal and Foreign Income Taxes

Actual cash income tax payments were $169 million, $275 million, and $275 million for 1997, 1996, and 1995, respectively.

CASH FLOWS FROM INVESTING ACTIVITIES

Paragraphs 15-17 of *SFAS No. 95* define those transactions and events which constitute investing cash receipts and payments. With the exception of certain transactions described in paragraphs 12-13 of *SFAS No. 95* and paragraph 7 of *SFAS No. 104*, which amends *SFAS No. 95*, cash receipts and payments should be reported separately and not netted. Examples of reporting cash flows from investing activities follow.

Property Acquisitions/Disposals

ALLIEDSIGNAL INC. (DEC)

Consolidated Statement of Cash Flows

(Dollars in millions)	1997	1996	1995
Cash flows from operating activities			
Net income	$1,170	$1,020	$875
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of business	(226)	(655)	(71)
Repositioning and other charges	250	622	115
Depreciation and amortization (includes goodwill)	609	602	612
Undistributed earnings of equity affiliates	(55)	(33)	(59)
Deferred income taxes	138	213	199
(Increase) decrease in accounts and notes receivable	(104)	(163)	134
(Increase) in inventories	(92)	(87)	(141)
(Increase) decrease in other current assets	(88)	134	35
Increase in accounts payable	226	117	16
(Decrease) in accrued liabilities	(188)	(77)	(245)
Net taxes paid on sale of business	(21)	(49)	—
Other	(313)	(448)	(254)
Net cash provided by operating activities	1,306	1,195	1,216
Cash flows from investing activities			
Expenditures for property, plant and equipment	(717)	(755)	(746)
Proceeds from disposals of property, plant and equipment	67	77	46
Decrease in investments and long-term receivables	25	20	27
(Increase) in other investments	(6)	(12)	(4)
Cash paid for acquisitions	(1,218)	(114)	(499)
Proceeds from sales of businesses	695	1,358	72
(Increase) in short-term investments	(129)	(301)	—
Net cash (used for) provided by investing activities	(1,283)	273	(1,104)
Cash flows from financing activities			
Net increase in commercial paper	351	412	58
Net increase (decrease) in short-term borrowings	18	(356)	253
Proceeds from issuance of preferred stock of subsidiary	112	—	—
Proceeds from issuance of common stock	151	147	104
Proceeds from issuance of long-term debt	33	48	108
Payments of long-term debt	(307)	(124)	(147)
Repurchase of preferred stock of subsidiary	(112)	—	—
Repurchases of common stock	(786)	(409)	(239)
Cash dividends on common stock	(295)	(262)	(217)
Other	(42)	—	—
Net cash (used for) financing activities	(877)	(544)	(80)
Net (decrease) increase in cash and cash equivalents	(854)	925	32
Cash and cash equivalents at beginning of year	1,465	540	508
Cash and cash equivalents at end of year	$ 611	$1,465	$540

NOTES TO FINANCIAL STATEMENTS

Note 22 (In Part): Supplemental Cash Flow and Other Information

Cash and Cash Equivalents includes cash on hand and on deposit as well as highly liquid debt instruments with maturities generally of three months or less. Cash payments during the years 1997, 1996 and 1995 included interest of $191, $178 and $183 million and income taxes of $269, $221 and $185 million, respectively.

Investments

INTERNATIONAL FLAVORS & FRAGRANCES INC.
(DEC)

Consolidated Statement of Cash Flows

(Dollars in thousands)	1997	1996	1995
Cash flows from operating activities:			
Net income	$218,229	$189,894	$248,817
Adjustments to reconcile net income to net cash provided by operations:			
Nonrecurring charge	—	49,707	—
Depreciation	50,278	47,764	40,702
Deferred income taxes	8,201	(2,271)	6,444
Changes in assets and liabilities:			
Current receivables	(32,949)	(2,433)	(16,475)
Inventories	(20,524)	30,179	(43,505)
Current payables	11,473	(14,530)	6,121
Other, net	4,440	9,689	2,234
Net cash provided by operations	239,148	307,999	244,338
Cash flows from investing activities:			
Proceeds from sale/maturities of short-term investments	23,056	44,646	160,128
Purchases of short-term investments	(9,851)	(57,289)	(130,780)
Additions to property, plant and equipment, net of minor disposals	(58,211)	(79,425)	(94,483)
Net cash used in investing activities	(45,006)	(92,068)	(65,135)
Cash flows from financing activities:			
Cash dividends paid to shareholders	(157,674)	(150,864)	(138,048)
(Decrease) increase in bank loans	(7,305)	7,144	2,246
Decrease in long-term debt	(2,357)	(2,230)	(2,571)
Proceeds from issuance of stock under stock option plans	15,356	9,622	8,581
Purchase of treasury stock	(70,988)	(59,763)	(41,386)
Net cash used in financing activities	(222,968)	(196,091)	(171,178)
Effect of exchange rate changes on cash and cash equivalents	(15,550)	(9,900)	12,824
Net change in cash and cash equivalents	(44,376)	9,940	20,849
Cash and cash equivalents at beginning of year	261,370	251,430	230,581
Cash and cash equivalents at end of year	$216,994	$261,370	$251,430

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash Equivalents
Highly liquid investments with maturities of three months or less at date of purchase are considered to be cash equivalents.

Note 6 (In Part): Borrowings

Cash payments for interest were $2,330,000 in 1997, $2,688,000 in 1996 and $3,326,000 in 1995.

Note 7 (In Part): Income Taxes

Income taxes paid were $110,594,000 in 1997, $124,435,000 in 1996 and $139,523,000 in 1995.

LOWE'S COMPANIES, INC. (JAN)

Consolidated Statements of Cash Flows

(In thousands)	1998	1997	1996
Cash Flows from Operating Activities:			
Net Earnings	$357,484	$292,150	$226,027
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:			
Depreciation	240,880	198,115	150,011
Amortization of Original Issue Discount	192	1,671	3,601
Increase in Deferred Income Taxes	7,637	17,043	32,924
(Gain) Loss on Disposition/Writedown of Fixed and Other Assets	14,263	9,892	(1,171)
Changes in Operating Assets and Liabilities:			
Accounts Receivable - Net	(846)	(4,079)	(4,269)
Merchandise Inventory	(108,712)	(338,803)	(134,795)
Other Operating Assets	6,732	(4,788)	(3,298)
Accounts Payable	55,610	258,768	(20,037)
Employee Retirement Plans	60,527	59,736	38,196
Other Operating Liabilities	31,103	53,288	16,120
Net Cash Provided by Operating Activities	664,870	542,993	303,309
Cash Flows from Investing Activities:			
(Increase) Decrease in Investment Assets:			
Short-term Investments	25,773	98,754	18,538
Purchases of Long-term Investments	(15,384)	(27,259)	(30,906)
Proceeds from Sale/Maturity of Long-term Investments	4,811	12,203	66,588
(Increase) Decrease in Other Long-term Assets	(5,472)	3,456	(2,656)
Fixed Assets Acquired	(772,792)	(677,160)	(520,362)
Proceeds from the Sale of Fixed and Other Long-term Assets	31,183	11,615	20,856
Net Cash Used in Investing Activities	(731,881)	(578,391)	(447,942)
Cash Flows from Financing Activities:			
Long-term Debt Borrowings	265,795	—	98,959
Net Increase in Short-term Borrowings	17,199	64,288	14,714
Proceeds from Stock Options Exercised	210	—	44
Repayment of Long-term Debt	(32,781)	(17,662)	(25,064)
Cash Dividend Payments	(28,653)	(34,709)	(30,471)
Net Cash Provided by Financing Activities	221,770	11,917	58,182
Net Increase (Decrease) in Cash and Cash Equivalents	154,759	(23,481)	(86,451)
Cash and Cash Equivalents, Beginning of Year	40,387	63,868	150,319
Cash and Cash Equivalents, End of Year	$195,146	$ 40,387	$ 63,868

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and Cash Equivalents. Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less when purchased.

Note 13. (In Part): Other Information

Supplemental Disclosures of Cash Flow Information:

(In thousands)	1997	1996	1995
Cash Paid for Interest (Net of Amounts Capitalized)	$ 74,005	$ 66,350	$55,231
Cash Paid for Income Taxes	$196,144	$125,266	$77,858
Noncash Investing and Financing Activities:			
Fixed Assets Acquired Under Capital Leases	$ 32,738	$182,676	$96,948
Common Stock Issued to ESOP	56,628	43,890	37,222
Common Stock Issued to Executives and Directors, net of Unearned Compensation	6,407	2,030	1,035
Conversion of Debt to Common Stock	—	256,798	2,232
Notes Received in Exchange for Property	600	—	1,450
Notes Issued in Exchange for Property	$ 2,200	$ —	$ —

Loans Receivable

FEDERATED DEPARTMENT STORES, INC. (JAN)

Consolidated Statements of Cash Flows

(Millions)	1998	1997	1996
Cash flows from operating activities:			
Net income	$536	$266	$ 75
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	563	504	445
Amortization of intangible assets	27	27	47
Amortization of financing costs	20	27	22
Amortization of unearned restricted stock	—	2	5
Loss on early extinguishment of debt	39	—	—
Changes in assets and liabilities, net of effects of acquisition:			
(Increase) decrease in accounts receivable	194	223	(21)
(Increase) decrease in merchandise inventories	7	(151)	(362)
(Increase) decrease in supplies and prepaid expenses	(5)	67	(68)
(Increase) decrease in other assets not separately identified	(7)	(12)	61
Increase (decrease) in accounts payable and accrued liabilities not separately identified	(36)	177	(83)
Increase (decrease) in current income taxes	103	2	(45)
Increase in deferred income taxes	138	84	192
Increase (decrease) in other liabilities not separately identified	(6)	4	27
Net cash provided by operating activities	1,573	1,220	295
Cash flows from investing activities:			
Acquisition, net of cash acquired	—	—	14
Purchase of property and equipment	(696)	(846)	(696)
Disposition of property and equipment	178	196	47
Collection of notes receivable	200	—	—
Net cash used by investing activities	(318)	(650)	(633)
Cash flows from financing activities:			
Debt issued	763	689	1,347
Financing costs	(7)	(11)	(27)
Debt repaid	(2,027)	(1,335)	(1,020)
Decrease in outstanding checks	(45)	(65)	(10)
Acquisition of treasury stock	(2)	(1)	(1)
Issuance of common stock	56	129	16
Net cash provided (used) by financing activities	(1,262)	(594)	305
Net decrease in cash	(7)	(24)	(33)
Cash beginning of period	149	173	206
Cash end of period	$142	$149	$ 173
Supplemental cash flow information:			
Interest paid	$412	$465	$ 444
Interest received	38	46	46
Income taxes paid (net of refunds received)	121	21	35
Schedule of noncash investing and financing activities:			
Debt and merger related liabilities issued, reinstated or assumed in acquisition	—	—	1,267
Equity issued in acquisition	—	—	353
Debt and equity issued for purchase of debt	—	—	430

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash includes cash and liquid investments with original maturities of three months or less.

Purchase Method Business Combinations

FLOWSERVE CORPORATION (DEC)

Consolidated Statements of Cash Flows

(Amounts in thousands)	1997	1996	1995
Increase (Decrease) in Cash and Cash Equivalents			
Operating activities:			
Net earnings	$51,565	$71,097	$54,021
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	35,277	33,452	29,803
Amortization	3,656	3,213	4,648
Gain on sale of subsidiary, net of income taxes	(7,417)	—	—
Loss on the sale of fixed assets	33	551	193
Change in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(18,401)	(8,645)	(11,741)
Inventories	(9,943)	(1,565)	(30,532)
Prepaid expenses	(10,287)	(1,014)	(2,184)
Other current assets	(13,232)	103	(332)
Accounts payable	1,574	(7,239)	9,524
Accrued liabilities	48,806	(5,677)	7,776
Income taxes	(2,005)	147	2,031
Postretirement benefits and deferred items	13,195	5,855	(200)
Net deferred taxes	(1,477)	1,901	(1,932)
Other	(1,342)	(3,824)	(3,041)
Net cash flows from operating activities	90,003	88,355	58,034
Investing activities:			
Capital expenditures	(39,560)	(35,691)	(39,928)
Payments for acquisitions, net of cash acquired	(10,461)	(13,240)	(21,523)
Proceeds from sale of subsidiary	18,793	—	—
Other	1,777	(258)	1,618
Net cash flows used by investing activities	(29,451)	(49,189)	(59,833)
Financing activities:			
Net repayments under lines of credit	576	(12,720)	27,277
Payments on long-term debt	(15,760)	(71)	(14,521)
Proceeds from long-term debt	929	36,296	12,061
Repurchase of common stock	—	(27,838)	(41)
Proceeds from issuance of common stock	2,584	2,333	567
Dividends paid	(26,121)	(23,296)	(20,926)
Other	—	134	(2,963)
Net cash flows (used by) from financing activities	(37,792)	(25,162)	1,454
Effect of exchange rate changes	(3,091)	(3,667)	164
Net change in cash and cash equivalents	19,669	10,337	(181)
Cash and cash equivalents at beginning of year	38,933	28,596	28,777
Cash and cash equivalents at end of year	$58,602	$38,933	$28,596
Taxes paid	$27,636	$31,493	$28,084
Interest paid	$13,420	$12,269	$13,039

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (In Part): Significant Accounting Policies

Cash Equivalents

Cash equivalents represent short-term investments with an original maturity of three months or less when purchased which are highly liquid with principal values not subject to significant risk of change due to interest rate fluctuations.

TOSCO CORPORATION (DEC)

Consolidated Statements of Cash Flows

(Thousands of dollars)	1997	1996	1995
Cash flows from operating activities:			
Net income	$212,675	$146,286	$ 77,058
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization of property, plant, and equipment	224,917	124,309	63,345
Amortization of deferred turnaround, intangible assets, and other deferred charges	78,622	60,196	48,104
Deferred income taxes	39,390	32,871	37,105
Inventory writedown	53,000		
Changes in operating assets and liabilities, net:			
Trade accounts receivable	5,575	156,935	(4,996)
Inventories	(304,683)	3,308	(25,842)
Prepaid expenses and other current assets	(25,958)	11,560	(440)
Accounts payable, accrued expenses and other current liabilities	411,908	(87,955)	211,670
Accrued environmental costs and other liabilities	(6,470)	19,572	1,514
Other, net	(2,978)	3,617	(377)
Net cash provided by operating activities	685,998	470,699	407,141
Cash flows from investing activities:			
Purchase of property, plant, and equipment, net	(404,006)	(193,691)	(202,686)
Increase in deferred turnarounds	(104,511)	(21,665)	(48,254)
Increase in deferred charges and other assets	(4,806)	(10,744)	(50,585)
Net change in marketable securities and deposits	(8,449)	(14,138)	1,704
Acquisition of BP Northeast refining and marketing assets		(64,428)	
Acquisition of Circle K, net of cash acquired		(412,096)	
Acquisition of 76 Products assets, net of cash acquired (Note 19)	(1,189,149)		
Proceeds on sale of 76 Products assets	72,689		
Other, net	6,022	(560)	(1,270)
Net cash used in investing activities	(1,632,210)	(717,322)	(301,091)
Cash flows from financing activities:			
Proceeds from note, bond, and debenture offerings	600,000	240,000	125,000
Proceeds from common stock offering, net	697,396		
Proceeds from Trust Preferred Securities offering		300,000	
Net borrowings (repayments) under revolving credit facilities	166,000	(45,000)	(188,000)
Net short-term bank repayments		(20,000)	(21,500)
Payments under long-term debt agreements	(113,699)	(8,157)	(783)
Payments under Circle K pre-acquisition debt	(23,807)	(102,504)	
Repurchase of Unocal shares	(393,708)		
Dividends paid on common stock	(35,918)	(27,356)	(23,719)
Other, net	(9,988)	(15,090)	(1,693)
Net cash provided by (used in) financing activities	888,276	321,893	(110,695)
Net (decrease) increase in cash and cash equivalents	(59,936)	75,270	(4,645)
Cash and cash equivalents at beginning of year	94,418	19,148	23,793
Cash and cash equivalents at end of year	$ 34,482	$ 94,418	$ 19,148

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Summary of Significant Accounting Policies

Cash, Cash Equivalents, Marketable Securities, and Deposits

Cash in excess of operating requirements is used to pay down cash borrowings under the Company's Revolving Credit Facility or invested in highly liquid cash equivalents. Margin deposits, based on a percentage of the value of the futures contracts are maintained with commodity brokers in accordance with the requirements of commodity exchanges. Margin deposits are included in marketable securities and deposits on the balance sheet.

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Debt securities with original maturities of three months or less at the date of purchase are classified as cash equivalents, while debt securities with maturities of twelve months or less from the balance sheet date are included in marketable securities and deposits on the balance sheet.

Note 19. Supplemental Cash Flow Information

(Thousands of dollars)	1997	1996	1995
Cash paid during the year for:			
Interest, net of amounts capitalized	$113,240	$ 87,349	$ 58,263
Income taxes, net of refunds received	105,182	72,213	5,777
Detail of acquisitions:			
Fair value of assets acquired	$2,030,126	$1,598,108	
Liabilities assumed	(444,097)	(794,545)	
Common stock issued	(396,880)	(327,039)	
Net cash paid for acquisitions	1,189,149	476,524	
Cash acquired in acquisitions	2,952	32,466	
Cash paid for acquisitions	$1,192,101	$508,990	

Nonhomogeneous Operations

PFIZER INC. (DEC)

Consolidated Statement of Cash Flows

(Millions of dollars)	1997	1996	1995
Operating Activities			
Net income	$2,213	$1,929	$1,573
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of intangibles	502	430	374
Deferred taxes and other	24	89	64
Changes in assets and liabilities, net of effect of businesses acquired and divested:			
Accounts receivable	(503)	(255)	(290)
Inventories	(375)	(149)	(25)
Prepaid and other assets	(138)	(208)	(171)
Accounts payable and accrued liabilities	(26)	66	320
Income taxes payable	(127)	23	88
Other deferred items	59	142	(112)
Net cash provided by operating activities	1,629	2,067	1,821
Investing Activities			
Purchases of property, plant and equipment	(943)	(774)	(696)
Purchases of short-term investments	(221)	(2,851)	(2,611)
Proceeds from redemptions of short-term investments	29	3,490	2,185
Purchases of long-term investments	(76)	(820)	(151)
Purchases and redemptions of short-term investments by financial subsidiaries	45	(11)	(30)
(Increase)/decrease in loans and long-term investments by financial subsidiaries	(20)	52	330
Acquisitions, net of cash acquired	—	(451)	(1,521)
Proceeds from the sale of businesses	21	353	—
Other investing activities	143	75	151
Net cash used in investing activities	(1,022)	(937)	(2,343)
Financing Activities			
Proceeds from issuances of long-term debt	57	636	502
Repayments of long-term debt	(269)	(804)	(52)
Increase/(decrease) in short-term debt	370	259	(444)
Purchases of common stock	(586)	(27)	(108)
Cash dividends paid	(881)	(771)	(659)
Stock option transactions	411	280	205
Other financing activities	50	45	37
Net cash used in financing activities	(848)	(382)	(519)
Effect of exchange rate changes on cash and cash equivalents	(32)	(1)	(14)
Net increase/(decrease) in cash and cash equivalents	(273)	747	(1,055)
Cash and cash equivalents at beginning of year	1,150	403	1,458
Cash and cash equivalents at end of year	$ 877	$1,150	$ 403
Supplemental Cash Flow Information			
Cash paid during the period for:			
Income taxes	$ 856	$ 709	$ 646
Interest	151	139	175

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

B - Cash Equivalents

Cash equivalents include items almost as liquid as cash, such as demand deposits, certificates of deposit and time deposits with maturity periods of three months or less when purchased. If items meeting this definition are part of a larger investment pool, we classify them as "Short-term investments."

Sale of Subsidiary

BOWNE & CO. INC. (DEC)

Consolidated Statements of Cash Flows

	1997	1996	1995
Cash flows from operating activities:			
Net income	$69,543,000	$42,503,000	$23,286,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	29,669,000	21,247,000	17,852,000
Provision for doubtful accounts	7,871,000	5,208,000	2,771,000
Gain on sale of subsidiary	(35,273,000)	—	—
Gain on disposal of fixed assets	(959,000)	—	—
Gain on sales of securities and other investments	(706,000)	(3,010,000)	(158,000)
Provision for deferred employee compensation	3,729,000	1,229,000	1,242,000
Deferred income taxes	(2,117,000)	(1,740,000)	607,000
Other	4,647,000	101,000	(315,000)
Increase (decrease) in cash resulting from changes in:			
Accounts receivable	(31,010,000)	(47,392,000)	(26,766,000)
Inventories	6,693,000	(6,468,000)	(6,832,000)
Prepaid expenses and other current assets	(3,367,000)	(1,298,000)	1,745,000
Trade payables	(6,585,000)	4,345,000	3,599,000
Employee compensation	12,283,000	9,767,000	4,375,000
Accrued expenses and taxes	3,617,000	6,448,000	6,303,000
Net cash provided by operating activities	58,035,000	30,940,000	27,709,000
Cash flows from investing activities:			
Proceeds from sale of subsidiary	36,679,000	—	—
Proceeds from the sale of fixed assets	3,992,000	—	—
Purchase of other investments	(500,000)	—	—
Acquisition of businesses, net of cash	(40,491,000)	—	—
Purchase of marketable securities and other investments	(1,929,000)	(3,854,000)	(7,840,000)
Proceeds from sales of marketable securities and other investments	1,939,000	16,402,000	4,569,000
Purchase of property, plant and equipment	(35,188,000)	(44,485,000)	(19,954,000)
Net cash used in investing activities	(35,498,000)	(31,937,000)	(23,225,000)
Cash flows from financing activities:			
Advances from demand notes	974,000	—	—
Proceeds from borrowing	20,000,000	—	—
Payment of debt	(22,612,000)	(658,000)	(351,000)
Proceeds from stock options exercised	3,412,000	3,696,000	327,000
Payment of dividends	(6,515,000)	(6,335,000)	(6,260,000)
Purchase of treasury stock	(1,247,000)	(417,000)	(74,000)
Net cash used in financing activities	(5,988,000)	(3,714,000)	(6,358,000)
Net increase (decrease) in cash and cash equivalents	16,549,000	(4,711,000)	(1,874,000)
Cash and cash equivalents—beginning	24,097,000	36,590,000	38,464,000
Cash and Cash Equivalents—End	$40,646,000	$31,879,000	$36,590,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Cash and Cash Equivalents

The Company's policy is to invest cash in excess of operating requirements in income producing investments. Cash equivalents of $25,703,000 and $8,155,000 at December 31, 1997 and 1996, respectively, are carried at cost, which approximates market, and include certificates of deposit and money market accounts, substantially all of which have maturities of three months or less when purchased.

Restricted Assets

USX CORPORATION (DEC)

Consolidated Statement of Cash Flows

(Dollars in millions)	1997	1996	1995
Increase (decrease) in cash and cash equivalents			
Operating activities:			
Net income	$988	$943	$214
Adjustments to reconcile net income to net cash provided from operating activities:			
Extraordinary loss	—	9	7
Depreciation, depletion and amortization	987	1,012	1,160
Exploratory dry well costs	78	54	64
Inventory market valuation charges (credits)	284	(209)	(70)
Pensions	(225)	(187)	(338)
Postretirement benefits other than pensions	(117)	36	12
Deferred income taxes	228	257	(68)
Gain on disposal of the Delhi Companies	(287)	—	—
Gain on disposal of assets	(94)	(71)	(30)
Gain on affiliate stock offering	—	(53)	—
Payment of amortized discount on zero coupon debentures	(17)	—	(129)
Impairment of long-lived assets	—	—	675
Changes in: Current receivables - sold	(390)	—	(10)
- operating turnover	16	(170)	(74)
Inventories	(39)	27	40
Current accounts payable and accrued expenses	91	83	195
All other - net	(45)	(82)	(16)
Net cash provided from operating activities	1,458	1,649	1,632
Investing activities:			
Capital expenditures	(1,373)	(1,168)	(1,016)
Proceeds from sale of the Delhi Companies	752	—	—
Disposal of assets	481	443	157
Withdrawal (deposit) - property exchange trusts	98	(98)	—
Investments in equity affiliates	(249)	(2)	3
Cash restricted for redemption of Delhi Stock	(195)	—	—
All other - net	(3)	26	1
Net cash used in investing activities	(489)	(799)	(855)
Financing activities:			
Commercial paper and revolving credit arrangements - net	41	(153)	(117)
Other debt - borrowings	11	191	52
- repayments	(786)	(711)	(446)
Preferred stock redeemed	—	—	(105)
Common stock - issued	82	53	218
- repurchased	—	—	(1)
Dividends paid	(316)	(307)	(295)
Net cash used in financing activities	(968)	(927)	(694)
Effect of exchange rate changes on cash	(2)	1	—
Net increase (decrease) in cash and cash equivalents	(1)	(76)	83
Cash and cash equivalents at beginning of year	55	131	48
Cash and cash equivalents at end of year	$ 54	$ 55	$ 131

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Principal Accounting Policies

Cash and Cash Equivalents. Cash and cash equivalents include cash on hand and on deposit and highly liquid debt instruments with maturities generally of three months or less.

3 (In Part): Discontinued Operations

Effective October 31, 1997, USX sold its stock in Delhi Gas Pipeline Corporation and other subsidiaries of USX that comprise all of the Delhi Group (Delhi Companies). The transaction involved a gross purchase price of $762 million. Under the USX Restated Certificate of Incorporation (USX Certificate), USW was required to elect one of three options to return the value of the net proceeds received in the transaction to the holders of shares in USX—Delhi Group Common Stock (Delhi shareholders). Of the three options, USX elected to use the net proceeds of $195 million, or $20.60 per share, to redeem all shares of Delhi Stock. The net proceeds were distributed to the Delhi shareholders on January 26, 1998.

20. Supplemental Cash Flow Information

(In millions)	1997	1996	1995
Cash used in operating activities included:			
Interest and other financial costs paid			
(net of amount capitalized)	$(382)	$ (488)	$ (605)
Income taxes paid	(400)	(127)	(170)
Commercial paper and revolving credit arrangements - net:			
Commercial paper - issued	$ —	$1,422	$2,434
- repayments	—	(1,555)	(2,651)
Credit agreements - borrowings	10,454	10,356	4,719
- repayments	(10,449)	(10,340)	(4,659)
Other credit arrangements - net	36	(36)	40
Total	$ 41	$ (153)	$ (117)
Noncash investing and financing activities:			
Common stock issued for dividend reinvestment			
and employee stock plans	$ 10	$ 6	$ 21
Acquisition of assets - debt issued	—	2	—
Disposal of assets - notes and common stock received	—	12	9
- liabilities assumed by buyers	240	25	—
Trust preferred securities exchanged for preferred stock	182	—	—

CASH FLOWS FROM FINANCING ACTIVITIES

Paragraphs 18-20 of *SFAS No. 95* define those transactions and events which constitute financing cash receipts and payments. With the exception of certain transactions described in paragraphs 12-13 of *SFAS No. 95* and paragraph 7 of *SFAS No. 104,* which amends *SFAS No. 95,* cash receipts and payments should be reported separately and not netted. Examples of reporting cash flows from financing activities follow.

Capital Stock Proceeds/Payments

LAM RESEARCH CORPORATION (JUN)

Consolidated Statements of Cash Flows

(In thousands)	1997	1996	1995
Cash flows from operating activities:			
Net income (loss)	$ (33,634)	$ 141,091	$ 89,211
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	53,109	33,756	23,532
Deferred income taxes	(24,437)	(21,519)	(12,529)
Changes in certain working capital accounts:			
Accounts receivable	39,044	(61,085)	(75,356)
Inventories	60,930	(150,965)	(55,832)
Prepaid expenses and other assets	(19,354)	(3,968)	(19,240)
Trade accounts payable	778	30,341	16,415
Accrued expenses and other liabilities	3,730	58,960	52,895
Total adjustments	113,800	(114,480)	(70,115)
Net cash provided by operating activities	80,166	26,611	19,096
Cash flows from investing activities:			
Net capital expenditures	(39,548)	(66,588)	(63,405)
Purchase of available-for-sale securities	(589,223)	(405,819)	(348,204)
Sale of available-for-sale securities	618,308	420,572	289,968
Proceeds from the sale of securities	—	12,038	—
Other	(11,695)	(7,947)	(3,026)
Net cash used in investing activities	(22,158)	(47,744)	(124,667)
Cash flows from financing activities:			
Proceeds from borrowings under line of credit	95,000	40,000	—
Repayment of borrowings under line of credit	(85,000)	(15,000)	—
Proceeds from issuance of long-term debt	2,956	21,873	9,468
Principal payments on long-term debt and capital lease obligations	(21,564)	(13,987)	(6,406)
Proceeds from issuance of Common Stock	13,446	7,451	122,092
Net cash provided by financing activities	4,838	40,337	125,154
Net increase in cash and cash equivalents	62,846	19,204	19,583
Cash and cash equivalents at beginning of year	62,879	43,675	24,092
Cash and cash equivalents at end of year	$125,725	$ 62,879	$ 43,675
Cash payments for interest	$ 5,198	$ 8,574	$ 6,614
Cash payments for income taxes	$ 31,341	$ 74,666	$ 31,319

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash Equivalents

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

THE QUAKER OATS COMPANY (DEC)

Consolidated Statements of Cash Flows

(Dollars in millions)	1997	1996	1995
Cash Flows from Operating Activities:			
Net (loss) income	$(930.9)	$ 247.9	$ 724.0
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	161.4	200.6	204.0
Deferred income taxes	(12.0)	14.3	22.5
Loss (gains) on divestitures—net of tax of $(269.0), $54.6 and $476.2 in 1997, 1996 and 1995, respectively	1,151.4	(81.8)	(694.6)
Restructuring charges	65.9	23.0	117.3
Asset impairment loss	39.8	—	—
Loss on disposition of property and equipment	41.6	29.0	27.4
(Increase) decrease in trade accounts receivable	(61.0)	62.6	43.7
(Increase) decrease in inventories	(24.5)	19.6	44.8
(Increase) decrease in other current assets	(11.6)	65.1	(76.0)
(Decrease) increase in trade accounts payable	(3.2)	(53.7)	49.8
Increase (decrease) in other current liabilities	9.8	(164.2)	(117.0)
Change in deferred compensation	20.1	21.5	21.4
Other items	43.2	26.5	39.8
Net Cash Provided by Operating Activities	490.0	410.4	407.1
Cash Flows from Investing Activities:			
Additions to property, plant and equipment	(215.7)	(242.7)	(301.2)
Business acquisitions	—	—	(57.3)
Business divestitures—net of tax of $54.6 and $476.2 in 1996 and 1995, respectively	300.0	174.4	1,278.7
Change in other assets	—	0.2	4.2
Net Cash Provided by (Used in) Investing Activities	84.3	(68.1)	924.4
Cash Flows from Financing Activities:			
Cash dividends	(159.4)	(157.0)	(154.8)
Change in short-term debt	(452.9)	(124.5)	(1,243.5)
Proceeds from long-term debt	8.3	2.4	212.6
Reduction of long-term debt	(54.4)	(77.7)	(60.0)
Proceeds from short-term debt to be refinanced	—	—	(112.0)
Issuance of common treasury stock	121.2	31.0	20.4
Repurchases of common stock	(50.0)	—	—
Repurchases of preferred stock	(6.2)	(5.5)	(5.7)
Net Cash Used in Financing Activities	(593.4)	(331.3)	(1,343.0)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(7.2)	6.3	1.7
Net (Decrease) Increase in Cash and Cash Equivalents	(26.3)	17.3	(9.8)
Cash and Cash Equivalents - Beginning of Period	110.5	93.2	103.0
Cash and Cash Equivalents - End of Period	$ 84.2	$ 110.5	$ 93.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and Cash Equivalents. Cash equivalents are composed of all highly liquid investments with an original maturity of three months or less. As a result of the Company's cash management system, checks issued but not presented to the banks for payment may create negative book cash balances. Such negative balances are included in trade accounts payable and amounted to $45.1 million and $45.5 million as of December 31, 1997 and 1996, respectively.

Note 14 (In Part): Interest Expense

Interest paid in the years ended December 31, 1997, 1996 and 1995 was $83.2 million, $109.0 million and $129.9 million, respectively.

Note 15 (In Part): Income Taxes

Included in other current assets were deferred tax assets of $90.5 million and $99.9 million as of December 31, 1997 and 1996, respectively. Income taxes paid during 1997, 1996 and 1995 were $92.9 million, $161.1 million and $434.7 million, respectively.

Debt Proceeds/Repayments

FEDDERS CORPORATION (AUG)

Consolidated Statements of Cash Flows

(Amounts in thousands, except per share data)	1997	1996	1995
Operating activities:			
Net income	$18,764	$31,158	$29,504
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	9,935	6,578	7,519
Tax benefit related to stock options exercised	479	437	2,900
Deferred income taxes	504	(1,717)	(5,406)
Changes in operating assets and liabilities (excluding the effect of acquired operations in 1996):			
Accounts receivable	(1,085)	4,402	3,993
Inventories	(9,441)	(7,856)	(10,972)
Other current assets	(5,551)	(628)	(219)
Other assets	(335)	(568)	175
Income taxes payable	(5,364)	6,243	8,373
Accounts payable	(5,923)	(2,887)	276
Accrued expenses	(6,973)	3,784	6,617
Other long-term liabilities	(3,288)	3,151	1,643
Other	(548)	(226)	184
Net cash (used in) provided by operations	(8,826)	41,871	44,587
Investing activities:			
Additions to property, plant and equipment	(9,236)	(7,043)	(9,041)
Disposal of property, plant and equipment	428	535	521
Net cash used in investing activities	(8,808)	(6,508)	(8,520)
Financing activities:			
Net proceeds from issuance of 9 3/8% senior subordinated notes	96,025	—	—
Repayment and redemption of 8 1/2% convertible subordinated debentures	(22,806)	—	—
Repayments of NYCOR, Inc. short-term borrowing	—	(3,000)	—
Repayments of long-term debt	(1,992)	(695)	(13,866)
Proceeds from stock options exercised	1,727	1,868	692
Net proceeds from (repayments of) Fedders Xinle financing	(168)	6,299	—
Repayment of Fedders Xinle short-term debt	—	(3,396)	—
Cash dividends	(5,605)	(3,252)	(797)
Purchase of Class A Stock	(25,041)	—	—
Purchase of Preferred Stock	(4,408)	—	—
Expenses related to NYCOR, Inc. merger	—	(599)	—
Proceeds from notes due on common stock purchases	—	—	742
Net cash provided by (used in) financing activities	37,732	(2,775)	(13,229)
Net increase in cash and cash equivalents	20,098	32,588	22,838
Cash and cash equivalents at beginning of year	90,295	57,707	34,869
Cash and cash equivalents at end of year	$110,393	$90,295	$57,707
Supplemental disclosures:			
Net interest paid	$3,406	$2,249	$ 1,904
Net income taxes paid	14,090	13,513	492
Non-cash investing and financing activities:			
The issuance of 7,643 shares of Convertible Preferred Stock at a price of $6.25 per share in exchange for all outstanding shares of Common, Class A and Class B stock of NYCOR, Inc.	—	$47,769	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

INLAND STEEL INDUSTRIES, INC. (DEC)

Consolidated Statement of Cash Flows

(Dollars in millions)	1997	1996	1995
Operating Activities			
Net income	$119.3	$ 45.7	$146.8
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation	157.9	147.0	143.1
Deferred income taxes	51.1	27.5	79.2
Deferred employee benefit cost	(27.1)	24.2	(23.5)
Stock issued for coverage of employee benefit plans	21.8	22.6	23.9
Gain from sale of assets	(17.9)	—	—
Gain from issuance of subsidiary stock	—	(31.4)	—
Workforce reduction provision	—	26.3	—
Cokemaking project advance	(30.0)	—	—
Change in: Receivables	(11.4)	23.8	15.1
Inventories	(52.3)	(33.6)	(31.5)
Accounts payable	.8	7.0	(34.8)
Accrued salaries and wages	3.1	(11.4)	(.4)
Other accrued liabilities	(9.7)	(18.9)	29.6
Other items	(38.0)	(47.5)	(17.3)
Net adjustments	48.3	135.6	183.4
Net cash provided from operating activities	167.6	181.3	330.2
Investing Activities			
Capital expenditures	(139.7)	(180.9)	(134.6)
Acquisitions	(139.9)	—	—
Investments in and advanced to joint ventures, net	15.3	18.2	16.4
Proceeds from sales of assets	34.3	5.9	3.6
Net cash used for investing activities	(230.0)	(156.8)	(114.6)
Financing Activities			
Issuance of subsidiary stock	—	77.1	—
Long-term debt issued	51.3	284.9	16.8
Long-term debt retired	(77.1)	(391.2)	(36.5)
Reduction of debt assumed in acquisitions	(25.3)	—	—
Dividends paid	(20.8)	(21.0)	(31.6)
Acquisition of treasury stock	(6.7)	(3.7)	(4.0)
Net cash used for financing activities	(78.6)	(53.9)	(55.3)
Net increase (decrease) in cash and cash equivalents	(141.0)	(29.4)	160.3
Cash and cash equivalents—beginning of year	238.0	267.4	107.1
Cash and cash equivalents—end of year	$ 97.0	$238.0	$267.4
Supplemental Disclosures			
Cash paid during the year for:			
Interest (net of amount capitalized)	$ 64.7	$ 67.0	$ 65.4
Income taxes, net	27.5	8.6	9.4
Non-cash activities:			
Reduction of deferred employee benefits resulting from contribution of common stock to the Company's Pension Trust	—	—	100.0
Series F Preferred Stock exchanged for Subordinated Voting Note	—	—	185.0

SUMMARY OF ACCOUNTING AND FINANCIAL POLICIES

Cash Equivalents.

Cash equivalents reflected in the Statement of Cash Flows are highly liquid, short-term investments with maturities of three months or less that are an integral part of the Company's cash management portfolio.

Capital Lease Obligations

THE GREAT ATLANTIC & PACIFIC TEA
COMPANY, INC. (FEB)

Statements of Consolidated Cash Flows

(Dollars in thousands)	1997	1996	1995
Cash Flows from Operating Activities:			
Net income (loss)	$ 73,032	$ 57,224	$(171,536)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Write-off of goodwill and long-lived assets	—	—	127,000
Cumulative effect on prior years of change in accounting principle:			
Postemployment benefits	—	—	4,950
Depreciation and amortization	230,748	225,449	235,444
Deferred income tax provision (benefit) on income (loss) before cumulative effect of accounting change	(1,067)	9,496	20,836
(Gain) loss on disposal of owned property	1,338	(3,177)	(816)
(Increase) decrease in receivables	(5,615)	556	(15,197)
(Increase) decrease in inventories	(53,672)	(13,103)	34,048
(Increase) decrease in prepaid expenses and other current assets	6,401	(573)	(1,341)
Increase in other assets	(26,753)	(12,066)	(3,925)
Increase (decrease) in accounts payable	15,950	3,944	(9,996)
Increase (decrease) in accrued expenses	(2,657)	(4,251)	1,295
Increase (decrease) in store closing accruals	(8,600)	(18,240)	2,012
Increase (decrease) in other accruals and other liabilities	(13,307)	16,518	(43,603)
Other operating activities, net	271	193	2,169
Net cash provided by operating activities	216,069	261,970	181,340
Cash Flows from Investing Activities:			
Expenditures for property	(296,878)	(236,139)	(214,886)
Proceeds from disposal of property	19,408	34,576	12,113
Net cash used in investing activities	(277,470)	(201,563)	(202,773)
Cash Flows from Financing Activities:			
Changes in short-term debt	25,903	25,598	(30,912)
Proceeds under revolving lines of credit and long-term borrowings	126,445	594,613	229,447
Payments on revolving lines of credit and long-term borrowings	(96,804)	(683,442)	(93,085)
Principal payments on capital leases	(13,166)	(17,953)	(15,923)
Increase (decrease) in book overdrafts	24,901	(1,075)	(37,720)
Proceeds from stock options exercised	657	—	—
Cash dividends	(7,644)	(7,644)	(24,843)
Net cash provided by (used in) financing activities	60,292	(89,903)	26,964
Effect of exchange rate changes on cash and short-term investments	167	338	(837)
Net Increase (Decrease) in Cash and Short-term Investments	(942)	(29,158)	4,694
Cash and Short-term Investments at Beginning of Year	99,772	128,930	124,236
Cash and Short-term Investments at End of Year	$ 98,830	$ 99,772	$ 128,930

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part):

Cash and Short-term Investments

Short-term investments that are highly liquid with an original maturity of three months or less are included in cash and short-term investments and are deemed to be cash equivalents.

Indebtedness (In Part):

Maturities for the next five fiscal years and thereafter are: 1997—$218 million ($200 million of which is expected to be refinanced); 1998—$40 million; 1999—$54 million; 2000—$194 million; 2001—$3 million; 2002 and thereafter—$211 million. Interest payments on indebtedness were approximately $49 million for fiscal 1996, $54 million for fiscal 1995 and $52 million for fiscal 1994.

Income Taxes (In Part):

Income tax payments, net of refunds, for fiscal 1996, 1995 and 1994 were approximately $13, $19 and $12 million, respectively.

Overdraft

ANALOGIC CORPORATION (JUL)

Consolidated Statements of Cash Flows

(000 omitted)	1997	1996	1995
Cash flows from operating activities:			
Net income	$20,090	$13,065	$12,706
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	(3,153)	177	255
Depreciation	5,805	6,203	6,365
Amortization of capitalized software	3,115	2,325	2,355
Amortization of excess of cost over net acquired assets	204	306	317
Amortization of excess of acquired net assets over cost	(645)	(542)	(533)
Amortization of other assets (deferred charges)	32	(32)	39
Minority interest in net income (losses) of consolidated subsidiaries	1,270	(1,146)	518
Provision for losses on accounts receivable	(56)	65	21
Provision for loss on marketable securities	1,742		
Gain on sale of marketable securities			(1,736)
Gain on sale of equipment	(62)	(40)	(34)
Equity in loss of unconsolidated affiliates	2,374	821	
Compensation from stock grants	664	759	731
Changes in operating assets and liabilities			
Decrease (increase) in assets:			
Accounts and notes receivable	(5,766)	(1,403)	(8,561)
Inventories	2,432	(3,945)	(5,118)
Prepaid expenses and other current assets	(124)	399	(305)
Other assets	(21)	(426)	(17)
Increase (decrease) in liabilities:			
Accounts payable, trade	1,746	(1,029)	4,899
Accrued expenses and other current liabilities	2,022	(715)	816
Accrued income taxes	1,735	412	627
Total adjustments	13,314	2,189	639
Net cash provided by operating activities	33,404	15,254	13,345
Cash flows from investing activities:			
Investments in and advances to affiliated companies	(1,340)	(2,376)	(143)
Additions to property, plant and equipment	(6,301)	(6,233)	(8,217)
Capitalized software	(1,480)	(1,985)	(3,524)
Proceeds from sale of property, plant and equipment	67	119	55
Purchases of marketable securities	(19,460)	(21,650)	(24,062)
Maturities of marketable securities	10,352	26,627	10,475
Proceeds from sale of marketable securities			2,300
Net cash used by investing activities	(18,162)	(5,498)	(23,116)
Cash flows from financing activities:			
Proceeds from overdraft facility	(3,305)	3,305	
Payments on debt and capital lease obligations	(780)	(758)	(2,331)
Purchase of common stock for treasury		(345)	(325)
Purchase of common stock of majority owned subsidiary		(160)	(582)
Issuance of common stock pursuant to stock options and employee stock purchase plan	1,421	803	546
Dividends paid to shareholders	(2,508)	(2,242)	(992)
Purchase of minority interest		(3,416)	
Net cash used by financing activities	(5,172)	(2,813)	(3,684)
Effect of exchange rate changes on cash	(3,156)	(1,307)	2,288
Net increase (decrease) in cash and cash equivalents	6,914	5,636	(11,167)
Cash and cash equivalents, beginning of year	18,040	12,404	23,571
Cash and cash equivalents, end of year	$24,954	$18,040	$12,404

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

(i) Cash and Cash Equivalents:
The Company considers all short-term deposits with an original maturity of three months or less at acquisition date to be cash equivalents. Cash equivalents amounted to approximately $23,956,000 and $16,382,000 at July 31, 1997 and 1996, respectively.

14. Supplemental Disclosure of Cash Flow Information:

During fiscal years 1997, 1996 and 1995, interest paid amounted to $745,000, $970,000 and $1,371,000, respectively.

Income taxes paid during fiscal years 1997, 1996 and 1995 amounted to $8,103,000, $3,040,000 and $2,802,000, respectively.

Restricted Funds

DEAN FOODS COMPANY (MAY)

Consolidated Statements of Cash Flows

(In thousands)	1997	1996	1995
Cash flows from operations			
Net income (loss)	$ 86,704	$ (49,688)	$ 80,059
Adjustments to reconcile net income (loss) to net cash provided from operations:			
Depreciation and amortization	74,063	77,048	70,027
Deferred income taxes	15,822	(44,005)	6,641
Other long-term deferred liabilities	5,243	6,143	1,757
Special charge	—	150,000	—
(Increase) decrease in working capital items, net of acquisitions:			
Accounts and notes receivable	(17,295)	(4,172)	(11,591)
Inventories and other current assets	16,431	10,669	(35,217)
Accounts payable and accrued expenses	12,558	(6,877)	20,635
Federal and state income taxes	9,044	(7,478)	2,770
Other	(733)	(2,405)	(7,012)
Net cash provided from operations	201,837	129,235	128,069
Cash flows from investing activities			
Capital expenditures	(70,674)	(89,799)	(83,280)
Proceeds from dispositions of property, plant and equipment	2,794	621	3,153
Acquisitions of businesses, net of cash acquired	(16,332)	(66,053)	(35,273)
Proceeds from businesses divested	2,000	1,399	—
Net cash used in investing activities	(82,212)	(153,832)	(115,400)
Cash flows from financing activities			
Issuance of long-term obligations	8,200	9,799	100,861
Repayment of long-term obligations	(14,130)	(12,056)	(7,218)
Issuance (repayment) of notes payable to banks, net	(89,000)	63,000	(93,000)
Unexpended industrial revenue bond proceeds	(4,662)	(3,608)	211
Cash dividends paid	(30,113)	(28,474)	(26,744)
Issuance of common stock	4,064	1,509	7,083
Issuance (purchase) of treasury stock	3	—	(3)
Net cash provided by (used in) financing activities	(125,638)	30,170	(18,810)
Increase (decrease) in cash and temporary cash investments	(6,013)	5,573	(6,141)
Cash and temporary cash investments—beginning of year	10,399	4,826	10,967
Cash and temporary cash investments—end of year	$ 4,386	$ 10,399	$ 4,826

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands)

1 (In Part): Summary of Accounting Policies

Cash and Temporary Cash Investments
The Company considers temporary cash investments with an original maturity of three months or less to be cash equivalents.

12. Cash Flow Data

Interest and taxes paid included in the Company's cash flow from operations were as follows:

	1997	1996	1995
Interest paid	$25,370	$25,363	$22,579
Taxes paid	27,217	39,687	54,752

Liabilities assumed in conjunction with business acquisitions were:

	1997	1996	1995
Fair value of assets acquired	$ 31,172	$ 67,574	$ 35,908
Consideration paid	(16,332)	(66,053)	(35,273)
Liabilities assumed	$ 14,840	$ 1,521	$ 635

Dividend Payments

TEXACO INC. (DEC)

Statement of Consolidated Cash Flows

(Millions of dollars)	1997	1996	1995
Operating Activities			
Net income	$2,664	$2,018	$ 607
Reconciliation to net cash provided by (used in) operating activities			
Cumulative effect of accounting change	—	—	121
Depreciation, depletion and amortization	1,633	1,455	2,385
Deferred income taxes	451	(20)	(102)
Exploratory expenses	471	379	289
Minority interest in net income	68	72	54
Dividends from affiliates, greater than (less than) equity in income	(370)	167	(103)
Gains on asset sales	(558)	(19)	(320)
Changes in operating working capital			
Accounts and notes receivable	718	(1,072)	(766)
Inventories	(56)	(104)	(29)
Accounts payable and accrued liabilities	(856)	716	(116)
Other—mainly estimated income and other taxes	(64)	97	(44)
Other—net	(186)	73	146
Net cash provided by operating activities	3,915	3,762	2,122
Investing Activities			
Capital and exploratory expenditures	(3,628)	(2,897)	(2,386)
Proceeds from asset sales	1,036	125	1,150
Proceeds from sale of discontinued operations, net of cash and cash equivalents sold	—	344	—
Sales (purchases) of leasehold interests	(503)	261	248
Purchases of investment instruments	(1,102)	(1,668)	(1,238)
Sales/maturities of investment instruments	1,096	1,816	1,273
Other—net	(57)	70	12
Net cash used in investing activities	(3,158)	(1,949)	(941)
Financing Activities			
Borrowings having original terms in excess of three months			
Proceeds	507	307	313
Repayments	(637)	(802)	(358)
Net increase (decrease) in other borrowings	628	(143)	(137)
Issuance of preferred stock by subsidiaries	—	—	65
Purchases of common stock	(382)	(159)	(4)
Dividends paid to the company's stockholders			
Common	(918)	(859)	(832)
Preferred	(55)	(58)	(60)
Dividends paid to minority stockholders	(81)	(87)	(55)
Other—net	—	—	(2)
Net cash used in financing activities	(938)	(1,801)	(1,070)
Effect of exchange rate changes	(19)	(2)	(14)
Cash and Cash Equivalents			
Increase (decrease) during year	(200)	10	97
Beginning of year	511	501	404
End of year	$ 311	$ 511	$ 501

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are generally considered to be cash equivalents.

Note 9. (In Part): Short-Term Debt, Long-Term Debt, Capital Lease Obligations and Related Derivatives

The percentages shown for variable-rate debt are the interest rates at December 31, 1997. The percentages shown for the categories, "Medium-term notes" and "Other long-term debt" are the weighted average interest rates at year-end 1997. Where applicable, principal amounts shown in the preceding schedule include unamortized premium or discount. Interest paid, net of amounts capitalized, amounted to $395 million in 1997, $433 million in 1996 and $482 million in 1995.

Note 13. (In Part): Taxes

Income taxes paid, net of refunds, amounted to $285 million, $917 million and $554 million in 1997, 1996 and 1995, respectively.

Nonhomogeneous Operations

PHILIP MORRIS COMPANIES INC. (DEC)

Consolidated Statements of Cash Flows

(In millions of dollars)	1997	1996	1995
Cash Provided By (Used in) Operating Activities			
Net earnings—Consumer products	$6,152	$6,180	$5,345
—Financial services and real estate	158	123	105
Net earnings	6,310	6,303	5,450
Adjustments to reconcile net earnings to operating cash flows:			
Consumer products			
Depreciation and amortization	1,700	1,691	1,671
International food realignment	630		
Deferred income tax (benefit) provision	(188)	163	15
Gain on sale of Brazilian ice-cream businesses	(774)		
Gains on sales of other businesses	(196)	(320)	(275)
Cumulative effect of accounting changes			46
Cash effects of changes, net of the effects from acquired and divested companies:			
Receivables, net	(168)	35	(466)
Inventories	(531)	(952)	(5)
Accounts payable	37	60	(260)
Income taxes	48	373	266
Other working capital items	726	(448)	(482)
Other	582	467	354
Financial services and real estate			
Deferred income tax provision	257	224	299
Gain on sale of business	(103)		
Other	10	38	74
Net cash provided by operating activities	8,340	7,634	6,687

Cash Provided By (Used in) Investing Activities			
Consumer products			
Capital expenditures	(1,874)	(1,782)	(1,621)
Purchase of businesses, net of acquired cash	(630)	(616)	(217)
Proceeds from sales of businesses	1,784	612	2,202
Other	42	(47)	17
Financial services and real estate			
Investments in finance assets	(652)	(439)	(613)
Proceeds from finance assets	287	217	123
Proceeds from sale of business	424		
Net cash used in investing activities	(619)	(2,055)	(109)
Cash Provided By (Used in) Financing Activities			
Consumer products			
Net repayment of short-term borrowings	(1,482)	(1,119)	(21)
Long-term debt proceeds	2,893	2,699	564
Long-term debt repaid	(1,987)	(1,979)	(1,302)
Financial services and real estate			
Net (repayment) issuance of short-term borrowings	(173)	(498)	67
Long-term debt proceeds	174	363	
Long-term debt repaid	(387)		(139)
Repurchase of outstanding stock	(805)	(2,770)	(2,111)
Dividends paid	(3,885)	(3,462)	(2,939)
Issuance of shares	205	448	291
Stock rights redemption			(9)
Other	(74)	(88)	(28)
Net cash used in financing activities	(5,521)	(6,406)	(5,627)
Effect of exchange rate changes on cash and cash equivalents	(158)	(71)	3
Cash and cash equivalents:			
Increase (decrease)	2,042	(898)	954
Balance at beginning of year	240	1,138	184
Balance at end of year	$2,282	$ 240	$1,138
Cash paid: Interest—Consumer products	$1,219	$1,244	$1,293
—Financial services and real estate	$ 79	$ 95	$ 89
Income taxes	$3,794	$3,424	$3,067

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and Cash Equivalents:
Cash equivalents include demand deposits with banks and all highly liquid investments with original maturities of three months or less.

Issuance Of Subsidiary Stock

ULTRAMAR DIAMOND SHAMROCK
CORPORATION (DEC)

Consolidated Statements of Cash Flows

(In millions)	1997	1996	1995
Cash Flows from Operating Activities:			
Net income (loss)	$ 154.8	$ (35.9)	$ 117.0
Adjustment to reconcile net income (loss)			
to net cash provided by operating activities:			
Depreciation and amortization	200.1	179.9	136.3
Provision for losses on receivables	14.9	13.6	13.8
(Gain) loss on sale of property, plant and equipment	(11.4)	0.2	(1.2)
Deferred income tax provision (benefit)	104.8	(45.7)	39.3
Other, net	3.4	1.0	(19.6)
Changes in operating assets and liabilities, net of acquisition:			
Decrease (increase) in accounts and notes receivable	25.6	(119.9)	3.1
Decrease (increase) in inventories	46.5	31.7	(32.1)
(Decrease) increase in accounts payable and other current liabilities	(221.5)	213.9	31.2
(Decrease) increase in other long-term liabilities	(57.0)	20.0	(46.5)
Other, net	(25.0)	34.8	4.2
Net cash provided by operating activities	235.2	293.6	245.5
Cash Flows from Investing Activities:			
Capital expenditures	(247.1)	(315.2)	(474.6)
Acquisition of Total, net of cash acquired	(402.4)	—	—
Acquisition of marketing operations	(20.8)	(27.9)	(163.5)
Deferred refinery maintenance turnaround costs	(25.6)	(11.5)	(12.4)
Expenditures for investments	(11.9)	(5.2)	(2.7)
Proceeds from sales of property, plant and equipment	93.8	51.6	16.6
Net cash used in investing activities	(614.0)	(308.2)	(636.6)
Cash Flows from Financing Activities:			
Proceeds from issuance of Common Stock	5.5	14.0	128.0
Net change in commercial paper and short-term borrowings	(189.2)	—	—
Proceeds from long-term debt borrowings	415.9	578.9	790.0
Repayment of long-term debt	(68.3)	(490.5)	(375.9)
Issuance of Company obligated preferred stock of subsidiary	200.0	—	—
Payment of cash dividends	(89.8)	(69.8)	(64.6)
Other, net	(2.2)	5.2	6.1
Net cash provided by financing activities	271.9	37.8	483.6
Effect of exchange rate changes on cash	1.0	(0.8)	0.5
Net (Decrease) Increase in Cash and Cash Equivalents	(105.9)	22.4	93.0
Cash and Cash Equivalents at Beginning of Year	197.9	175.5	82.5
Cash and Cash Equivalents at End of Year	$ 92.0	$197.9	$175.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and Cash Equivalents
The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Note 10 (In Part): Notes Payable and Long-Term Debt

Interest payments totaled $125.7 million, $122.8 million and $96.8 million for the years ended December 31, 1997, 1996 and 1995, respectively.

Note 11. Company Obligated Preferred Stock of Subsidiary

On June 25, 1997, UDS Capital I (the Trust), a Delaware business trust, issued $200.0 million of 8.32% perpetual Trust Originated Preferred Securities (TOPrS) in an underwritten public offering. Distributions on the TOPrS are

cumulative and payable quarterly in arrears, at the annual rate of 8.32% of the liquidation amount.

The TOPrS were issued by the Trust using a partnership, UDS Funding I, L.P., and both entities are wholly-owned by the Company. The Company has fully and unconditionally guaranteed, on a subordinated basis, the dividend payments due on the TOPrS if and when declared. The proceeds from the issuance of the TOPrS were used to reduce long-term debt of the Company.

Note 14 (In Part): Income Taxes

Income taxes paid in the years ended December 31, 1997, 1996 and 1995, amounted to $16.8 million, $9.6 million and $19.0 million, respectively.

Termination of Interest Rate Swap Agreements

SEARS, ROEBUCK AND CO. (DEC)

Consolidated Statements Of Cash Flows

(Millions)	1997	1996	1995
Cash Flows From Operating Activities			
Net income	$1,188	$1,271	$1,801
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation, amortization and other noncash items	807	774	631
Provision for uncollectible accounts	1,532	971	589
Gain on sales of property and investments	(122)	(36)	(35)
Change in (net of acquisitions):			
Deferred income taxes	273	(31)	50
Retained interest in transferred credit card receivables	(1,056)	3,318	(2,036)
Credit card receivables	(2,285)	(5,739)	(534)
Merchandise inventories	(475)	(475)	30
Other operating assets	(160)	111	(106)
Other operating liabilities	(258)	1,025	801
Discontinued operations	—	—	(776)
Net Cash (Used in) Provided by Operating Activities	(556)	1,189	415
Cash Flows from Investing Activities			
Acquisition of businesses, net of cash acquired	(138)	(296)	(53)
Proceeds from sales of property and investments	394	42	41
Purchases of property and equipment	(1,328)	(1,189)	(1,183)
Discontinued operations	—	—	483
Net Cash Used in Investing Activities	(1,072)	(1,443)	(712)
Cash Flows from Financing Activities			
Proceeds from long-term debt	3,920	4,683	2,588
Repayments of long-term debt	(3,299)	(1,832)	(1,124)
Increase (decrease) in short-term borrowings, primarily 90 days or less	1,834	(1,814)	(637)
Termination of interest rate swap agreements	(633)	—	—
Repayments of ESOP loans	16	21	44
Preferred stock redemption	—	(325)	—
Common shares purchased for employee stock plans	(170)	(164)	—
Common shares issued for employee stock plans	103	134	97
Dividends paid to shareholders	(441)	(394)	(607)
Net Cash Provided by Financing Activities	1,330	309	361
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(4)	(1)	(6)
Net (Decrease) Increase in Cash and Cash Equivalents	(302)	54	58
Balance at Beginning of Year	660	606	548
Balance at End of Year	$ 358	$ 660	$ 606

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash and Cash Equivalents
Cash equivalents include all highly liquid investments with maturities of three months or less at date of purchase.

4 (In Part): Income Taxes

Income taxes of $886, $386, and $616 million were paid in 1997, 1996, and 1995, respectively.

6 (In Part): Borrowings

The Company paid interest of $1.4 billion for the year ended Jan. 3, 1998 and $1.3 billion for the years ended Dec. 28, 1996 and Dec. 30, 1995. Interest capitalized was $3, $5 and $4 million for the years ended Jan. 3, 1998, Dec. 28, 1996, and Dec. 30, 1995, respectively.

8 (In Part): Financial Instruments

During 1997, the Company paid $633 million to terminate two interest rate swaps. The deferred loss related to these terminations was $464 million at Jan. 3, 1998 and will be amortized over the remaining lives of the original swap period.

FOREIGN CURRENCY CASH FLOWS

Paragraph 25 of *SFAS No. 95* specifies that the effect of exchange rate changes on cash balances held in foreign currencies be reported as a separate part of the Statement of Cash Flows. An example of reporting foreign currency cash flows follows.

REEBOK INTERNATIONAL INC. (DEC)

Consolidated Statements of Cash Flows

(Amounts in thousands)	1997	1996	1995
Cash Flows from Operating Activities:			
Net income	$135,119	$138,950	$164,798
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	47,423	42,927	39,579
Minority interest	10,476	14,635	11,423
Deferred income taxes	(17,285)	(6,333)	(1,573)
Special charges	55,697		62,743
Changes in operating assets and liabilities, exclusive of those arising from business acquisitions:			
Accounts receivable	(13,915)	(107,082)	16,157
Inventory	(47,937)	77,286	(29,531)
Prepaid expenses	(28,613)	22,650	7,841
Other	24,458	11,042	(18,830)
Accounts payable and accrued expenses	20,759	67,769	(25,327)
Income taxes payable	(59,257)	18,419	(55,553)
Total adjustments	(8,194)	141,313	6,929
Net cash provided by operating activities	126,925	280,263	171,727
Cash Flows from Investing Activities:			
Payments to acquire property and equipment	(23,910)	(29,999)	(63,610)
Proceeds from business divestitures		6,887	
Net cash used for investing activities	(23,910)	(23,112)	(63,610)
Cash Flows from Financing Activities:			
Net borrowings (payments) of notes payable to banks	27,296	(36,947)	2,426
Proceeds from issuance of common stock to employees	17,163	13,362	11,216
Dividends paid		(20,922)	(23,679)
Repayments of long-term debt	(156,966)	(1,290)	(112,445)
Net proceeds from long-term debt		632,108	230,000
Proceeds from premium on equity put options		717	3,233
Dividends to minority shareholders	(3,900)	(7,426)	(2,885)
Repurchases of common stock		(686,266)	(225,470)
Net cash used for financing activities	(116,407)	(106,664)	(117,604)
Effect of exchange rate changes on cash	(9,207)	1,485	5,944
Net increase (decrease) in cash and cash equivalents	(22,599)	151,972	(3,543)
Cash and cash equivalents at beginning of year	232,365	80,393	83,936
Cash and cash equivalents at end of year	$209,766	$232,365	$ 80,393
Supplemental Disclosures of Cash Flow Information:			
Interest paid	$ 59,683	$ 38,738	$ 23,962
Income taxes paid	115,985	77,213	152,690

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents

Cash equivalents are defined as highly liquid investments with maturities of three months or less at date of purchase.

NONCASH ACTIVITIES

Paragraph 32 of *SFAS No. 95* requires the disclosure of information about noncash investing and financing activities. Examples of the disclosure of noncash activities follow.

CHESAPEAKE CORPORATION (DEC)

Consolidated Statement Of Cash Flows

(In millions)	1997	1996	1995
Operating activities:			
Net income	$ 48.6	$ 30.1	$ 93.4
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation, cost of timber harvested, and amortization of intangibles	75.8	90.2	75.8
Deferred income taxes	(59.8)	7.8	11.6
(Gains) losses on sales of property, plant, and equipment, net	(.2)	0.5	(5.6)
Gain on sale of businesses	(86.3)	—	(1.8)
Restructuring/special charges	18.9	—	—
Changes in operating assets and liabilities, net of acquisitions and dispositions:			
Accounts receivable, net	(6.3)	12.8	(22.6)
Inventories	(2.6)	(10.8)	(29.0)
Other assets	(18.8)	(5.0)	8.4
Accounts payable and accrued expenses	(4.0)	6.9	12.6
Income taxes payable	1.2	(2.8)	(2.3)
Other payables	2.1	1.5	3.2
Net cash (used in) provided by operating activities	(31.4)	131.2	143.7
Investing activities:			
Purchases of property, plant, and equipment	(68.2)	(128.8)	(157.7)
Acquisitions	—	(47.2)	(69.7)
Proceeds from sales of property, plant, and equipment	1.7	3.3	7.4
Proceeds from sale of businesses	491.0	—	28.9
Other	—	—	6.7
Net cash provided by (used in) investing activities	424.5	(172.7)	(184.4)
Financing activities:			
Net borrowings (payments) on credit lines	(179.0)	84.7	100.0
Payments on long-term debt	(66.7)	(15.2)	(71.7)
Proceeds from long-term debt	8.5	11.5	1.2
Proceeds from issuances of common stock	1.5	0.1	2.2
Purchases of outstanding common stock	(79.4)	(16.0)	(5.6)
Dividends paid	(18.7)	(18.9)	(18.1)
Other	4.2	(0.1)	0.9
Net cash (used in) provided by financing activities	(329.6)	46.1	8.9
Increase (decrease) in cash and cash equivalents	63.5	4.6	(31.8)
Cash and cash equivalents at beginning of year	9.8	5.2	37.0
Cash and cash equivalents at end of year	$ 73.3	$ 9.8	$ 5.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

b. Cash and Cash Equivalents.
Cash and cash equivalents include highly liquid, temporary cash investments with original maturities of three months or less.

13. Supplemental Cash Flow Information

(In millions)	1997	1996	1995
Cash paid for:			
Interest, net	$23.1	$33.1	$32.8
Income taxes, net of refunds	$92.4	$12.9	$36.4
Supplemental investing and financing non-cash transactions:			
Capital lease obligations assumed in acquisitions	$ —	$10.1	$ —
Long-term debt assumed in acquisitions	—	17.1	—
Issuance of common stock for employee benefit plans	5.0	5.4	2.7
Dividends declared not paid	4.3	4.7	4.8
Real estate transactions	.5	2.2	0.4

HERCULES INCORPORATED (DEC)

Consolidated Statement of Cash Flow

(Dollars in millions)	1997	1996	1995
Cash Flow from Operating Activities:			
Net income	$319	$325	$333
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation	73	106	133
Nonoperating gain on disposals	(398)	(22)	(132)
Noncash charges (credits)	186	(19)	75
Other	15	5	(12)
Accruals and deferrals of cash receipts and payments:			
Affiliates' earnings in excess of dividends received	(25)	(25)	(19)
Accounts receivable	(44)	6	45
Inventories	(19)	(17)	27
Accounts payable and accrued expenses	86	(77)	(92)
Noncurrent assets and liabilities	(6)	(57)	(30)
Net cash provided from operations	187	225	328
Cash Flow from Investing Activities:			
Capital expenditures	(119)	(120)	(117)
Proceeds of investment and fixed asset disposals	295	196	376
Other	(34)	(6)	7
Net cash provided from investing activities	142	70	266
Cash Flow from Financing Activities:			
Long-term debt proceeds	343	75	97
Long-term debt repayments	(130)	(27)	(78)
Change in short-term debt	(35)	112	14
Common stock issued	38	15	15
Common stock reacquired	(458)	(417)	(584)
Dividends paid	(98)	(95)	(95)
Net cash used for financing activities	(340)	(337)	(631)
Effect of exchange rate changes on cash	(2)	(1)	(2)
Net decrease in cash and cash equivalents	(13)	(43)	(39)
Cash and cash equivalents at beginning of year	30	73	112
Cash and cash equivalents at end of year	$ 17	$ 30	$ 73
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest (net of amount capitalized)	$ 29	$ 30	$ 30
Income taxes paid, net	152	190	134
Noncash investing and financial activities:			
Conversion of notes and debentures	31	1	28
Incentive plan stock issuances	15	14	58
Accounts payable for common stock acquisitions	5	8	1
Investment in unconsolidated affiliates	—	1	174
Investment in long-term notes	504	—	—
Accounts receivable from sale of investment/asset disposals	8	9	—

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash in excess of operating requirements is invested in short-term, income-producing instruments. Cash equivalents include commercial paper and other securities with original maturities of 90 days or less. Book value approximates fair value because of the short maturity of those instruments.

MALLINCKRODT INC. (JUN)

Consolidated Statements of Cash Flows

(In millions)	1997	1996	1995
Cash Flows - Operating Activities			
Net earnings	$ 190.1	$ 211.9	$ 180.3
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	127.7	149.1	125.0
Postretirement benefits	7.9	10.9	12.1
Undistributed equity in earnings of joint venture	(17.0)	(25.0)	(19.1)
(Gains) losses on asset disposals	(182.5)	(55.1)	.5
Deferred income taxes	144.1	30.5	66.6
Changes in operating assets and liabilities:			
Trade receivables	(34.3)	(62.5)	(44.1)
Inventories	17.8	(49.5)	(16.3)
Other current assets	(62.0)	(2.7)	(3.2)
Accounts payable, accrued liabilities and income taxes payable, net	111.6	22.8	(14.3)
Net assets of discontinued operations	9.8	(68.6)	1.4
Other noncurrent liabilities and deferred credits	(4.3)	49.7	2.4
Other, net	(4.9)	(41.1)	(5.5)
Net cash provided by operating activities	304.0	170.4	285.8
Cash Flows - Investing Activities			
Capital expenditures	(109.5)	(169.2)	(160.8)
Acquisition spending	(16.8)	(153.9)	(111.5)
Proceeds from asset disposals	412.8	120.5	21.2
Other, net	(6.7)	5.1	(24.9)
Net cash provided (used) by investing activities	279.8	(197.5)	(276.0)
Cash Flows - Financing Activities			
Increase (decrease) in short-term debt	(103.8)	511.7	19.9
Proceeds from long-term debt	1.1	199.5	3.2
Payments on long-term debt	(10.2)	(103.7)	(10.3)
Issuance of Mallinckrodt common stock	39.6	31.0	8.0
Acquisition of treasury stock	(149.9)	(130.5)	(15.4)
Dividends paid	(48.2)	(45.7)	(42.2)
Net cash provided (used) by financing activities	(271.4)	462.3	(36.8)
Increase (decrease) in cash and cash equivalents	312.4	435.2	(27.0)
Cash and cash equivalents at beginning of year	496.1	60.9	87.9
Cash and cash equivalents at end of year	$ 808.5	$ 496.1	$ 60.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In millions)

Significant Accounting Policies (In Part):

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of certificates of deposit, time deposits and other short-term securities with maturities of three months or less from the date of purchase.

Note 3. Supplemental Cash Flow Information

	1997	1996	1995
Interest paid	$46.7	$48.6	$47.9
Income taxes paid	82.2	65.0	42.5
Non-cash investing and financing activities:			
Issuance of stock related to an acquisition	22.0		
Assumption of liabilities related to acquisitions	2.3	21.5	42.4
Preferred stock received related to a divestiture	88.9		
Principal amount of debt assumed by buyers in conjunction with divestitures	530.6		

The supplemental cash flow information for 1996 and 1995 has not been restated for the divestitures of Fries & Fries, Inc., the animal health segment and the feed ingredients business.

SPS TECHNOLOGIES, INC. (DEC)

Statements of Consolidated Cash Flows

(Thousands of dollars)	1997	1996	1995
Cash Flows from Operating Activities			
Net earnings	$32,500	$22,300	$14,875
Reconciliation of net earnings to net cash provided by operating activities:			
Depreciation and amortization	23,083	18,902	14,730
Equity in undistributed earnings of affiliates	(230)	(853)	(1,701)
Net loss on sale of property, plant and equipment	453	1,320	541
Deferred income taxes	7,197	5,235	3,319
Cash used for restructuring activities			(550)
Other operating items	(552)	(283)	564
Changes in assets and liabilities, net of acquisitions of businesses:			
Receivables	(6,533)	(421)	(1,738)
Inventories	1,796	1,031	(4,952)
Prepaid expenses and other	(281)	790	109
Accounts payable	6,314	186	(811)
Accrued expenses	3,045	4,006	(31)
Income taxes payable	3,861	984	528
Other assets and liabilities, net	(450)	(2,890)	2,125
Net cash provided by operating activities	70,203	50,307	27,008
Cash Flows from Investing Activities			
Additions to property, plant and equipment	(37,510)	(28,220)	(21,480)
Proceeds from sale of property, plant and equipment	1,520	1,160	4,240
Acquisitions of businesses	(47,191)	(35,580)	(11,293)
Proceeds from divestitures of businesses			705
Net cash used in investing activities	(83,181)	(62,640)	(27,828)
Cash Flows from Financing Activities			
Proceeds from borrowings	30,182	162,739	22,955
Reduction of borrowings	(32,862)	(127,776)	(25,359)
Proceeds from exercise of stock options	2,666	2,300	1,843
Purchases of treasury stock	(1,136)		
Net cash provided by (used in) financing activities	(1,150)	37,263	(561)
Effect of exchange rate changes on cash	(523)	287	2
Net increase (decrease) in cash and cash equivalents	(14,651)	25,217	(1,379)
Cash and cash equivalents at beginning of year	33,310	8,093	9,472
Cash and cash equivalents at end of year	$18,659	$33,310	$ 8,093
Supplemental Cash Flow Disclosures			
Interest paid	$10,627	$ 4,260	$ 6,134
Income taxes paid	6,059	3,280	2,449
Significant Noncash Investing and Financing Activities			
Issuance of treasury shares for businesses acquired	4,915		5,666
Debt assumed with businesses acquired	3,179	14,976	
Acquisition of treasury shares for stock options exercised	774	3,253	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Cash Equivalents

The Company considers cash equivalents to be all highly liquid investments purchased with original maturities of three months or less. The carrying amount approximates fair value because of the short maturity of these items.

THE SCOTTS COMPANY (SEP)

Consolidated Statements of Cash Flows

(In millions)	1997	1996	1995
Cash Flows from Operating Activities			
Net income (loss)	$ 39.5	$ (2.5)	$ 22.4
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	16.6	16.8	16.1
Amortization	13.8	12.5	9.6
Other expense (income), net	5.6	15.0	(4.2)
Deferred income taxes	(1.5)	(5.7)	(2.6)
Changes in assets and liabilities:			
Accounts receivable	18.3	66.1	(35.2)
Inventories	17.3	(4.9)	(23.0)
Prepaid and other current assets	0.4	2.1	(2.1)
Accounts payable	1.1	(16.9)	12.0
Accrued liabilities	12.7	0.6	9.6
Other, net	(2.7)	(0.8)	1.8
Net cash provided by operating activities	121.1	82.3	4.4
Cash Flows from Investing Activities			
Investment in property, plant and equipment	(28.6)	(18.2)	(23.6)
Proceeds from sale of equipment	2.7	0.8	0.7
Investment in affiliate	(46.6)	—	(0.2)
Cash acquired in merger transactions with Miracle-Gro	—	—	6.4
Proceeds from Peters divestiture	—	—	10.0
Net cash used in investing activities	(72.5)	(17.4)	(6.7)
Cash Flows from Financing Activities			
Payments on term and other debt	—	—	(27.1)
Net (payments) borrowings under revolving credit	(28.7)	(48.5)	27.4
Net (payments) borrowings under bank line of credit	(8.6)	1.9	(1.8)
Dividends on Class A Convertible Preferred Stock	(9.8)	(12.2)	(1.1)
Other, net	0.9	(2.3)	(0.1)
Net cash used in financing activities	(46.2)	(61.1)	(2.7)
Effect of exchange rate changes on cash	—	(0.2)	1.3
Net increase (decrease) in cash	2.4	3.6	(3.7)
Cash, beginning of period	10.6	7.0	10.7
Cash, end of period	$ 13.0	$ 10.6	$ 7.0
Supplemental Cash Flow Information:			
Interest (net of amount capitalized)	$ 24.2	$ 25.5	$ 23.8
Income taxes paid	20.5	4.4	11.3
Dividends declared not paid			2.4
Business acquired:			
Fair value of assets acquired	115.9		235.6
Liabilities assumed and minority interest	(69.2)		(39.9)
Debt issued	44.9		
Class A Convertible Preferred Stock issued			177.3
Warrants issued			14.4

TEKTRONIX, INC. (MAY)

Consolidated Statements of Cash Flows

(In thousands)	1997	1996	1995
Cash Flows from Operating Activities			
Net earnings	$114,785	$ 99,586	$ 81,584
Adjustments to reconcile net earnings to cash provided (used) by operating activities:			
Depreciation expense	59,591	47,137	40,857
Deferred taxes	14,425	26,041	(966)
Gain on sale of investments	(27,678)	(20,197)	(14,314)
Accounts receivable	66,403	(66,647)	(29,991)
Inventories	26,754	(19,681)	(64,923)
Other current assets	22,213	864	(8,338)
Accounts payable	(179)	1,037	(5,059)
Accrued compensation	(28,580)	14,026	24,602
Other liabilities	5,672	(33,622)	(22,866)
Other long-term assets	316	(1,424)	(48,102)
Other—net	8,607	2,085	(10,516)
Net cash provided (used) by operating activities	262,329	49,205	(58,032)
Cash Flows from Investing Activities			
Acquisition of property, plant and equipment	(112,005)	(106,708)	(103,818)
Proceeds from sale of fixed assets	9,073	19,776	43,482
Proceeds from sale of investments	33,848	23,263	23,920
Net cash used by investing activities	(69,084)	(63,669)	(36,416)
Cash Flows from Financing Activities			
Net change in short-term debt	(38,451)	7,339	67,902
Issuance of long-term debt	358	50,000	1,396
Repayment of long-term debt	(50,609)	(3,020)	(602)
Issuance of common stock	26,018	18,104	40,480
Repurchase of common stock	(3,797)	(29,985)	(8,382)
Dividends	(19,809)	(19,944)	(18,435)
Net cash provided (used) by financing activities	(86,290)	22,494	81,549
Effect of exchange rate changes	(873)	(3,147)	1,207
Increase (decrease) in cash and cash equivalents	106,082	4,883	(11,692)
Cash and cash equivalents at beginning of year	36,644	31,761	43,453
Cash and cash equivalents at end of year	$142,726	$ 36,644	$ 31,761
Supplemental Disclosures of Cash Flows			
Income taxes paid	$ 13,663	$ 18,669	$ 10,018
Interest paid	14,633	16,594	13,775
Noncash Investing Activities			
Fair value adjustment to securities available-for-sale	$ (8,373)	$ 47,042	$ 20,086
Income tax effect related to fair value adjustment	4,759	(18,817)	(8,034)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part):

Cash and Cash Equivalents. Cash and cash equivalents include cash deposits in banks and highly liquid investments with original maturities of three months or less at the time of purchase.

USA WASTE SERVICES, INC. (DEC)

Consolidated Statements of Cash Flows

(In thousands)	1997	1996	1995
Cash flows from operating activities:			
Net income	$ 267,030	$ 68,339	$ 80,776
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	303,241	191,044	143,878
Deferred income taxes	72,846	12,960	16,217
Net gain on disposal of assets	(14,320)	(6,040)	(1,434)
Effect of nonrecurring charges	48,479	61,144	—
Change in assets and liabilities, net of effects of acquisitions and divestitures:			
Accounts receivable and other receivables	(94,073)	(81,704)	(14,279)
Prepaid expenses and other	6,189	(5,388)	(2,199)
Other assets	(36,511)	10,311	(7,406)
Accounts payable and accrued liabilities	(117,860)	63,149	(11,643)
Accrued shareholder litigation settlement	—	—	(85,300)
Deferred revenues and other liabilities	19,747	(29,283)	11,855
Other, net	(1,936)	(1,181)	(1,773)
Net cash provided by operating activities	452,832	283,351	128,692
Cash flows from investing activities:			
Acquisitions of businesses, net of cash acquired	(1,818,996)	(403,672)	(268,687)
Capital expenditures	(436,317)	(443,247)	(252,648)
Loans and advances to others	(41,571)	(18,399)	(19,660)
Collection of loans and advances to others	43,480	15,010	4,880
Proceeds from sale of assets	244,756	80,294	11,181
Other	(22,828)	(30,002)	(1,178)
Net cash used in investing activities	(2,031,476)	(800,016)	(526,112)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	3,441,930	1,483,573	778,721
Principal payments on long-term debt	(2,384,846)	(1,015,277)	(642,313)
Net proceeds from issuance of common stock	506,348	—	251,999
Proceeds from exercise of common stock options and warrants	36,955	53,518	13,811
Other	3,597	(6,965)	(19,407)
Net cash provided by financing activities	1,603,984	514,849	382,811
Effect of exchange rate changes on cash and cash equivalents	(178)	115	(178)
Increase (decrease) in cash and cash equivalents	25,162	(1,701)	(14,787)
Cash and cash equivalents at beginning of year	26,079	27,780	42,567
Cash and cash equivalents at end of year	$ 51,241	$ 26,079	$ 27,780
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	$ 110,798	$ 75,551	$ 67,543
Income taxes	66,044	33,019	51,573
Non-cash investing and financing activities:			
Acquisitions of property and equipment through capital leases	—	—	8,378
Note receivable from sale of assets	26,583	27,800	—
Conversion of subordinated debentures to common stock	500	60,000	51,661
Issuance of common stock for preferred stock dividends	—	—	10,378
Acquisitions of businesses and development projects:			
Liabilities incurred or assumed	184,562	355,767	101,111
Common stock issued	260,410	128,479	159,758

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash and Cash Equivalents. Cash and cash equivalents consist primarily of cash on deposit, certificates of deposit, money market accounts, and investment grade commercial paper purchased with original maturities of three months or less.

CASH AND CASH EQUIVALENTS

A Statement of Cash Flows explains the change during a period in cash and cash equivalents. The amount of cash and cash equivalents reported on a Statement of Cash Flows should agree with the amount of cash and cash equivalents reported on a Statement of Financial Position. Paragraph 10 of *SFAS No. 95* requires that an entity disclose what items are treated as cash equivalents. Table 5-5 shows the descriptive terms used by the survey companies to describe a change in cash and cash equivalents.

TABLE 5-5: CASH AND CASH EQUIVALENTS

	1997	**1996**	**1995**	**1994**
Cash and cash equivalents	465	449	443	431
Cash and equivalents	42	44	43	46
Cash	58	58	62	63
Cash and short-term investments	15	21	27	29
Cash and short-term cash investments	4	3	2	3
Cash and temporary cash investments	4	5	5	7
Cash and temporary investments	3	5	6	7
Cash and marketable securities	3	3	3	4
Other descriptive captions	6	12	9	10
Total Companies	**600**	**600**	**600**	**600**

Section 6: Independent Auditors' Report

This section reviews the format and content of Independent 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,* eighty-four Statements on Auditing Standards have been issued.

PRESENTATION IN ANNUAL REPORT

Table 6-1 shows where, in relation to the financial statements and notes thereto, the Independent Auditors' Reports were presented in the annual reports to stockholders.

TABLE 6-1: PRESENTATION IN ANNUAL REPORT

	1997	1996	1995	1994
Follows financial statements and notes	356	367	385	386
Precedes financial statements and notes	222	216	200	197
Between financial statements and notes	9	8	9	10
Other	13	9	6	7
Total Companies	**600**	**600**	**600**	**600**

TITLE

Paragraph 8a of *Statement on Auditing Standards No. 58* states that the title of an auditors' report should include the word *independent.*

The titles of auditors' reports presented in the annual reports of 598 survey companies included the words *independent and report.* 302 titles identified the auditors as auditors, 171 as accountants, 105 as public accountants, and 20 as certified public accountants.

ADDRESSEE

Paragraph 9 of *Statement on Auditing Standards No. 58* states:

> The report may be addressed to the company whose financial statements are being audited 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 audit 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 audited.

Table 6-2 summarizes the addressee mentioned in the auditors' reports of the survey companies.

TABLE 6-2: ADDRESSEE OF AUDITORS' REPORTS

	1997	1996	1995	1994
Board of Directors and Stockholders	489	480	484	483
Stockholders	50	52	56	56
Board of Directors	42	45	41	41
Company	15	14	13	16
Other or no addressee	4	9	6	4
Total Companies	**600**	**600**	**600**	**600**

AUDITORS' STANDARD REPORT

Paragraph 8 of *Statement on Auditing Standards No. 58* presents examples of auditors' standard reports for single-year financial statements and for comparative two year financial statements. The examples presented in paragraph 8 of *SAS No. 58* follow:

> *INDEPENDENT AUDITORS' REPORT*
>
> We have audited the accompanying balance sheet of X Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of X Company as of [at] December 31, 19XX, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheets of X Company as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of X Company as of [at] December 31, 19X2 and 19X1, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Most of the survey companies present a balance sheet for 2 years and the other basic financial statements for 3 years. Appropriate wording in this situation is stated in footnote 7 to paragraph 8.

14 survey companies elected to comply with the requirements of *Statement of Financial Accounting Standards No. 130* and reported components of comprehensive income in either a separate financial statement or a statement of stockholders' equity. Standard auditors' reports for each situation follow.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Pentair, Inc.:

We have audited the accompanying consolidated balance sheets of Pentair, Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity, cash flows and comprehensive income for each of the three years in the period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Pentair, Inc. and subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

INDEPENDENT ACCOUNTANTS' REPORT

To the Shareholders and Board of Directors
Aluminum Company of America (Alcoa)

We have audited the accompanying consolidated balance sheet of Alcoa as of December 31, 1997 and 1996, and the related statements of consolidated income, shareholders' equity and consolidated cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of Alcoa's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aloca at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the pe-

riod ended December 31, 1997 in conformity with generally accepted accounting principles.

REFERENCE TO REPORT OF OTHER AUDITORS

When the opinion of a principal auditor is based in part on the report of another auditor, Section 543 of *Statement on Auditing Standards No. 1* provides guidance to the principal auditor. Paragraph 7 of Section 543 states:

> When the principal auditor decides that he will make reference to the audit 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 audit and that covered by the audit of the other auditor. The report should disclose the magnitude of the portion of the financial statements audited 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 audited 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.

Paragraph 12 and 13 of *Statement on Auditing Standards No. 58* reaffirm the requirements of Section 543. Paragraph 13 presents an example of an auditors' report referring to the report of other auditors.

The auditors' report for 21 survey companies made reference to the report of other auditors. Examples of such reports follow.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders, The Boeing Company:

We have audited the accompanying consolidated statements of financial position of The Boeing Company and subsidiaries as of December 31, 1997 and 1996, and the related statements of operations and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. The consolidated financial statements give retroactive effect to the merger of The Boeing Company and McDonnell Douglas Corporation, which has been accounted for as a pooling of interests as described in Note 2 to the consolidated financial statements. We did not audit the statement of financial position of McDonnell Douglas Corporation as of December 31, 1996, or the related statements of operations and cash flows for the years ended December 31, 1996 and 1995, which statements reflect total assets of $11,631,000,000 as of December 31, 1996, and total revenues of $13,834,000,000 and $14,332,000,000 for the years ended December 31, 1996 and 1995, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for McDonnell Douglas Corporation for 1996 and 1995, is based solely on the report of such other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Boeing Company and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders of Ceridian Corporation:

We have audited the accompanying consolidated balance sheets of Ceridian Corporation and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations and cash flows for each of the years in the three-year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the statements of operations and cash flows for the year ended December 31, 1995 of Comdata Holdings Corporation, a wholly-owned subsidiary, which statements reflect total revenues constituting 33 percent in 1995 of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the statements of operations and cash flows for the year ended December 31, 1995 for Comdata Holdings Corporation, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements

referred to above present fairly, in all material respects, the financial position of Ceridian Corporation and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Optical Coating Laboratory, Inc.
Santa Rosa, California

We have audited the accompanying consolidated balance sheets of Optical Coating Laboratory, Inc. and subsidiaries (the "Company") as of October 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Flex Products, Inc., who became a consolidated subsidiary effective May 1, 1995 and whose assets represent 12% and 10%, respectively, of consolidated total assets at October 31, 1997 and 1996, and whose total revenues for each of the two years in the period ended October 31, 1997 and for the period from May 1, 1995 to October 31, 1995, represent 18%, 15% and 9%, respectively, of consolidated total revenues. The financial statements of Flex Products, Inc. for the two years ended October 31, 1997 and for the ten months ended October 31, 1995 were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Flex Products, Inc., is based solely on the report of such other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Optical Coating Laboratory, Inc. and its subsidiaries at October 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1997 in conformity with generally accepted accounting principles.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and
Stockholders of Walbro Corporation:

We have audited the accompanying consolidated balance sheets of Walbro Corporation and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Marwal Systems, S.N.C. and Marwal do Brasil Ltda., the investments in which are reflected in the accompanying consolidated financial statements using the equity method of accounting. The investments in Marwal Systems, S.N.C. and Marwal do Brasil Ltda. together represent 3.7% and 4.1% of consolidated total assets in 1997 and 1996, respectively, and the equity in their net income represents income of $3,710,000, $4,560,000 and $3,570,000 in 1997, 1996 and 1995, respectively. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Walbro Corporation and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

UNCERTAINTIES

Effective for auditors' reports issued or reissued on or after February 29, 1996, *Statement on Auditing Standards No. 79* amends *SAS No. 58* to eliminate the requirement for an uncertainties explanatory paragraph for uncertainties as defined in paragraphs 29-32 of amended *SAS No. 58. SAS No. 79* does not apply to going concern situations for which *SAS No. 59,* as amended by *SAS No. 64,* provides guidance.

Table 6-3 summarizes the nature of uncertainties for which an explanatory paragraph was included in an auditors' report. An example of explanatory language for a going concern situation follows.

TABLE 6-3: UNCERTAINTIES

	1997	1996	1995	1994
Litigation	—	1	8	14
Going concern	2	1	7	4
Other	—	—	2	3
Total Uncertainties	**2**	**2**	**17**	**21**
Total Companies	**2**	**2**	**15**	**20**

Going Concern

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of Zenith Electronics Corporation:

We have audited the accompanying consolidated balance sheets of Zenith Electronics Corporation and subsidiaries as of December 31, 1997 and 1996, and the related statements of consolidated operations and retained earnings and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Zenith Electronics Corporation and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the company will continue as a going concern. As discussed in Note Two to the financial statements, the Company has suffered recurring losses from operations and has negative working capital that raises substantial doubt about the ability to continue as a going concern. Management's plans in regards to these matters are also described in Note Two. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As explained in Note Five to the financial statements, the Company changed its methods of accounting for tooling costs in 1997, and picture tube inventories in 1996.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note Two - Financial Results and Liquidity:

The company has incurred net losses of $299.4 million, $178.0 million, and $90.8 million in 1997, 1996 and 1995, respectively. For many years the company's major competitors, many with greater resources, have aggressively lowered their selling prices in an attempt to increase market share. Although the company has benefited from cost reduction programs, these lower color television prices together with inflationary cost increases have more than offset such cost reduction benefits.

Since joining the company in January 1998, the new Chief Executive Officer, along with the rest of the company's management team has been developing a broad operational and financial restructuring plan. A broad outline of that plan has been presented to the company's Board of Directors in March 1998. The plan, which is designed to leverage the company's brand, distribution and technology strengths, includes reducing costs, outsourcing of certain components and products, disposition of certain assets and capitalizing on the company's patented digital television technologies. Restructuring costs must be incurred to implement the plan.

Despite its negative cash flow, the company has been able to secure financing to support its operations to date, based on credit support from LGE. Between November 1997 and February, 1998, the company (with the guarantee of LGE) entered into a series of new lending agreements with commercial lenders for unsecured lines of credit totaling more than $100 million, all of which has been drawn as of March 31, 1998.

Going forward, significant amounts of additional cash will be needed to pay the restructuring costs to implement the proposed business plan and to fund losses until the company has returned to profitability. Based on management's proposed plan, the company estimates that at least $225 million would be required to fund the company's restructuring costs and operations through the end of 1998 and that additional amounts could be required thereafter.

While there is no assurance that funding will be available to execute the plan, the company is continuing to seek financing to support its turnaround efforts and is exploring a number of alternatives in this regard. LGE has agreed to provide up to $45 million in additional funding for one year from the date of the first borrowing, subject to LGE's right to demand repayment at anytime after June 30, 1998, and is secured by certain assets of the company. The company believes that this additional short-term financing, along with its current credit facilities, will be sufficient to support the company's liquidity requirements through June 30, 1998, depending on operating results and the level of continued trade support. In addition, the company is engaged in ongoing discussions with LGE concerning the company's business plan, and LGE is considering whether to provide additional

long-term financial support. However, LGE has no obligation to do so. Any such support by LGE would be subject to a number of conditions, including the operating results of the company, third-party consents, Republic of Korea regulatory approvals and other conditions. No decision has been made at this time by LGE or the company regarding additional financial support, and there can be no assurance that any additional financial support will be forthcoming from LGE.

In the absence of long-term financial support from LGE, there can be no assurance that additional financing can be obtained from conventional sources. Management is exploring alternatives that include seeking strategic investors, lenders and / or technology partners, selling substantial company assets or pursuing other transactions that could result in diluting LGE to a less than majority position. There can be no assurance that management's efforts in this regard will be successful.

To implement the proposed business plan and to fund associated restructuring costs and operating losses, the company will be required to restructure certain of its outstanding debt and other financing arrangements (See Notes Six, Fourteen, Fifteen and Sixteen for a description of certain debt and financing arrangements.) A number of alternatives, including out-of-court and in-court financial restructurings, are being considered.

Management believes that, under any restructuring scenario, the company's common stock would likely be subject to massive dilution as a result of the conversion of debt to equity or otherwise. There can be no assurances as to what value, if any, would be ascribed to the common stock in a restructuring. In addition, the company's subordinated debentures could suffer substantial impairment in a restructuring. Due to a number of uncertainties, many of which are outside the control of the company, there can be no assurance that the company will be able to consummate any operational or financial restructuring.

The company's independent public accountants have included a "going concern" emphasis paragraph in their audit report accompanying the 1997 financial statements. The paragraph states that the company's recurring losses and negative working capital raise substantial doubt about the company's ability to continue as a going concern and cautions that the financial statements do not include adjustments that might result from the outcome of this uncertainty.

Existing credit facilities are not expected to be sufficient to cover liquidity requirements after June 30, 1998, and the company is currently facing the prospect of not having adequate funds to operate its business. There can be no assurance that additional credit facilities can be arranged or that any long-term restructuring alternative can be successfully initiated or implemented by June 30, 1998, in which case the company may be compelled to pursue a bankruptcy filing in the absence of a proposed or pre-approved financial restructuring. The company will be required to obtain waivers under its financing arrangements for periods subsequent to June 30, 1998 and the lenders thereunder are under no obligation to provide such waivers.

Management believes that, despite the financial hurdles and funding uncertainties going forward, it has under development a business plan that, if successfully funded and executed as part of a financial restructuring, can significantly improve operating results. The support of the company's vendors, customers, lenders, stockholders and employees will continue to be key to the company's future success.

LACK OF CONSISTENCY

Table 6-4 summarizes the accounting changes for which auditors expressed unqualified opinions but added explanatory language to their reports as required by paragraphs 16-18 of *Statement on Auditing Standards No. 58,* as amended by *SAS No. 79.* Of the 103 references to lack of consistency, 70 relate to changes made in years prior to 1997. Examples of references to lack of consistency follow.

TABLE 6-4: LACK OF CONSISTENCY

	1997	1996	1995	1994
Impairment of long-lived assets	43	51	43	3
Business Process Reengineering Costs	16	—	—	—
Postemployment benefits	10	39	104	120
Investments (SFAS No. 115)	5	19	31	33
Inventories	4	8	7	7
Postretirement benefits	1	19	139	334
Income taxes	—	24	146	330
Other-described	24	29	42	34
Total References	**103**	**189**	**512**	**861**
Total Companies	**95**	**139**	**292**	**431**

Impairment Of Long-Lived Assets

INDEPENDENT AUDITORS' REPORT

Stockholders Of Baker Hughes Incorporated:

We have audited the consolidated statements of financial position of Baker Hughes Incorporated and its subsidiaries as of September 30, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Baker Hughes Incorporated and its subsidiaries at September 30, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1997 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for postemployment benefits effective October 1, 1994 to conform with Statement of Financial Accounting Standards No. 112. Also as discussed in Note 1, the Company changed its method of accounting for impairment of long-lived assets to be disposed of effective October 1, 1996 to conform with Statement of Financial Accounting Standards No. 121.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Impairment of assets: The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, effective October 1, 1996. The statement sets forth guidance as to when to recognize an impairment of long-lived assets, including goodwill, and how to measure such an impairment. The methodology set forth in SFAS No. 121 is not significantly different from the Company's prior policy and, therefore, the adoption of SFAS No. 121 did not have a significant impact on the consolidated financial statements as it relates to impairment of long-lived assets used in operations. However, SFAS No. 121 also addresses the accounting for long-lived assets to be disposed of and requires these assets to be carried at the lower of cost or fair market value, rather than the lower of cost or net realizable value, the method that was previously used by the Company. The Company recognized a charge to income of $12.1 million ($.08 per share), net of a tax benefit of $6.0 million, as the cumulative effect of a change in accounting in the first quarter of 1997.

Postemployment benefits: The Company adopted SFAS No. 112, Employers' Accounting for Postemployment Benefits, effective October 1, 1994. The standard requires that the cost of benefits provided to former or inactive employees after employment, but before retirement, be accrued when it is probable that a benefit will be provided, or in the case of service related benefits, over the period earned. The cost of providing these benefits was previously recognized as a charge to income in the period the benefits were paid. The cumulative effect of adopting SFAS No. 112 was a charge to income of $14.6 million ($.10 per share), net of a tax benefit of $7.9 million, in the first quarter of 1995.

REPORT OF INDEPENDENT AUDITORS

Stockholders and Board of Directors
Reynolds Metals Company

We have audited the accompanying consolidated balance sheets of Reynolds Metals Company as of December 31, 1997 and 1996, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Reynolds Metals Company at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1996 the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Cumulative Effect Of Accounting Change
In 1996, Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," was adopted. The cumulative effect of adopting the standard was an after-tax loss of $15 million. The loss was for the impairment of certain real estate held for sale at the beginning of 1996, principally undeveloped land.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders, Texaco Inc.:

We have audited the accompanying consolidated balance sheet of Texaco Inc. and subsidiary companies as of December 31, 1997 and 1996, and the related statements of consolidated income, cash flows and stockholders' equity for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texaco Inc. and subsidiary companies as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

As explained in Note 2 to the Consolidated Financial Statements, in 1995 the company changed its method of accounting for long-lived assets to be held and used and long-lived assets to be disposed of.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (In Part): Adoption Of New Accounting Standards

SFAS 121 - During 1995, Texaco adopted Statement of Financial Accounting Standards, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of" (SFAS 121). Under SFAS 121, assets whose carrying amounts are not expected to be fully recovered by future use or disposition must be written down to their fair values.

Adoption of this Standard resulted in a non-cash aftertax charge of $639 million against 1995 earnings. Application of SFAS 121 to assets to be retained resulted in a pre-tax charge of $775 million, primarily recorded to depreciation, depletion and amortization expense. On an after-tax basis, this charge amounted to $514 million and primarily reflected the write-down to their estimated fair values of certain of the company's producing properties in the United States which were evaluated for impairment on a field-by-field basis rather than in the aggregate. Also, certain non-core coal and marketing properties, surplus buildings and other properties and equipment held for disposal were written down by a $184 million charge, primarily recorded to depreciation, depletion and amortization expense. Including estimated disposal costs, this charge to income was $125 million, net-of-tax. There were no material changes in the estimated fair values of assets to be disposed of subsequent to the determination of their impairment. At year-end 1997 and 1996, the carrying amounts of assets to be disposed of were not significant. Adoption of SFAS 121 by Star Enterprise and the Caltex group of companies, each owned 50% by Texaco, had no effect on 1995 net income.

In accordance with SFAS 121, a $121 million aftertax write-down of non-core domestic producing properties held for sale at January 1, 1995, previously recorded in the first quarter of 1995 in income from continuing operations, has been classified as the cumulative effect of an accounting change.

Business Process Reengineering Costs

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors
of Anheuser-Busch Companies, Inc.

We have audited the accompanying Consolidated Balance Sheet of Anheuser-Busch Companies, Inc. and its subsidiaries as of December 31, 1997 and 1996, and the related Consolidated Statements of Income, Changes in Shareholders Equity and Cash Flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements audited by us present fairly, in all material respects, the financial position of Anheuser-Busch Companies, Inc. and its subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

As discussed in Note 2 and Note 3 to the Consolidated Financial Statements, in 1997 the company adopted the equity method of accounting for its investments in Grupo Modelo, S.A. de C.V. and its operating subsidiary, Diblo, S.A. de C.V. and changed its method of accounting for business process reengineering costs incurred in connection with information technology transformation projects, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Business Investments

In 1993, Anheuser-Busch purchased a 17.7% direct and indirect equity interest in Diblo S.A. de C.V., the operating subsidiary of Grupo Modelo S.A. de C.V., Mexico's largest brewer and producer of the Corona brand, for $477 million. In May 1997, the company increased its direct and indirect equity ownership in Diblo to 37% for an additional $605 million. Effective with the increase in equity ownership to 37%, the company received expanded minority rights, increased its representation on Modelo's Board of Directors to 10 of 21 members and adopted the equity method of accounting for its investment. Equity income recognized in 1997 reflects the company's 17.7% ownership from January through May and its 37% ownership thereafter. The difference between income recog-

nized on the cost basis in prior years and what would have been recognized had the company applied equity accounting in those years is not material. Included in the carrying amount of the Modelo investment is goodwill of $246.3 million, which is being amortized over 40 years. Dividends received from Grupo Modelo in 1997 totaled $16.4 million.

3. Change In Accounting Principle

In November 1997, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board released consensus No. 97-13, "Accounting for Costs Incurred in Connection with a Consulting Project or an Internal Project That Combines Business Process Reengineering and Information Technology Transformation." The EITF consensus specifically defined systems reengineering costs and mandated such costs be expensed as incurred. Additionally, any systems reengineering costs previously capitalized and unamortized were to be immediately charged against earnings.

In accordance with the EITF consensus, the company recorded a $10 million after-tax charge ($.02 per share) for capitalized systems reengineering costs in the fourth quarter 1997. The charge is shown as a separate cumulative effect of accounting change line item in the Consolidated Statement of Income. Prospectively, the company will expense all such costs as incurred.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of Owens Corning:

We have audited the accompanying consolidated balance sheet of Owens Corning and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Owens Corning and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

As discussed in Note 6 to the consolidated financial statements, during the fourth quarter of 1997, the Company changed its method of accounting for business process reengineering costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Business Process Reengineering Costs

In the fourth quarter of 1997, the Company recorded a $15 million charge, or $.29 per share, net of related income taxes of $10 million, to comply with a new required accounting interpretation announced November 20, 1997. The Emerging Issues Task Force (EITF), a subcommittee of the Financial Accounting Standards Board (FASB), requires that the cost of business process reengineering activities that are part of a systems development project be expensed as those costs are incurred. Any unamortized costs that were previously capitalized must be written off as a cumulative adjustment in the quarter containing November 20, 1997.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors
of Georgia-Pacific Corporation:

We have audited the accompanying consolidated balance sheets of Georgia-Pacific Corporation and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Georgia-Pacific Corporation and subsidiaries as of December 31, 1997 and 1996 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

As explained in Note 1 of the Notes to Financial Statements, effective December 31, 1997, the Corporation changed its method of accounting for business process reengineering costs incurred as part of a project to acquire, develop, or implement internal-use software.

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment
In November 1997, the FASB Emerging Issues Task Force reached a consensus on Issue No. 97-13 ("EITF 97-13"), "Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project that Combines Business Process Reengineering and Information Technology Transformation." The Task Force consensus requires that the cost of business process reengineering activities, whether done internally or by third parties, be expensed as incurred. This applies when the business process reengineering activities are part of a project to acquire, develop or implement internal-use software. The adoption of EITF 97-13 resulted in a one-time, after-tax charge of $60 million in the 1997 fourth quarter.

Postemployment Benefits

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Emerson Electric Co.:

We have audited the accompanying consolidated balance sheets of Emerson Electric Co. and subsidiaries as of September 30, 1997 and 1996, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Emerson Electric Co. and subsidiaries as of September 30, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 1997, in conformity with generally accepted accounting principles.

As discussed in Note 7 to the consolidated financial statements, effective October 1, 1994, the Company changed its method of accounting for postemployment benefits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Dollars in millions

7 (In Part): Postretirement Plans And Postemployment Benefits

Effective October 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," which establishes accounting standards for workers' compensation, disability and severance benefits. The Company recognized the obligation in the first quarter of 1995 as a cumulative effect of change in accounting principle of $21.3 (net of $13.7 in related income tax benefits). The adoption of the statement does not have a material impact on the Company's ongoing results of operations.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pall Corporation

We have audited the accompanying consolidated balance sheets of Pall Corporation and subsidiaries as of August 2, 1997 and August 3, 1996, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended August 2, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pall Corporation and subsidiaries as of August 2, 1997 and August 3, 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended August 2, 1997, in conformity with generally accepted accounting principles.

As discussed in the Accounting Policies note to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" in fiscal year 1995.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part):

Accounting Change
In fiscal 1995, the Company adopted SFAS No. 112 (Employers' Accounting for Postemployment Benefits). The effect of initially applying this Statement is reported as the cumulative effect of a change in an accounting principle.

Investments

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Rite Aid Corporation

We have audited the accompanying consolidated balance sheets of Rite Aid Corporation and subsidiaries as of March 1, 1997 and March 2, 1996, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended March 1, 1997. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rite Aid Corporation and subsidiaries as of March 1, 1997 and March 2, 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended March 1, 1997, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the company changed its method of accounting for investments to conform with Statement of Financial Accounting Standards No. 115 in fiscal year 1995.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Marketable Securities
In fiscal year 1995, the company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115). During fiscal year 1996, the company sold all of its marketable securities and recognized a pretax gain of $8,343,000 on the transaction. At March 4, 1995, the company's investment in marketable equity securities was categorized as available-for-sale. The resulting gross unrealized holding gain of $4,380,000 was reported, net of income taxes, as a separate component of stockholders' equity.

Inventories

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of AMP Incorporated:

We have audited the accompanying consolidated balance sheets of AMP Incorporated and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AMP Incorporated and subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

As explained in Note 1 to the consolidated financial statements, effective January 1, 1997, the Company changed its method of accounting for costing its inventories.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Principles

Changes in Accounting Policies—On January 1, 1997, the Company made two changes to the accounting practices used to develop inventory costs. The first change was made to standardize globally the definition of capacity used to determine volume assumptions for overhead rates. The new definition more properly reflects the Company's objectives for plant and equipment utilization and provides for consistent measurement of AMP facilities.

In an effort to provide increased focus on engineering efforts for both product development and manufacturing cost reductions, the Company also changed the inventory costing methodology to include manufacturing engineering costs in inventory costs. Previously, these costs were expensed in the period incurred and included in cost of sales on the Consolidated Statement of Income.

The net after-tax benefit of the preceding changes in accounting for inventory of $15,450,000, or $0.07 per share, was presented as a cumulative effect of accounting changes on the Consolidated Statement of Income for 1997.

Depreciation Method

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Polaroid Corporation:

We have audited the accompanying consolidated balance sheet of Polaroid Corporation and subsidiary companies as of December 31, 1997 and 1996, and the related consolidated statements of earnings, cash flows and changes in common stockholders' equity for each of the years in the three-year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Polaroid Corporation and subsidiary companies at December 31, 1997 and 1996, and the results of their operations and cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1997 the Company changed its method of accounting for depreciation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment:
In the fourth quarter of 1997 retroactive to January 1, 1997, the Company changed its method of depreciation for financial reporting for the cost of buildings, machinery and equipment acquired on or after January 1, 1997 from primarily an accelerated method to the straight-line method. Prior to 1997, the cost of buildings, machinery and equipment was depreciated, primarily by accelerated depreciation methods over the estimated useful lives of those assets for both financial reporting and income tax purposes. The Company continues to use primarily accelerated depreciation methods for income tax purposes. The Company believes that the straight-line method more appropriately measures the economic benefits received from these assets and since the straight-line method is the predominant method used in the industry in which it operates, this change increases the comparability of the Company's results with those of its competitors. The impact of this change was not material to either the Company's consolidated statement of earnings or balance sheet for 1997. Since this change was not material, the Company's previously reported financial results for interim quarters for 1997 have not been restated. For financial reporting, the estimated useful lives of these assets were as follows: buildings, 20-40 years; machinery and equipment, 3-15 years.

Sales of Securitized Accounts Receivable

INDEPENDENT AUDITORS' REPORT

To The Shareholders And Board Of Directors Sears, Roebuck And Co.

We have audited the accompanying Consolidated Balance Sheets of Sears, Roebuck and Co. as of January 3, 1998 and December 28, 1996, and the related Consolidated Statements of Income, Shareholders' Equity, and Cash Flows for each of the three years in the period ended January 3, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Sears, Roebuck and Co. as of January 3, 1998 and December 28, 1996, and the results of its operations and its cash flows for each of the three years in the period ended January 3, 1998 in conformity with generally accepted accounting principles.

As described in Note 1 to the consolidated financial statements, effective January 1, 1997 the Company changed its method of accounting for sales of securitized accounts receivable as required by Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Credit Card Receivables

Effective for fiscal year 1997, the Company adopted SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 125 requires that the Company recognize gains on its domestic credit card securitizations which qualify as sales and that an allowance for uncollectible accounts not be maintained for receivable balances which are sold. Prior to adoption of SFAS No. 125, the Company maintained an allowance for uncollectible sold accounts as a recourse liability and did not recognize gains on securitizations. Adoption of SFAS No. 125 increased net income $136 million in 1997.

Start-Up Costs

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders
Columbia/HCA Healthcare Corporation

We have audited the accompanying consolidated balance sheets of Columbia/HCA Healthcare Corporation as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Columbia/HCA Healthcare Corporation at December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

As explained in Note 11 to the Consolidated Financial Statements, effective January 1, 1997, the Company changed its method of accounting for start-up costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 – Accounting Change

In the fourth quarter of 1997, the Company changed its method of accounting for start-up costs. The change involved expensing these costs as incurred, rather than capitalizing and subsequently amortizing such costs. The Company believes the new method is preferable due to the changes in the Company's business strategy and reviews of emerging accounting guidance on accounting for similar (i.e., start-up, software system training and process reengineering) costs.

The change in accounting principle resulted in the write-off of the costs capitalized as of January 1, 1997. The cumulative effect of the write-off, which totals $56 million (net of tax benefit), has been expensed and reflected in the 1997 statement of operations. Had the new method been used in the past, the pro forma effect on prior years would have primarily affected 1996 (such costs incurred for periods prior to 1996 are considered immaterial to operations for those periods). The pro forma effect on 1997 and 1996 follows (dollars in millions, except per share amounts):

	1997		1996	
	As Reported	Pro Forma	As Reported	Pro Forma
Income from continuing operations	$ 182	$ 182	$1,461	$1,405
Earnings per share—basic	$ .28	$ .28	$ 2.17	$ 2.08
Earnings per share—diluted	$ .27	$ .27	$ 2.15	$ 2.07
Net income (loss)	$ (305)	$ (249)	$1,505	$1,449
Earnings (loss) per share—basic	$ (.46)	$ (.37)	$ 2.24	$ 2.15
Earnings (loss) per share—diluted	$ (.46)	$ (.38)	$ 2.22	$ 2.14

EMPHASIS OF A MATTER

Paragraph 19 of *Statement on Auditing Standards No. 58,* as amended by *SAS No. 79,* states:

19. In any report on financial statements, the auditor may emphasize a matter regarding the financial statements. Such explanatory information should be presented in a separate paragraph of the auditors' report. Phrases such as "with the foregoing (following) explanation" should not be used in the opinion paragraph if any emphasis paragraph is included in the auditors' report. Emphasis paragraphs are never required; they may be added solely at the auditors' discretion. Examples of matters the auditor may wish to emphasize are—

- That the entity is a component of a larger business enterprise.
- That the entity has had significant transactions with related parties.
- Unusually important subsequent events.
- Accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period.

The auditors' reports for 2 survey companies included explanatory information emphasizing a matter regarding the financial statements. Both disclosures concerned fresh-start reporting. An example of such a disclosure follows.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
Anacomp, Inc.:

We have audited the accompanying consolidated balance sheets of Anacomp, Inc. and subsidiaries as of September 30, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the twelve months ended September 30, 1997, the four months ended September 30, 1996, the eight months ended May 31, 1996 and the twelve months ended September 30, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in Note 2 to the consolidated financial statements, effective June 4, 1996, the Company emerged from protection under Chapter 11 of the U.S. Bankruptcy Code pursuant to a Reorganization Plan which was confirmed by the Bankruptcy Court on May 20, 1996. In accordance with AICPA Statement of Position 90-7, the Company adopted "Fresh Start Reporting" whereby its assets, liabilities and new capital structure were adjusted to reflect estimated fair values as of May 31, 1996. As a result, the consolidated financial statements for the periods subsequent to May 31, 1996 reflect the Successor Company's new basis of accounting and are not comparable to the Predecessor Company's pre-reorganization consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Anacomp, Inc. and subsidiaries as of September 30, 1997 and 1996, and the results of

their operations and their cash flows for the twelve months ended September 30, 1997, the four months ended September 30, 1996, the eight months ended May 31, 1996 and the twelve months ended September 30, 1995 in conformity with generally accepted accounting principles.

As explained in Note 1 to the consolidated financial statements, effective June 30, 1995, the Company changed its method of accounting for the measurement of goodwill impairment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Financial Reorganization:

On May 20, 1996 (the "Confirmation Date"), the U.S. Bankruptcy Court confirmed the Company's Third Amended Joint Plan of Reorganization (the "Reorganization"), and on June 4, 1996, the Company emerged from bankruptcy. Pursuant to the Reorganization, on such date certain indebtedness of the Company was canceled in exchange for cash, new indebtedness, and/or new equity interests, certain indebtedness was reinstated, certain other prepetition claims were discharged, certain claims were settled, executory contracts and unexpired leases were assumed or rejected, and the members of a new Board of Directors of the Company were designated. The Company simultanteously distributed to creditors approximately $22 million in cash, $112.2 million principal amount of its 11-5/8% Senior Secured Notes due 1999 (the "Senior Secured Notes") and $160 million principal amount of its 13% Senior Subordinated Notes due 2002 (the "Senior Subordinated Notes"), equity securities consisting of 10 million shares of new common stock and 362,694 warrants, each of which is convertible into 1.0566 shares of new common stock during the five year period ending June 3, 2001 at an exercise price of $11.57 per share.

The process began January 5, 1996, when Anacomp filed a Prenegotiated Plan of Reorganization with the U.S. Bankruptcy Court in Delaware under Chapter 11 of the U.S. Bankruptcy Code. The Company was in default under substantially all of its debt agreements as a result of its failure to make $89.7 million of principal payments scheduled for April 26, 1995 and October 26, 1995 on the senior secured credit facilities (including $60 million relating to the revolving loan agreement which expired on October 26, 1995), $11.4 million of principal and interest payments on the 9% Convertible Subordinated Debentures which were due January 15, 1996, $34.1 million of interest payments scheduled for May 1, 1995 and November 1, 1995 on its Senior Subordinated Notes, and $3.2 million of interest payments scheduled for July 15, 1995 and January 15, 1996 on the 13.875% Subordinated Debentures, as well as certain financial covenant violations, and the cross-default provisions of the other debt agreements.

DEPARTURES FROM UNQUALIFIED OPINIONS

Statement on Auditing Standards No. 58 does not require auditors to express qualified opinions as to the effects of uncertainties or as to lack of consistency. Under *SAS No. 58,* departures from unqualified opinions include opinions qualified because of a scope limitation or a departure from generally accepted accounting principles, adverse opinions, and disclaimers of opinion. Paragraphs 20-62 of *SAS No. 58,* as amended by *SAS No. 79,* discuss these departures. None of the auditors' reports issued in connection with the financial statements of the survey companies contained a departure as defined by *SAS No. 58.*

REPORTS ON COMPARATIVE FINANCIAL STATEMENTS

Paragraphs 65-74 of *Statement on Auditing Standards No. 58,* as amended by *SAS No. 79,* discuss Reports on Comparative Financial Statements. None of the auditors' reports for the survey companies expressed an opinion on prior year financial statements different from the opinion previously expressed. Ten auditors' reports indicated that a change in auditors had occurred in either the current year or one of the two preceding years. Examples of such reports follow.

Predecessor Auditors' Report Not Presented

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders
Merrimac Industries, Inc.

We have audited the accompanying consolidated balance sheet of Merrimac Industries, Inc. and Subsidiaries as of January 3, 1998 and the related consolidated statement of income, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Merrimac Industries, Inc. and Subsidiaries as of December 28, 1996 and for the years ended December 28, 1996 and December 30, 1995, were audited by other auditors whose report dated February 18, 1997, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable

assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Merrimac Industries, Inc. and Subsidiaries as of January 3, 1998 and their results of operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

Predecessor Auditors' Report Reissued

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Apple Computer, Inc.:

We have audited the accompanying consolidated balance sheet of Apple Computer, Inc. and subsidiaries as of September 26, 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. In connection with our audits of the consolidated financial statements, we have also audited the accompanying financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Apple Computer, Inc. and subsidiaries as of September 26, 1997, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

REPORT OF INDEPENDENT AUDITORS

The Shareholders and Board of Directors of Apple Computer, Inc.

We have audited the accompanying consolidated balance sheet of Apple Computer, Inc. as of September 27, 1996, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the two years in the period ended September 27, 1996. Our audits also include the financial statement schedule for each of the two years in the period ended September 27, 1996 listed in the Index to the Consolidated Financial Statements. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Apple Computer, Inc. as of September 27, 1996, and the consolidated results of its operations and its cash flows for each of the two years in the period ended September 27, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

OPINION EXPRESSED ON SUPPLEMENTARY FINANCIAL INFORMATION

Table 6-5 shows that occasionally the auditors' reports issued in connection with the financial statements of the survey companies express an opinion on supplementary financial information to the basic financial statements.

TABLE 6-5: OPINION EXPRESSED ON SUPPLEMENTARY FINANCIAL INFORMATION

	Number of Companies			
	1997	1996	1995	1994
Financial statement schedules......	26	24	29	32
Other..........................	1	1	1	—

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and
Board of Directors of
Hurco Companies, Inc.

We have audited the accompanying consolidated balance sheets of Hurco Companies, Inc. and subsidiaries as of October 31, 1997 and 1996, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended October 31, 1997. These financial statements and schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hurco Companies, Inc. and subsidiaries as of October 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 1997, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in Item 14(a) 2 is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states 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 AUDITORS

Board of Directors
Jefferson Smurfit Corporation

We have audited the accompanying consolidated balance sheets of Jefferson Smurfit Corporation as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the three years in the period ended December 31, 1997. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Jefferson Smurfit Corporation at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

DATING OF REPORT

Section 530 of *Statement on Auditing Standards No. 1* discusses dating of the independent auditors' report. Paragraphs 1 and 5 of Section 530 state:

> Generally, the date of completion of the fieldwork should be used as the date of the independent auditors' report. Paragraph .05 describes the procedure to be followed when a subsequent event occurring after the completion of the fieldwork is disclosed in the financial statements.
>
> The independent auditor has two methods available for dating his report when a subsequent event disclosed in the financial statements occurs after completion of his fieldwork but before issuance of his report. He may use "dual dating," for example, "February 16, 19XX, except for Note X, as to which the date is March 1, 19XX," or he may date his report as of the later date. In the former instance, his responsibility for events occurring subsequent to the completion of his fieldwork is limited to the specific event referred to in the note (or otherwise disclosed). In the latter instance, the independent auditors' responsibility for subsequent events extends to the date of his report and, accordingly, the procedures outlined in Section 560.12 generally should be extended to that date.

Auditors' reports for 63 survey companies used dual dating. Examples of dual dating follow.

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Directors
of Brown & Sharpe Manufacturing Company

We have audited the accompanying consolidated balance sheets of Brown & Sharpe Manufacturing Company as of December 31, 1997 and 1996, and the related con-

solidated statements of operations, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Brown & Sharpe Manufacturing Company at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

February 6, 1998, except for Note 12, as
to which the date is February 13, 1998

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Preferred Stock Purchase Rights

The Company distributed a dividend on March 23, 1988 pursuant to a Shareholder Rights Plan adopted by the Board of Directors on March 9, 1988 of one purchase right for each outstanding share of common stock. Until the occurrence of certain specified events, the rights are represented by the associated common stock certificates. Following reclassification of the common stock to Class A Common Stock and distribution of the Class B Common Stock on June 10, 1988, and until the occurrence of certain events, each certificate representing a share of Class A Common Stock or Class B Common Stock also represents three-quarters of a right. Each right entitles the shareowner to buy from the Company one-hundredth of a share of Series A Participating Preferred Stock at an exercise price of $55 per right. The Rights become exercisable ten days after a person acquires 20% of the Company's common stock. The rights, which are subject to adjustment, are redeemable by the Company at a price of $0.03 per right at any time prior to the fifteenth day after a person acquires 20% of the Company's common stock and expire on March 23, 1998.

In the event the Company is involved in certain business combination transactions with a 20% shareowner, each right will entitle its holder (other than a 20% shareowner) to purchase, at the right's then exercise price, an equity interest in the acquiring person having a market value of two times the exercise price. In the event a 20% shareholder engages in certain other transactions with the Company or any person becomes a 20% shareowner, each right will entitle its holder (other than a 20% shareowner) to purchase, at the right's then exercise price, shares of Company Class A Common Stock having a market value of two times the exercise price.

On February 13, 1998, the Board of Directors approved a new Shareholder Rights Plan to replace the Rights Plan expiring on March 23, 1998. Stockholders of record on March 9, 1998 will receive a dividend of one right for each share of Class A and Class B common stock held by them on the record date. Shares of Class A or Class B common stock issued after the date will be issued with one right attaching to each share of such stock. The new Rights Plan operates substantially the same as the Plan expiring March 23, 1998 except that the exercise price of the rights has been set by the Board at $40.00 per right and a majority of the Board may elect to redeem the rights at a redemption price of $.01 per right. The new Rights Plan expires ten years after its effective date or earlier upon a redemption of the rights.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors
of Champion International Corporation:

We have audited the accompanying consolidated balance sheet of Champion International Corporation (a New York corporation) and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Champion International Corporation and subsidiaries as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

January 16, 1998
(except for Note 17, as to which the date is
January 26, 1998)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Subsequent Event

On January 26, 1998, the company's Brazilian subsidiary acquired Industria de Papel Arapoti S.A. ("Inpacel") and its forestry affiliate for $75 million. Inpacel has outstanding debt of $277 million. Inpacel and its affiliate are Brazilian companies that own a pulp and coated groundwood papers mill with an annual capacity of 160,000 tons of pulp and 178,000 tons of coated groundwood papers, a sawmill and 124,000 acres of timberlands, all of which are located in the State of Parana, Brazil. The transaction will be accounted for using the purchase method of accounting.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To General Dynamics Corporation:

We have audited the accompanying Consolidated Balance Sheet of General Dynamics Corporation and subsidiaries as of December 31, 1997 and 1996, and the related Consolidated Statements of Earnings, Shareholders' Equity and Cash Flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of General Dynamics Corporation and subsidiaries as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

January 26, 1998 (except with respect to the stock split discussed in Note K, as to which the date is March 4, 1998, and to the matter discussed in Note O, as to which the date is February 23, 1998)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

K (In Part): Shareholders' Equity

Stock Split. On March 4, 1998, the company's board of directors authorized a two-for-one stock split effected in the form of a 100 percent stock dividend to be distributed on April 2, 1998 to shareholders of record on March 13, 1998. Shareholders' equity has been restated to give retroactive recognition to the stock split for all periods presented by reclassifying from retained earnings and surplus to common stock the par value of the additional shares arising from the split. In addition, all references in the financial statements to number of shares, per share amounts, stock option data, and market prices of the company's common stock have been restated.

O (In Part): Termination Of A-12 Program

The A-12 contract was a fixed-price incentive contract for the full-scale development and initial production of the Navy's new carrier-based Advanced Tactical Aircraft. The Navy terminated the company's A-12 aircraft contract for default. Both the company and McDonnell Douglas (the contractors) were parties to the contract with the Navy, each had full responsibility to the Navy for performance under the contract, and both are jointly and severally liable for potential liabilities arising from the termination. As a consequence of the termination for default, the Navy demanded that the contractors repay $1,352 in unliquidated progress payments, but agreed to defer collection of the amount pending a decision by the U.S. Court of Federal Claims on the contractors' appeal of the termination for default, or a negotiated settlement.

The contractors filed a complaint on June 7, 1991, in the U.S. Court of Federal Claims contesting the default termination. The suit, in effect, seeks to convert the termination for default to a termination for convenience of the U.S. government and seeks other legal relief. A trial on Count XVII of the complaint, which relates to the propriety of the termination for default, was concluded in October 1993. In December 1994, the court issued an order vacating the termination for default. On December 19, 1995, following a trial on the merits, the court issued an order converting the termination for default to a termination for convenience.

On February 23, 1998, a final judgment was entered in favor of the contractors for $1,200 plus interest. The U.S. government has filed a notice of appeal. Final resolution of the A-12 litigation will depend on the outcome of expected appeal or negotiation with the government. The company has not recognized any claim revenue from the Navy.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors
Halliburton Company:

We have audited the accompanying consolidated balance sheets of Halliburton Company and subsidiary companies as of December 31, 1997 and 1996, and the related consolidated statements of income, cash flows and shareholders' equity for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of Haliburton Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examin-

ing, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Halliburton Company and subsidiary companies as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

January 22, 1998 (Except with respect to the matter discussed in Note 17, as to which the date is February 26, 1998)

NOTES TO FINANCIAL STATEMENTS

Note 17. Subsequent Event

On February 26, 1998, the Company and Dresser Industries, Inc., (Dresser) announced that a definitive merger agreement was approved by the board of directors of both companies. Approximately 175 million newly issued shares of Halliburton common stock will be issued to Dresser Shareholders at a one-for-one exchange ratio. The transaction will be accounted for by the pooling of interests method of accounting for business combinations and is expected to be tax-free to Dresser's shareholders. The transaction is subject to regulatory approvals in the United States, Europe and several other countries, shareholder approvals and customary closing conditions. Dresser is a diversified company with operations in three industry segments: engineering services; petroleum products and services; and energy equipment.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of Harsco Corporation:

We have audited the accompanying consolidated balance sheets of Harsco Corporation and Subsidiary Companies as of December 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Harsco Corporation and Subsidiary Companies as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

January 29, 1998, except as to Note 4 and paragraph 6 of Note 10, for which the date is March 4, 1998

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Pending Acquisitions

On February 2, 1998, the Company signed a definitive agreement with Charter plc to acquire Charter's Pandrol Jackson railway track maintenance business in a cash transaction. Pandrol Jackson manufactures, markets worldwide, and provides under contract a wide range of equipment and services used in railway track maintenance. Pandrol Jackson had 1997 sales of approximately $71 million.

On February 17, 1998 the Company acquired EFI Corporation (EFIC) from Racal Electronics Plc. for approximately $7.2 million in cash. EFIC produces lightweight composite cylinders used extensively in firefighter breathing apparatus as well as other industrial and commercial applications. EFIC is expected to contribute annual sales of approximately $10 million.

On February 20, 1998, the Company signed a definitive agreement to acquire Chemi-Trol Chemical Co. for approximately $46 million. Chemi-Trol's principal business is the production and distribution of steel pressure tanks for the storage of propane gas and anhydrous ammonia. Chemi-Trol had sales of approximately $50 million in 1997.

On March 4, 1998, the Company and Faber Prest Plc announced that they have agreed to a recommended tender offer under which the Company would acquire Faber Prest, a UK-based provider of services to worldwide steel producers and integrated logistics services to the steel industry and other market sectors. For the year ended September 30,1997, Faber Prest recorded sales of £84 million (approximately U.S. $137 million). The Company's cash offer is valued at approximately £58 million (U.S. $95 million), and is subject to the tender of 90% of the outstanding shares of Faber Prest's common stock, as well as certain other conditions and regulatory approvals.

10 (In Part): Commitments and Contingencies

M9 Armored Combat Earthmover Claims

The Company and its legal counsel are of the opinion that the U.S. Government did not exercise option three under the M9 Armored Combat Earthmover (ACE) contract in a timely manner, with the result that the unit prices for options three, four and five are subject to renegotiation. Claims reflecting the Company's position were filed with respect to all options purported to be exercised, totaling in excess of $60 million plus interest. In February 1998, the Armed Services Board of Contract Appeals denied the Company's claims. The Company intends to appeal the decision to the United States Court of Appeals

for the Federal Circuit. No recognition has been given in the accompanying financial statements for any recovery on these claims.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of
H.J. Heinz Company:

We have audited the accompanying Consolidated Balance Sheets of H.J. Heinz Company and Subsidiaries at April 30, 1997 and May 1, 1996, and the related Consolidated Statements of Income, Retained Earnings and Cash Flows for each of the three years in the period ended April 30, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of H.J. Heinz Company and Subsidiaries at April 30, 1997 and May 1, 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended April 30, 1997, in conformity with generally accepted accounting principles.

June 17, 1997 except for Note 16, as to which the date is June 30, 1997

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Subsequent Events

On June 30, 1997, the company completed the sale of its frozen foodservice foods business to McCain Foods Limited of New Brunswick, Canada for approximately $500 million. The transaction included the sale of Heinz's Ore-Ida appetizer, pasta and potato foodservice business and the five Ore-Ida plants that manufacture the products. The Ore-Ida foodservice business contributed approximately $525 million in net sales for Fiscal 1997. The sale is not expected to have an adverse effect on the company's results of operations.

On June 30, 1997, the company acquired John West Foods Limited from Unilever. John West Foods Limited, with annual sales of more than $250 million, is the leading brand of canned tuna and fish in the United Kingdom. Based in Liverpool, John West Foods Limited sells its canned fish products throughout Continental Europe and in a number of other international markets. (John West operations in Australia, New Zealand and South Africa are not included in the transaction.)

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
IKON Office Solutions, Inc.

We have audited the accompanying consolidated balance sheets of IKON Office Solutions, Inc. and subsidiaries as of September 30, 1997 and 1996, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of IKON Office Solutions, Inc. and subsidiaries at September 30, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1997, in conformity with generally accepted accounting principles.

October 15, 1997, except for note 8, as to which the date is October 27, 1997

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

On October 27, 1997, the Company completed a $250,000,000 underwritten public debt offering consisting of $125,000,000 6.75% notes due November 1, 2004 and $125,000,000 7.3% notes due November 1, 2027. The 6.75% notes were sold at a discount to yield 6.794% and carry a make-whole call provision with a five basis-points premium. The 7.3% notes were also sold at a discount to yield 7.344% and carry a make-whole call provision with a 15 basis-points premium. The proceeds of the offering were used to repay short-term borrowings.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Northrop Grumman Corporation
Los Angeles, California

We have audited the accompanying consolidated statements of financial position of Northrop Grumman Corporation and Subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. Our audit also included the financial statement schedule listed in the Index at Item 14. These financial statements and financial statement schedule are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Northrop Grumman Corporation and Subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

January 21, 1998
(except for the information described in the note to the consolidated financial statements captioned "Merger Agreement" as to which the date is March 25, 1998)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Merger Agreement

On July 3, 1997, the company announced that it had entered into a definitive agreement with Lockheed Martin Corporation to combine the companies. Under the terms of the agreement, 1.1923 shares of Lockheed Martin common stock would be exchanged for each share of Northrop Grumman common stock. On February 26, 1998, shareholders of Northrop Grumman approved the merger. Subsequently, the Department of Justice filed suit to block the combination. The outcome cannot be predicted at this time.

The Company will record a charge of $180 million in the first quarter of 1998 for costs related to the proposed combination. The charge will cover vesting of restricted stock which became issuable following shareholder approval of the merger and other costs associated with the pending combination, such as investment banking fees, legal and accounting fees, and costs related to responding to the Government's request for information.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Springs Industries, Inc.

We have audited the accompanying consolidated balance sheet of Springs Industries, Inc. as of January 3, 1998 and December 28, 1996, and the related consolidated statements of operations and retained earnings and of cash flows for each of the three fiscal years in the period ended January 3, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Springs Industries, Inc. at January 3, 1998 and December 28, 1996, and the results of its operations and its cash flows for each of the three fiscal years in the period ended January 3, 1998, in conformity with generally accepted accounting principles.

February 2, 1998 (February 17, 1998, as to the last paragraph in Note 10)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (In Part) Other Matters

Subsequent Event: On February 17, 1998, Management adopted a plan to close one of its facilities. The phase-down of the facility is expected to take four to five months. A pretax charge of $23 million will be recorded during the first quarter of 1998. The charge includes $11.3 million for write-offs of plant and equipment, $4.0 million for severance arising from the elimination of approximately 480 positions, and $7.7 million for certain other expenses associated with the closing of the facility. In addition, the Company expects to incur approximately $8 million for equipment relocation and other realignment expenses which do not qualify as "exit costs."

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Standard Motor Products, Inc.:

We have audited the consolidated balance sheets of Standard Motor Products, Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Standard Motor Products, Inc. and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

March 5, 1998, except as to the final paragraphs of
note 8 and 9, which are as of March 30, 1998

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Notes Payable-Banks

On March 30, 1998 the Company entered into a committed revolving credit facility with its existing banking group and incurred commitment fees of approximately 1.25% of the total facility. This facility provides for unsecured lines of credit in the aggregate amount of $108,500,000. The facility expires November 30, 1998. The facility consists of two segments. Segment A consists of lines of credit totalling $78,500,000. The interest rate on borrowings under this segment is fixed at the prime interest rate plus 1.5%, and may be reduced based upon the Company's net earnings performance during 1998 by up to 1%. Segment B of the credit facility consists of lines of credit totalling $30,000,000. The interest rate on borrowings under this segment is fixed at the prime rate plus 1%, and may be reduced based on the Company's net earnings performance during 1998 by .75%. On October 31, 1998 the Company must have paid in full any borrowings under Segment B. The terms of the credit facility contain, among other provisions, requirements for maximum amounts of month-end loan balances and for maintaining defined levels of tangible net worth, net sales, and earnings. There are also restrictions on capital expenditures, dividend payments, acquisitions and additional indebtedness.

9 (In Part): Long-Term Debt

The senior note payable agreements contain restrictive covenants which require the maintenance of defined levels of working capital, tangible net worth and earnings and limit, among other items, investments, indebtedness and distributions for the payment of dividends and the acquisition of capital stock. At December 31, 1997, the Company did not comply with certain covenant requirements for which the Company received waivers and amendments on March 27, 1998. These amendments contain among other things, provisions for the payment of up front fees of 1.5% and an increase in the interest rate on each senior note payable by 1.25%. The increased interest rate may be reduced based upon the achievement of an earnings' goal and the refinancing of the Company's revolving credit facility which will expire on November 30, 1998.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of Unisys Corporation

We have audited the accompanying consolidated balance sheets of Unisys Corporation at December 31, 1997 and 1996, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of Unisys Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unisys Corporation at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

As described in Note 3 to the consolidated financial statements, effective December 31, 1997, Unisys Corporation changed its method of accounting for the measurement of goodwill impairment.

January 15, 1998, except for the fourth paragraph of
Note 9, as to which the date is February 5, 1998

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Long-term debt

On January 30, 1998, the company issued $200 million of 7 7/8% senior notes due 2008. The net proceeds from the sale of the notes were used to call $200 million principal amount of the 10 5/8% senior notes due 1999 at 101.77%. On February 5, 1998, the company redeemed all $197.5 million of the 9 1/2% senior notes due on July 15, 1998.

REPORTS OF AUDIT COMMITTEE AND MANAGEMENT

Fourteen survey companies presented a Report of An Audit Committee and 360 survey companies presented a Report of Management. Examples of such reports follow.

Reports of Audit Committee

MERCK & CO., INC.

AUDIT COMMITTEE'S REPORT

The Audit Committee of the Board of Directors is comprised of five outside directors. The members of the Committee are: Charles E. Exley Jr., Chairman; Carolyne K. Davis, Ph.D.; Sir Derek Birkin; William N. Kelley, M.D.; and Samuel O. Thier, M.D. The Committee held three meetings during 1997.

The Audit Committee meets with the independent public accountants, management and internal auditors to assure that all are carrying out their respective responsibilities. The Audit Committee reviews the performance and fees of the independent public accountants prior to recommending their appointment, and meets with them, without management present, to discuss the scope and results of their audit work, including the adequacy of internal controls and the quality of financial reporting. Both the independent public accountants and the internal auditors have full access to the Audit Committee.

Chairman, Audit Committee

MONSANTO COMPANY

FINANCE COMMITTEE REPORT

The finance committee assumed the responsibilities of the audit committee as the board of directors was reorganized following the spinoff of the company's chemical businesses in 1997. After its formation in September, the committee met three times in 1997. The committee is composed of four nonemployee members of the board. As part of its duties, the committee reviews and monitors Monsanto's internal accounting controls, financial reports, accounting practices, and the scope and effectiveness of the audits performed by the independent auditors and internal auditors. The commitee also recommends to the full board of directors the appointment of Monsanto's principal independent auditors, and it approves in advance all significant audit and nonaudit services provided by such auditors. As ratified by shareowner vote at the 1997 annual meeting, Deloitte & Touche LLP was appointed independent auditor to examine, and to express an opinion as to the fair presentation of, the consolidated financial statements. This report follows.

The finance committee discusses audit and financial reporting matters with representatives of the company's financial management, its internal auditors, and Deloitte & Touche. The internal auditors and Deloitte & Touche meet with the committee, with and without management representatives present, to discuss the results of their examinations, the adequacy of Monsanto's internal accounting controls, and the quality of its financial reporting. The committee encourages the internal auditors and Deloitte & Touche to communicate directly with the committee.

The finance committee has reviewed the financial section of the annual report. Pursuant to the recommendations of the committee, the board of directors has approved the financial section.

Chair, Finance Committee

Reports Of Management

AMERICAN HOME PRODUCTS CORPORATION

MANAGEMENT REPORT ON FINANCIAL STATEMENTS

Management has prepared and is responsible for the Company's consolidated financial statements and related notes. They have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on judgments and estimates made by management. All financial information in this Annual Report is consistent with the financial statements.

The Company maintains internal accounting control systems and related policies and procedures 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 the preparation of financial statements and other financial information. The design, monitoring and revision of internal accounting control systems involve, among other things, management's judgment with respect to the relative cost and expected benefits of specific control measures. The Company also maintains an internal auditing function which evaluates and formally reports on the adequacy and effectiveness of internal accounting controls, policies and procedures.

The Company's financial statements have been audited by independent public accountants who have expressed their opinion with respect to the fairness of these statements.

The Audit Committee of the Board of Directors, composed of non-employee directors, meets periodically with the independent public accountants and internal auditors to evaluate the effectiveness of the work performed by them in discharging their respective responsibilities and to assure their independent and free access to the Committee.

Chairman, President and Chief Executive Officer
Senior Executive Vice President and Chief Financial Officer

W.R. GRACE & CO.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation, integrity and objectivity of the Consolidated Financial Statements and the other financial information included in this report. Such financial information has been prepared in conformity with generally accepted accounting principles and accordingly includes certain amounts that represent management's best estimates and judgments. Actual amounts could differ from those estimates.

Management maintains internal control systems to assist it in fulfilling its responsibility for financial reporting. These systems include business, accounting and reporting policies and procedures, selection of personnel, segregation of duties and an internal audit function. While no system can ensure elimination of all errors and irregularities, Grace's systems, which are reviewed and modified in response to changing conditions, have been designed to provide reasonable assurance that assets are safeguarded, policies and procedures are followed and transactions are properly executed and reported. The concept of reasonable assurance is based on the recognition that there are limitations in all systems and that the costs of such systems should not exceed their benefits.

The Audit Committee of the Board of Directors, which is comprised of directors who are neither officers nor employees of nor consultants to Grace, meets regularly with Grace's senior financial personnel, internal auditors and independent certified public accountants to review audit plans and results, as well as the actions taken by management in discharging its responsibilities for accounting, financial reporting and internal control systems. The Audit Committee reports its findings and recommends the selection of independent certified public accountants to the Board of Directors. Grace's management, internal auditors and independent certified public accountants have direct and confidential access to the Audit Committee at all times.

The independent certified public accountants are engaged to conduct the audits of and report on the Consolidated Financial Statements in accordance with generally accepted auditing standards. These standards require a review of the systems of internal controls and tests of transactions to the extent considered necessary by the independent certified public accountants for purposes of supporting their opinion as set forth in their report.

Chairman, President and Chief Executive Officer
Senior Vice President and Chief Financial Officer

INLAND STEEL INDUSTRIES, INC.

FINANCIAL RESPONSIBILITY

Senior management is responsible for the integrity and objectivity of the financial data reported by Inland Steel Industries, Inc. and its subsidiaries. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, and in management's judgment reflect fairly the consolidated financial position, cash flows and results of operations of Inland and its subsidiary companies.

The Company maintains systems of internal accounting controls and procedures to provide reasonable assurance of the safeguarding and accountability of Company assets, and to ensure that its financial records provide a reliable basis for the preparation of financial statements and other data.

Internal accounting control is maintained through:

- The on-going activities of corporate staff, line officers and accounting management to monitor the adequacy of internal accounting control systems throughout the Company
- The selection and proper training of qualified personnel
- The appropriate separation of duties in organizational arrangements
- The establishment and communication of accounting and business policies together with detailed procedures for their implementation
- The use of an intensive ongoing program of internal auditing
- The use of a detailed budgeting system to assure that expenditures are properly approved and charged.

Stockholders annually elect a firm of independent accountants to audit the annual financial statements (their current report appears below). The principal role of the Audit Committee of the Board of Directors (consisting entirely of non-management Directors) is to review the conclusions reached by management in its evaluation of in-

ternal accounting controls, approve the scope of audit programs and evaluate audit results of both independent accountants and internal auditors. Both groups have unrestricted access to the Audit Committee, without the presence of management.

INTERNATIONAL PAPER COMPANY

REPORT OF MANAGEMENT ON FINANCIAL STATEMENTS

The management of International Paper Company is responsible for the fair presentation of the information contained in the financial statements in this annual report. The statements are prepared in accordance with generally accepted accounting principles and reflect management's best judgment as to the Company's financial position, results of operations and cash flows.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that transactions are properly recorded and summarized so that reliable financial records and reports can be prepared and assets safeguarded.

An important part of the internal controls system is the Company's Policy on Ethical Business Conduct, which requires employees to maintain the highest ethical and legal standards in their conduct of Company business. The internal controls system further includes careful selection and training of supervisory and management personnel, appropriate delegation of authority and division of responsibility, dissemination of accounting and business policies throughout the Company, and an extensive program of internal audits with management follow-up. The Company maintains a toll-free telephone "compliance line" whereby any employee may report suspected violations of law or Company policy.

The independent public accountants provide an objective, independent review of management's discharge of its responsibility for the fairness of the Company's financial statements. They review the Company's internal accounting controls and conduct tests of procedures and accounting records to enable them to form the opinion set forth in their report.

The Board of Directors monitors management's administration of the Company's financial and accounting policies and practices, and the preparation of these financial statements. The Audit Committee, which consists of five nonemployee directors, meets regularly with representatives of management, the independent public accountants and the internal Auditor to review their activities. The Audit Committee recommends that the shareholders approve the appointment of the independent public accountants to conduct the annual audit.

The independent public accountants and the internal Auditor both have free access to the Audit Committee and meet regularly with the Audit Committee, with and without management representatives in attendance.

Senior Vice President and Chief Financial Officer

OLIN CORPORATION

MANAGEMENT REPORT ON FINANCIAL STATEMENTS

Management is responsible for the preparation and integrity of the accompanying consolidated financial statements. These financial statements have been prepared in conformity with generally accepted accounting principles and, where necessary, involve amounts based on management's best judgments and estimates. Management also prepared the other information in this annual report and is responsible for its accuracy and consistency with the financial statements.

The company's system of internal controls is designed to provide reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. This system, which is reviewed regularly, consists of written policies and procedures, an organizational structure providing delegation of authority and segregation of responsibility and is monitored by an internal audit department. The company's independent auditors also review and test the internal control system along with tests of accounting procedures and records to the extent that they consider necessary in order to issue their opinion on the financial statements. Management believes that the system of internal accounting controls meets the objectives noted above.

Management also recognizes its responsibility for fostering a strong ethical climate so that the company's affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is communicated to all employees in a variety of ways, including personal training sessions.

The Ethics Program is based upon a document called "The Standards of Ethical Business Practices." The standards address, among other things, the necessity of ensuring open communication within the company; potential conflicts of interest; compliance with all domestic and foreign laws, including those relating to financial disclosure; and the confidentiality of proprietary information. The company maintains a systematic program to assess compliance with these standards and has established confidential ways, including a telephone help-line, for employees to ask questions and share concerns.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the independent auditors, management and the company's internal auditors to review the work of each and to evaluate accounting, auditing, internal controls and financial reporting matters. The Audit Committee annually recommends to the Board of Directors the appointment of independent auditors, subject to shareholder approval. The independent auditors and the company's internal audit department have independent and free access to the Audit Committee.

Chairman, President and Chief Executive Officer
Senior Vice President and Chief Financial Officer

PEPSICO, INC.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To Our Shareholders:

Management is responsible for the reliability of the consolidated financial statements and related notes, which have been prepared in conformity with generally accepted accounting principles and include amounts based upon our estimates and assumptions, as required. The financial statements have been audited and reported on by our independent auditors, KPMG Peat Marwick LLP, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that management representations made to the independent auditors were valid and appropriate.

PepsiCo maintains a system of internal control over financial reporting, designed to provide reasonable assurance as to the reliability of the financial statements, as well as to safeguard assets from unauthorized use or disposition. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. PepsiCo's internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified. The Audit Committee of the Board of Directors, which is composed solely of outside directors, provides oversight to our financial reporting process and our controls to safeguard assets through periodic meetings with our independent auditors, internal auditors and management. Both our independent auditors and internal auditors have free access to the Audit Committee.

Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of December 27, 1997 provide reasonable assurance that the financial statements are reliable and that our assets are reasonably safeguarded.

Appendix of 600 Companies

List of 600 Companies on Which Tabulations Are Based

(In this edition, companies have been assigned the same number as in the Fifty-first (1997) edition. 26 companies in the 1997 edition have been eliminated and their numbers left unused. These 26 companies were replaced by a company included in a prior edition but not the 1997 edition, and 25 companies not previously included in any prior editions. Companies numbered out of alphabetical order are shown in *italics* and have been given an additional listing in alphabetical order).

Co. No.		*Month in which fiscal year ends
	ABM Industries Incorporated—*see 30*	
	ADVO, Inc.—*see 861*	
	AGCO Corporation—*see 862*	
6	AMETEK, Inc.	12
7	AMP Incorporated	12
9	ASARCO Incorporated	12
	AT & T Corp.—*see 43*	
10	Abbott Laboratories	12
	Acme Metals Incorporated—*see 651*	
	Advanced Micro Devices, Inc.—*see 652*	
	Aeroquip-Vickers, Inc.—*see 338*	
16	Air Products and Chemicals, Inc.	9
	Alberto-Culver Company—*see 601*	
17	Albertson's, Inc.	1
18	*IKON Office Solutions, Inc.*	9
	Allegheny Teledyne Incorporated—*see 776*	
	Allen Telecom Inc.—*see 602*	
	Allergan, Inc.—*see 796*	
	Alliant Techsystems Inc.—*see 777*	
20	AlliedSignal Inc.	12
23	Alpha Industries, Inc.	3
	Alumax Inc.—*see 817*	
24	Aluminum Company of America	12
25	Amcast Industrial Corporation	8
26	Amerada Hess Corporation	12
28	American Biltrite Inc.	12
29	*Fortune Brands, Inc.*	12
30	*ABM Industries Incorporated*	10
33	American Greetings Corporation	2
35	American Home Products Corporation	12
39	*FINA, Inc.*	12
41	American Standard Companies Inc.	12
42	American Stores Company	1
43	*AT & T Corp.*	12
44	Ameron International Corporation	11
	Amgen Inc.—*see 841*	
45	Amoco Corporation	12

Co. No.		*Month in which fiscal year ends
46	Ampco-Pittsburgh Corporation	12
	Amphenol Corporation—*see 842*	
	Anacomp, Inc.—*see 696*	
48	Analogic Corporation	7
51	Anheuser-Busch Companies, Inc.	12
52	Apple Computer, Inc.	9
	Applied Materials, Inc.—*see 863*	
53	Archer Daniels Midland Company	6
54	Arden Group, Inc.	12
56	Armco Inc.	12
57	Armstrong World Industries, Inc.	12
	Arrow Electronics, Inc.—*see 844*	
59	Arvin Industries, Inc.	12
60	Ashland Inc.	9
64	Atlantic Richfield Company	12
	Atmel Corporation—*see 864*	
	Ault Incorporated—*see 738*	
	Automatic Data Processing, Inc.—*see 865*	
	Avery Dennison Corporation—*see 604*	
65	Avnet, Inc.	6
66	Avon Products, Inc.	12
	B/E Aerospace, Inc.—*see 866*	
	BJ Services Company—*see 896*	
67	BMC Industries, Inc.	12
68	Badger Meter, Inc.	12
70	Baker Hughes Incorporated	9
	Baldor Electric Company—*see 778*	
71	Ball Corporation	12
	Banta Corporation—*see 806*	
	C.R. Bard, Inc.—*see 845*	
	Barnes Group Inc.—*see 605*	
	Bassett Furniture Industries, Incorporated—*see 606*	
74	Bausch & Lomb Incorporated	12
75	Baxter International Inc.	12
	Beckman Instruments, Inc.—*see 846*	
78	Becton, Dickinson and Company	9

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
81	Bemis Company, Inc.	12
	Bestfoods—*see 106*	
83	Bethlehem Steel Corporation	12
	BetzDearborn Inc.—*see 698*	
	Binks Sames Corporation—*see 739*	
85	The Black & Decker Corporation	12
	Blount International, Inc.—*see 699*	
87	The Boeing Company	12
88	Boise Cascade Corporation	12
90	Borg-Warner Security Corporation	12
	Boston Scientific Corporation—*see 867*	
	Bowater Incorporated—*see 607*	
91	Bowne & Co., Inc.	12
93	Briggs & Stratton Corporation	6
94	Bristol-Myers Squibb Company	12
96	Brown & Sharpe Manufacturing Company	12
	Brown-Forman Corporation—*see 657*	
97	Brown Group, Inc.	1
98	Browning-Ferris Industries, Inc.	9
99	Brunswick Corporation	12
	Burlington Industries, Inc.—*see 818*	
	Burlington Resources Inc.—*see 700*	
102	*Unisys Corporation*	12
	CBS Corporation—*see 583*	
	CLARCOR Inc.—*see 658*	
105	CMI Corporation	12
106	*Bestfoods*	12
107	CSP, Inc.	8
	CTS Corporation—*see 701*	
	CVS Corporation—*see 372*	
108	Cabot Corporation	9
	CalMat Co.—*see 608*	
110	Campbell Soup Company	7
	Carlisle Companies Incorporated—*see 897*	
	Carpenter Technology Corporation—*see 610*	
112	*Dole Food Company, Inc.*	12
113	Caterpillar Inc.	12
115	*Ekco Group, Inc.*	12
	Centex Corporation—*see 836*	
	Central Sprinkler Corporation—*see 819*	
	Ceridian Corporation—*see 145*	
	Champion Enterprises, Inc.—*see 740*	
117	Champion International Corporation	12
	Chesapeake Corporation—*see 659*	
121	Chevron Corporation	12
	Chiquita Brands International, Inc.—*see 557*	
124	Chock Full o'Nuts Corporation	7
126	Chrysler Corporation	12
127	Cincinnati Milacron Inc.	12
	Circuit City Stores, Inc.—*see 868*	
	Circus Circus Enterprises, Inc.—*see 898*	
	Cisco Systems, Inc.—*see 869*	
	Liz Claiborne Inc.—*see 611*	
130	Cleveland-Cliffs Inc.	12
131	The Clorox Company	6
132	The Coastal Corporation	12
133	The Coca-Cola Company	12
	Coca-Cola Enterprises Inc.—*see 660*	
	Coherent, Inc.—*see 742*	

Co. No.		*Month in which fiscal year ends
135	Colgate-Palmolive Company	12
137	Collins Industries, Inc.	10
	Coltec Industries Inc.—*see 847*	
	Columbia/HCA Healthcare Corporation—*see 899*	
140	Commercial Metals Company	8
	Compaq Computer Corporation—*see 661*	
	Computer Sciences Corporation—*see 848*	
142	ConAgra, Inc.	5
143	Concord Fabrics Inc.	8
144	Consolidated Papers, Inc.	12
145	*Ceridian Corporation*	12
	Cooper Cameron Corporation—*see 900*	
146	Cooper Industries, Inc.	12
	Cooper Tire & Rubber Company—*see 849*	
147	Adolph Coors Company	12
149	Corning Incorporated	12
150	Courier Corporation	9
152	Crane Co.	12
153	Crown Central Petroleum Corporation	12
154	Crown Cork & Seal Company, Inc.	12
157	Cummins Engine Company, Inc.	12
158	Curtiss-Wright Corporation	12
	Cyprus Amax Minerals Company—*see 662*	
	DEP Corporation—*see 743*	
	DIMON Incorporated—*see 782*	
160	DSC Communications Corporation	12
161	Dana Corporation	12
	Danaher Corporation—*see 664*	
163	Data General Corporation	9
165	Dayton Hudson Corporation	1
166	Dean Foods Company	5
167	Deere & Company	10
168	Deluxe Corporation	12
	Detroit Diesel Corporation—*see 821*	
	The Dexter Corporation—*see 798*	
	The Dial Corporation—*see 257*	
173	Digital Equipment Corporation	6
	Dillard's, Inc.—*see 850*	
174	The Walt Disney Company	9
	The Dixie Group, Inc.—*see 665*	
	Dole Food Company, Inc.—*see 112*	
	Donaldson Company, Inc.—*see 744*	
175	R. R. Donnelley & Sons Company	12
176	Dover Corporation	12
177	The Dow Chemical Company	12
178	Dow Jones & Company, Inc.	12
180	Dravo Corporation	12
181	Dresser Industries, Inc.	10
182	The Dun & Bradstreet Corporation	12
184	E.I. duPont de Nemours and Company	12
	Durakon Industries, Inc.—*see 870*	
187	EG&G, Inc.	12
	EMCOR Group, Inc.—*see 901*	
	ERLY Industries Inc.—*see 746*	
190	The Eastern Company	12
	Eastman Chemical Company—*see 871*	
191	Eastman Kodak Company	12
192	Eaton Corporation	12
193	Echlin Inc.	8

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
	Ecolab Inc.—*see 617*	
	Ekco Group, Inc.—*see 115*	
194	Elcor Corporation	6
195	Emerson Electric Co.	9
198	Engelhard Corporation	12
	Equifax Inc.—*see 902*	
	The Estee Lauder Companies, Inc.—*see 872*	
199	Ethyl Corporation	12
	Exide Corporation—*see 873*	
202	Exxon Corporation	12
	FINA, Inc.—*see 39*	
203	FMC Corporation	12
	The Fairchild Corporation—*see 656*	
205	Fansteel Inc.	12
	Farr Company—*see 705*	
206	Fedders Corporation	8
208	Federal-Mogul Corporation	12
	Federal Screw Works—*see 747*	
209	Federated Department Stores, Inc.	1
	Ferro Corporation—*see 800*	
	Figgie International Inc.—*see 706*	
	First Brands Corporation—*see 783*	
	First Data Corporation—*see 851*	
212	Fleetwood Enterprises, Inc.	4
213	Fleming Companies, Inc.	12
214	Flowers Industries, Inc.	6
	Flowserve Corporation—*see 903*	
215	Fluke Corporation	4
216	Fluor Corporation	10
219	Ford Motor Company	12
	Fort James Corporation—*see 307*	
	Fortune Brands, Inc.—*see 29*	
	L.B. Foster Company—*see 669*	
221	Foster Wheeler Corporation	12
	Fruit of the Loom, Inc.—*see 670*	
	H.B. Fuller Company—*see 621*	
	Furniture Brands International, Inc.—*see 296*	
	Furon Company—*see 823*	
227	GTI Corporation	12
228	Gannett Co., Inc.	12
	Garan, Incorporated—*see 671*	
	Gateway 2000, Inc.—*see 874*	
230	GenCorp Inc.	11
231	*Harcourt General, Inc.*	10
232	General Dynamics Corporation	12
233	General Electric Company	12
236	General Instrument Corporation	12
237	General Mills, Inc.	5
238	General Motors Corporation	12
240	General Signal Corporation	12
	Geneva Steel Company—*see 875*	
242	Genuine Parts Company	12
	Georgia Gulf Corporation—*see 748*	
243	Georgia-Pacific Corporation	12
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

Co. No.		*Month in which fiscal year ends
252	W.R. Grace & Co.	12
253	W.W. Grainger, Inc.	12
254	The Great Atlantic & Pacific Tea Company, Inc.	2
256	Greif Bros. Corporation	10
257	*The Dial Corporation*	12
	Guidant Corporation—*see 904*	
259	Guilford Mills, Inc.	9
	Gulfstream Aerospace Corporation—*see 876*	
263	HON Industries Inc.	12
264	Halliburton Company	12
266	Hampton Industries, Inc.	12
	M.A. Hanna Company—*see 672*	
	Hannaford Bros. Co.—*see 877*	
	Harcourt General, Inc.—*see 231*	
	Harley-Davidson, Inc.—*see 673*	
	Harmon Industries, Inc.—*see 475*	
268	Harnischfeger Industries, Inc.	10
	Harrah's Entertainment, Inc.—*see 829*	
269	Harris Corporation	6
270	Harsco Corporation	12
271	Hartmarx Corporation	11
	Hasbro, Inc.—*see 623*	
273	Hecla Mining Company	12
275	H.J. Heinz Company	4
276	Hercules Incorporated	12
277	Hershey Foods Corporation	12
278	Hewlett-Packard Company	10
	Hillenbrand Industries, Inc.—*see 624*	
280	Homasote Company	12
	The Home Depot, Inc.—*see 905*	
281	Honeywell Inc.	12
282	Hormel Foods Corporation	10
283	Hughes Supply, Inc.	1
285	Humana Inc.	12
286	Hunt Corporation	11
287	Hurco Companies, Inc.	10
	Hyde Athletic Industries, Inc.—*see 675*	
	IBP, Inc.—*see 751*	
288	*Whitman Corporation*	12
	IKON Office Solutions, Inc.—*see 18*	
	IMC Global, Inc.—*see 752*	
	ITT Industries, Inc.	12
	Illinois Tool Works Inc.—*see 625*	
292	Ingersoll-Rand Company	12
	Ingram Micro Inc.—*see 906*	
293	Inland Steel Industries, Inc.	12
294	Insilco Corporation	12
295	Intel Corporation	12
296	*Furniture Brands International, Inc.*	12
	Interface, Inc.—*see 753*	
	Intergraph Corporation—*see 801*	
297	The Interlake Corporation	12
298	International Business Machines Corporation	12
	International Flavors & Fragrances Inc.—*see 627*	
299	*Navistar International Corporation*	10
301	International Multifoods Corporation	2

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
302	International Paper Company	12
	The Interpublic Group of Companies, Inc.—*see 837*	
303	Interstate Bakeries Corporation	5
305	JLG Industries, Inc.	7
	Jacobs Engineering Group Inc.—*see 754*	
307	*Fort James Corporation*	12
	Jefferson Smurfit Corporation—*see 628*	
	Johns Manville Corporation—*see 357*	
308	Johnson & Johnson	12
309	Johnson Controls, Inc.	9
	Jones Apparel Group, Inc.—*see 878*	
312	Jostens, Inc.	12
	Juno Lighting, Inc.—*see 712*	
314	*Kmart Corporation*	1
	Kaman Corporation—*see 629*	
317	Kellogg Company	12
	Kellwood Company—*see 838*	
318	Kelly Services, Inc.	12
320	Kerr-McGee Corporation	12
	Kimball International, Inc.—*see 853*	
324	Kimberly-Clark Corporation	12
	Kmart Corporation—*see 314*	
326	Knape & Vogt Manufacturing Company	6
327	Knight-Ridder, Inc.	12
329	The Kroger Co.	12
	K2 inc.—*see 737*	
330	Kuhlman Corporation	12
	LADD Furniture, Inc.—*see 755*	
	LSI Logic Corporation—*see 907*	
331	The LTV Corporation	12
	La-Z-Boy Incorporated—*see 879*	
332	LaBarge, Inc.	6
333	Laclede Steel Company	12
	Lafarge Corporation—*see 678*	
	Lam Research Corporation—*see 880*	
	The Lamson & Sessions Co.—*see 713*	
	Lance, Inc.—*see 854*	
336	Lee Enterprises, Incorporated	9
337	Leggett & Platt, Incorporated	12
	Lexmark International Group, Inc.—*see 908*	
338	*Aeroquip-Vickers, Inc.*	12
339	Eli Lilly and Company	12
340	Litton Industries, Inc.	7
341	Lockheed Martin Corporation	12
342	Lone Star Industries, Inc.	12
	Louisiana-Pacific Corporation—*see 824*	
344	Lowe's Companies, Inc.	1
345	The Lubrizol Corporation	12
	Lufkin Industries, Inc.—*see 714*	
347	Lukens Inc.	12
348	Lynch Corporation	12
	Lyondell Petrochemical Company—*see 757*	
	MagneTek, Inc.—*see 758*	
	Mallinckrodt Inc.—*see 881*	
	Manpower Inc.—*see 855*	
357	*Johns Manville Corporation*	12
	Mark IV Industries, Inc.—*see 759*	
360	Masco Corporation	12
361	Mattel, Inc.	12
	Maxxam Inc.—*see 760*	
362	The May Department Stores Company	1
363	Maytag Corporation	12
364	McCormick & Company, Incorporated	11
365	McDermott International, Inc.	3
366	McDonald's Corporation	12
368	The McGraw-Hill Companies, Inc.	12
369	McKesson Corporation	3
370	The Mead Corporation	12
	Media General, Inc.—*see 631*	
371	Medtronic, Inc.	4
372	*CVS Corporation*	12
373	Merck & Co., Inc.	12
374	Meredith Corporation	6
	Merrimac Industries, Inc.—*see 882*	
375	Met-Pro Corporation	1
	Michael Foods, Inc.—*see 856*	
	Micron Technology, Inc.—*see 787*	
	Microsoft Corporation—*see 825*	
377	Herman Miller, Inc.	5
379	Minnesota Mining and Manufacturing Company	12
	Minntech Corporation—*see 679*	
380	Mobil Corporation	12
	Mohawk Industries, Inc.—*see 857*	
	Molex Incorporated—*see 716*	
383	Monsanto Company	12
385	Morton International, Inc.	6
389	*PremiumWear, Inc.*	12
390	Murphy Oil Corporation	12
	NACCO Industries, Inc.—*see 403*	
	NIKE, Inc.—*see 401*	
	Nalco Chemical Company—*see 803*	
	Nashua Corporation—*see 761*	
397	National Presto Industries, Inc.	12
398	National Semiconductor Corporation	5
399	National Service Industries, Inc.	8
	Navistar International Corporation—*see 299*	
400	The New York Times Company	12
	Newell Co.—*see 680*	
401	*NIKE, Inc.*	5
	Nine West Group Inc.—*see 909*	
	Noble Affiliates, Inc.—*see 910*	
	Nordstrom, Inc.—*see 911*	
402	Nortek, Inc.	12
403	*NACCO Industries, Inc.*	12
405	Northrop Grumman Corporation	12
	Northwestern Steel and Wire Company—*see 826*	
	Novell, Inc.—*see 839*	
	Nucor Corporation—*see 633*	
407	Oak Industries Inc.	12
408	Occidental Petroleum Corporation	12
409	Ogden Corporation	12
411	Olin Corporation	12
	Omnicom Group Inc.—*see 682*	
	Optical Coating Laboratory, Inc.—*see 683*	
	Oryx Energy Company—*see 788*	

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
413	O'Sullivan Corporation	12
415	Owens Corning	12
416	Owens-Illinois, Inc.	12
417	Oxford Industries, Inc.	5
	PACCAR Inc.—*see 419*	
	PORTEC, Inc.—*see 444*	
418	PPG Industries, Inc.	12
	PRIMEDIA Inc.—*see 912*	
419	*PACCAR Inc.*	12
421	Pall Corporation	7
424	Parker Hannifin Corporation	6
	Peerless Mfg. Co.—*see 790*	
427	The Penn Traffic Company	1
428	J.C. Penney Company, Inc.	1
430	Pennzoil Company	12
	Pentair, Inc.—*see 684*	
432	PepsiCo, Inc.	12
433	The Perkin-Elmer Corporation	6
435	Pfizer Inc.	12
	Pharmacia & Upjohn, Inc.—*see 569*	
436	Phelps Dodge Corporation	12
437	Philip Morris Companies Inc.	12
438	Phillips Petroleum Company	12
	Phillips-Van Heusen Corporation—*see 634*	
	Photo Control Corporation—*see 686*	
	Pilgrim's Pride Corporation—*see 913*	
440	Pioneer Hi-Bred International, Inc.	8
441	Pitney Bowes Inc.	12
	Pittway Corporation—*see 791*	
	Plasma-Therm, Inc.—*see 762*	
	Polaris Industries Inc.—*see 883*	
443	Polaroid Corporation	12
444	*PORTEC, Inc.*	12
446	Potlatch Corporation	12
447	Prab, Inc.	10
	Praxair, Inc.—*see 828*	
	Premark International, Inc.—*see 635*	
	PremiumWear, Inc.—*see 389*	
451	The Procter & Gamble Company	6
	QUALCOMM Incorporated—*see 914*	
453	The Quaker Oats Company	12
454	Quaker State Corporation	12
455	Quanex Corporation	10
	Quantum Corporation—*see 884*	
458	Ralston Purina Company	9
	Raychem Corporation—*see 638*	
461	Raytheon Company	12
	The Reader's Digest Association, Inc.—*see 792*	
	Reebok International Ltd.—*see 885*	
	Republic Group Incorporated—*see 718*	
466	Reynolds Metals Company	12
	Rite Aid Corporation—*see 886*	
	Robbins & Myers, Inc.—*see 764*	
	Rock-Tenn Company—*see 915*	
469	Rockwell International Corporation	9
470	Rohm and Haas Company	12
	Rohr, Inc.—*see 640*	
	Rouge Industries, Inc.—*see 916*	

Co. No.		*Month in which fiscal year ends
471	Rowe Furniture Corporation	11
472	Rubbermaid Incorporated	12
	Ruddick Corporation—*see 811*	
	Russell Corporation—*see 832*	
474	Rymer Foods Inc.	10
	SCI Systems, Inc.—*see 793*	
475	*Harmon Industries, Inc.*	12
477	SPS Technologies, Inc.	12
	SPX Corporation—*see 642*	
	SUPERVALU INC.—*see 522*	
	SYSCO Corporation—*see 887*	
478	Safeway Inc.	12
479	Sara Lee Corporation	6
481	Schering-Plough Corporation	12
482	Schlumberger Limited	12
	Scientific Industries, Inc.—*see 765*	
484	Scope Industries	6
	The Scotts Company—*see 833*	
	Seaboard Corporation—*see 858*	
	Seagate Technology, Inc—*see 687*	
486	Sears, Roebuck and Co.	12
	Sequa Corporation—*see 519*	
487	Service Corporation International	12
	Shaw Industries, Inc.—*see 643*	
490	The Sherwin-Williams Company	12
	Simpson Industries, Inc.—*see 689*	
494	A.O. Smith Corporation	12
	Smithfield Foods, Inc.—*see 690*	
	The J.M. Smucker Company—*see 917*	
496	Snap-on Incorporated	12
	Solectron Corporation—*see 888*	
	Sonoco Products Company—*see 691*	
	Southdown, Inc.—*see 766*	
	Span-America Medical Systems, Inc.—*see 834*	
498	Sparton Corporation	6
499	Spectrum Control, Inc.	11
	Speizman Industries, Inc.—*see 721*	
502	Springs Industries, Inc.	12
	Standard Commercial Corporation—*see 812*	
507	Standard Motor Products, Inc.	12
	The Standard Products Company—*see 722*	
509	The Standard Register Company	12
	Standex International Corporation—*see 767*	
510	Stanhome Inc.	12
511	The Stanley Works	12
512	The L.S. Starrett Company	6
	Steel Technologies Inc.—*see 723*	
	Stewart & Stevenson Services, Inc.—*see 768*	
517	Stone Container Corporation	12
	Storage Technology Corporation—*see 804*	
519	*Sequa Corporation.*	12
	Suiza Foods Corporation—*see 918*	
520	Sun Company, Inc.	12
	Sun Microsystems, Inc.—*see 769*	
521	Sundstrand Corporation	12

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
	Sunrise Medical Inc.—*see 724*	
522	*SUPERVALU INC.*	2
	Sybase, Inc.—*see 889*	
	The TJX Companies, Inc.—*see 770*	
526	TRW Inc.	12
528	Tandy Corporation	12
529	Tasty Baking Company	12
530	Tecumseh Products Company	12
	Tektronix, Inc.—*see 794*	
532	Temple-Inland Inc.	12
533	Temtex Industries, Inc.	8
534	Tenneco Inc.	12
	Teradyne, Inc.—*see 890*	
	Terra Industries Inc.—*see 676*	
535	Tesoro Petroleum Corporation	12
536	Texaco Inc.	12
	Texas Industries, Inc.—*see 725*	
537	Texas Instruments Incorporated	12
538	Textron Inc.	12
	Thermo Electron Corporation—*see 813*	
	Thiokol Corporation—*see 805*	
	Thomas & Betts Corporation—*see 771*	
	Thorn Apple Valley, Inc.—*see 644*	
540	Time Warner Inc.	12
541	The Times Mirror Company	12
542	The Timken Company	12
	Tokheim Corporation—*see 693*	
	The Toro Company—*see 726*	
544	Tosco Corporation	12
	Toys "R" Us, Inc.—*see 772*	
	TransTechnology Corporation—*see 727*	
547	Tribune Company	12
	Trinity Industries, Inc.—*see 646*	
548	Tultex Corporation	12
	Tupperware Corporation—*see 891*	
	Twin Disc, Incorporated—*see 728*	
549	Tyler Corporation	12
550	Tyson Foods, Inc.	9
	USA Waste Services, Inc.—*see 892*	
	UST Inc.—*see 563*	
	USX Corporation—*see 561*	
	Ultramar Diamond Shamrock Corporation—*see 919*	
553	Unifi, Inc.	6
554	Union Camp Corporation	12
555	Union Carbide Corporation	12
	Union Texas Petroleum Holdings, Inc.—*see 694*	
	Unisys Corporation—*see 102*	
557	*Chiquita Brands International, Inc.*	12
558	United Foods, Inc.	2
	United HealthCare Corporation—*see 859*	
561	*USX Corporation*	12
562	United States Surgical Corporation	12
563	*UST Inc.*	12
564	United Technologies Corporation	12
566	Universal Corporation	6
	Universal Foods Corporation—*see 814*	
568	Unocal Corporation	12
569	*Pharmacia & Upjohn, Inc.*	12
570	VF Corporation	12
	Valero Energy Corporation—*see 647*	
571	Varian Associates, Inc.	9
	Viad Corp—*see 893*	
	Viacom Inc.—*see 920*	
	Vishay Intertechnology, Inc.—*see 731*	
573	Vulcan Materials Company	12
	WHX Corporation—*see 587*	
	WTD Industries, Inc.—*see 894*	
	Wal-Mart Stores, Inc.—*see 648*	
574	Walbro Corporation	12
575	Walgreen Co.	8
577	Wang Laboratories, Inc.	6
579	Warner-Lambert Company	12
	The Washington Post Company—*see 649*	
580	Waste Management, Inc.	12
581	Wausau-Mosinee Paper Corporation	12
	Waxman Industries, Inc.—*see 732*	
	Weirton Steel Corporation—*see 835*	
	Western Atlas Inc.—*see 860*	
	Western Digital Corporation—*see 733*	
583	*CBS Corporation*	12
	WestPoint Stevens Inc.—*see 840*	
584	Westvaco Corporation	10
586	Weyerhaeuser Company	12
587	*WHX Corporation*	12
588	Whirlpool Corporation	12
	Whitman Corporation—*see 288*	
589	Whittaker Corporation	10
590	Willamette Industries, Inc.	12
593	Winn-Dixie Stores, Inc.	6
594	Winnebago Industries, Inc.	8
595	Witco Corporation	12
	Wolverine World Wide, Inc.—*see 734*	
596	Woolworth Corporation	1
	World Color Press, Inc.—*see 895*	
	Worthington Industries, Inc.—*see 735*	
597	Wm. Wrigley Jr. Company	12
599	Xerox Corporation	12
	York International Corporation—*see 650*	
600	Zenith Electronics Corporation	12
	Zurn Industries, Inc.—*see 775*	

COMPANIES ADDED FOR 1987 EDITION

Co. No.		*Month in which fiscal year ends
601	*Alberto-Culver Company*	9
602	*Allen Telecom Inc.*	12
604	*Avery Dennison Corporation*	12
605	*Barnes Group Inc.*	12
606	*Bassett Furniture Industries, Incorporated*	11
607	*Bowater Incorporated*	12
608	*CalMat Co.*	12
610	*Carpenter Technology Corporation*	6
611	*Liz Claiborne Inc.*	12
617	*Ecolab Inc.*	12
621	*H.B. Fuller Company*	11

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
623	*Hasbro, Inc.*	12
624	*Hillenbrand Industries, Inc.*	11
625	*Illinois Tool Works Inc.*	12
627	*International Flavors & Fragrances Inc.*	12
628	*Jefferson Smurfit Corporation*	12
629	*Kaman Corporation*	12
631	*Media General, Inc.*	12
633	*Nucor Corporation*	12
634	*Phillips-Van Heusen Corporation.*	1
635	*Premark International, Inc.*	12
638	*Raychem Corporation*	6
640	*Rohr, Inc.*	7
642	*SPX Corporation*	12
643	*Shaw Industries, Inc.*	12
644	*Thorn Apple Valley, Inc.*	5
646	*Trinity Industries, Inc.*	3
647	*Valero Energy Corporation*	12
648	*Wal-Mart Stores, Inc.*	1
649	*The Washington Post Company*	12
650	*York International Corporation.*	12

COMPANIES ADDED FOR 1988 EDITION

Co. No.		*Month in which fiscal year ends
651	*Acme Metals Incorporated.*	12
652	*Advanced Micro Devices, Inc.*	12
656	*The Fairchild Corporation*	6
657	*Brown-Forman Corporation*	4
658	*CLARCOR Inc.*	11
659	*Chesapeake Corporation.*	12
660	*Coca-Cola Enterprises Inc.*	12
661	*Compaq Computer Corporation.*	12
662	*Cyprus Amax Minerals Company*	12
664	*Danaher Corporation*	12
665	*The Dixie Group, Inc.*	12
669	*L.B. Foster Company.*	12
670	*Fruit of the Loom, Inc.*	12
671	*Garan, Incorporated.*	9
672	*M.A. Hanna Company*	12
673	*Harley-Davidson, Inc.*	12
675	*Hyde Athletic Industries, Inc.*	12
676	*Terra Industries Inc.*	12
678	*Lafarge Corporation.*	12
679	*Minntech Corporation*	3
680	*Newell Co.*	12
682	*Omnicom Group Inc.*	12
683	*Optical Coating Laboratory, Inc.*	10
684	*Pentair, Inc.*	12
686	*Photo Control Corporation.*	12
687	*Seagate Technology, Inc.*	6
689	*Simpson Industries, Inc.*	12
690	*Smithfield Foods, Inc.*	4
691	*Sonoco Products Company.*	12
693	*Tokheim Corporation.*	11
694	*Union Texas Petroleum Holdings, Inc.*	12

COMPANIES ADDED FOR 1989 EDITION

Co. No.		*Month in which fiscal year ends
696	*Anacomp, Inc.*	9
698	*BetzDearborn Inc.*	12
699	*Blount International, Inc.*	12
700	*Burlington Resources Inc.*	12
701	*CTS Corporation*	12
705	*Farr Company*	12
706	*Figgie International Inc.*	12
712	*Juno Lighting, Inc.*	11
713	*The Lamson & Sessions Co.*	12
714	*Lufkin Industries, Inc.*	12
716	*Molex Incorporated*	6
718	*Republic Group Incorporated.*	6
721	*Speizman Industries, Inc.*	6
722	*The Standard Products Company*	6
723	*Steel Technologies Inc.*	9
724	*Sunrise Medical Inc.*	6
725	*Texas Industries, Inc.*	5
726	*The Toro Company*	10
727	*TransTechnology Corporation*	3
728	*Twin Disc, Incorporated.*	6
731	*Vishay Intertechnology, Inc.*	12
732	*Waxman Industries, Inc.*	6
733	*Western Digital Corporation.*	6
734	*Wolverine World Wide, Inc.*	12
735	*Worthington Industries, Inc.*	5

COMPANIES ADDED FOR 1990 EDITION

Co. No.		*Month in which fiscal year ends
737	*K2 Inc.*	12
738	*Ault Incorporated*	5
739	*Binks Sames Corporation*	11
740	*Champion Enterprises, Inc.*	12
742	*Coherent, Inc.*	9
743	*DEP Corporation*	7
744	*Donaldson Company, Inc.*	7
746	*ERLY Industries Inc.*	3
747	*Federal Screw Works*	6
748	*Georgia Gulf Corporation.*	12
751	*IBP, Inc.*	12
752	*IMC Global, Inc.*	12
753	*Interface, Inc.*	12
754	*Jacobs Engineering Group Inc.*	9
755	*LADD Furniture, Inc.*	12
757	*Lyondell Petrochemical Company*	12
758	*MagneTek, Inc.*	6
759	*Mark IV Industries, Inc.*	2
760	*Maxxam Inc.*	12
761	*Nashua Corporation.*	12
762	*Plasma-Therm, Inc.*	11
764	*Robbins & Myers, Inc.*	8
765	*Scientific Industries, Inc.*	6
766	*Southdown, Inc.*	12
767	*Standex International Corporation*	6

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
768	*Stewart & Stevenson Services, Inc.*	1
769	*Sun Microsystems, Inc.*	6
770	*The TJX Companies, Inc.*	1
771	*Thomas & Betts Corporation*	12
772	*Toys "R" Us, Inc.*	1
775	*Zurn Industries, Inc.*	3

COMPANIES ADDED FOR 1991 EDITION

Co. No.		*Month in which fiscal year ends
776	*Allegheny Teledyne Incorporated*	12
777	*Alliant Techsystems Inc.*	3
778	*Baldor Electric Company*	12
782	*DIMON Incorporated*	6
783	*First Brands Corporation*	6
787	*Micron Technology, Inc.*	8
788	*Oryx Energy Company*	12
790	*Peerless Mfg. Co.*	6
791	*Pittway Corporation*	12
792	*The Reader's Digest Association, Inc.*	6
793	*SCI Systems, Inc.*	6
794	*Tektronix, Inc.*	5

COMPANIES ADDED FOR 1992 EDITION

Co. No.		*Month in which fiscal year ends
796	*Allergan, Inc.*	12
798	*The Dexter Corporation*	12
800	*Ferro Corporation*	12
801	*Intergraph Corporation*	12
803	*Nalco Chemical Company*	12
804	*Storage Technology Corporation*	12
805	*Thiokol Corporation*	6

COMPANIES ADDED FOR 1993 EDITION

Co. No.		*Month in which fiscal year ends
806	*Banta Corporation*	12
811	*Ruddick Corporation*	9
812	*Standard Commercial Corporation*	3
813	*Thermo Electron Corporation*	12
814	*Universal Foods Corporation*	9

COMPANIES ADDED FOR 1994 EDITION

Co. No.		*Month in which fiscal year ends
817	*Alumax Inc.*	12
818	*Burlington Industries, Inc.*	9
819	*Central Sprinkler Corporation*	10
821	*Detroit Diesel Corporation*	12
823	*Furon Company*	1
824	*Louisiana-Pacific Corporation*	12
825	*Microsoft Corporation*	6
826	*Northwestern Steel and Wire Company*	7
828	*Praxair, Inc.*	12
829	*Harrah's Entertainment, Inc.*	12
832	*Russell Corporation*	12
833	*The Scotts Company*	9
834	*Span-America Medical Systems, Inc.*	9
835	*Weirton Steel Corporation*	12

COMPANIES ADDED FOR 1995 EDITION

Co. No.		*Month in which fiscal year ends
836	*Centex Corporation*	3
837	*The Interpublic Group of Companies, Inc.*	12
838	*Kellwood Company*	4
839	*Novell, Inc.*	10
840	*WestPoint Stevens Inc.*	12

COMPANIES ADDED FOR 1996 EDITION

Co. No.		*Month in which fiscal year ends
841	*Amgen Inc.*	12
842	*Amphenol Corporation*	12
844	*Arrow Electronics, Inc.*	12
845	*C.R. Bard, Inc.*	12
846	*Beckman Instruments, Inc.*	12
847	*Coltec Industries Inc.*	12
848	*Computer Sciences Corporation*	3
849	*Cooper Tire & Rubber Company*	12
850	*Dillard's Inc.*	1
851	*First Data Corporation*	12
853	*Kimball International, Inc.*	6
854	*Lance, Inc.*	12
855	*Manpower Inc.*	12
856	*Michael Foods, Inc.*	12
857	*Mohawk Industries, Inc.*	12
858	*Seaboard Corporation*	12
859	*United HealthCare Corporation*	12
860	*Western Atlas Inc.*	12

COMPANIES ADDED FOR 1997 EDITION

Co. No.		*Month in which fiscal year ends
861	*ADVO, Inc.*	9
862	*AGCO Corporation*	12
863	*Applied Materials, Inc.*	10
864	*Atmel Corporation*	12
865	*Automatic Data Processing, Inc.*	6
866	*B/E Aerospace, Inc.*	2
867	*Boston Scientific Corporation*	12
868	*Circuit City Stores, Inc.*	2
869	*Cisco Systems, Inc.*	7
870	*Durakon Industries, Inc.*	12
871	*Eastman Chemical Company*	12
872	*The Estee Lauder Companies, Inc.*	6
873	*Exide Corporation*	3
874	*Gateway 2000, Inc.*	12
875	*Geneva Steel Company*	9
876	*Gulfstream Aerospace Corporation*	12
877	*Hannaford Bros. Co.*	12
878	*Jones Apparel Group, Inc.*	12

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
879	*La-Z-Boy Incorporated*	4
880	*Lam Research Corporation*	6
881	*Mallinckrodt Inc.*	6
882	*Merrimac Industries, Inc.*	12
883	*Polaris Industries Inc.*	12
884	*Quantum Corporation*	3
885	*Reebok International Ltd.*	12
886	*Rite Aid Corporation*	2
887	*SYSCO Corporation*	6
888	*Solectron Corporation*	8
889	*Sybase, Inc.*	12
890	*Teradyne, Inc.*	12
891	*Tupperware Corporation*	12
892	*USA Waste Services, Inc.*	12
893	*Viad Corp.*	12
894	*WTD Industries, Inc.*	4
895	*World Color Press, Inc.*	12

COMPANIES ADDED FOR 1998 EDITION

Co. No.		*Month in which fiscal year ends
896	*BJ Services Company*	9
897	*Carlisle Companies Incorporated*	12
898	*Circus Circus Enterprises, Inc.*	1
899	*Columbia/HCA Healthcare Corporation*	12
900	*Cooper Cameron Corporation*	12
901	*EMCOR Group, Inc.*	12
902	*Equifax Inc.*	12
903	*Flowserve Corporation*	12
904	*Guidant Corporation*	12
905	*The Home Depot, Inc.*	1
906	*Ingram Micro Inc.*	12
907	*LSI Logic Corporation*	12
908	*Lexmark International Group, Inc.*	12
909	*Nine West Group Inc.*	1
910	*Noble Affiliates, Inc.*	12
911	*Nordstrom, Inc.*	1
912	*PRIMEDIA Inc.*	12
913	*Pilgrim's Pride Corporation*	9
914	*QUALCOMM Incorporated*	9
915	*Rock-Tenn Company*	9
916	*Rouge Industries, Inc.*	12
917	*The J.M. Smucker Company*	4
918	*Suiza Foods Corporation*	12
919	*Ultramar Diamond Shamrock Corporation*	12
920	*Viacom Inc.*	12

Companies included in Fifty-First Edition Not included in this Edition of the Survey

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79	Belding Heminway Company, Inc.
82	Bergen Brunswig Corporation
186	Dynamics Corporation of America
222	Freeport-McMoRan, Inc.
235	General Host Corporation
251	Goulds Pumps, Incorporated
267	Handy & Harman
343	The Louisiana Land and Exploration Company
350	MAPCO Inc.
358	Marriott International, Inc.
367	McDonnell Douglas Corporation
386	Mosinee Paper Corporation
396	FoxMeyer Health Corporation
414	Outboard Marine Corporation
480	Savannah Foods & Industries, Inc.
527	Talley Industries, Inc.
552	USG Corporation
603	Amdahl Corporation
619	Fieldcrest Cannon, Inc.
666	The Duriron Company, Inc.
692	Tandem Computers Incorporated
719	Rykoff-Sexton, Inc.
773	Tyco International Ltd.
785	Imo Industries Inc.
799	Duracell International, Inc.
852	Hudson Foods, Inc.

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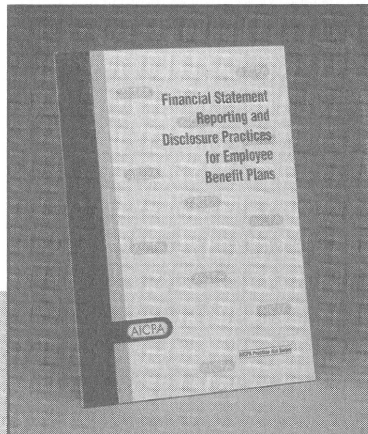

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