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Accounting trends and techniques, 53rd annual survey, 1999 edition

American Institute of Certified Public Accountants

ACCOUNTING TRENDS & TECHNIQUES
1999—FIFTY-THIRD EDITION
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ACCOUNTING TRENDS & TECHNIQUES

Annual Survey of Accounting Practices Followed in 600 Stockholders' Reports

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ACCOUNTING TRENDS & TECHNIQUES

Fifty-third 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 January 31, 1999.

Edited by

George N. Dietz, CPA
Senior Manager, Accounting & Auditing Publications

Richard Rikert
Coordinator/Editor

Andy Mrakovcic
Coordinator/Editor

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PREFACE

Accounting Trends & Techniques—1999, Fifty-Third 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 27, 1998 and January 31, 1999.

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. 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 by contacting Andy Mrakovcic at:

Harborside Financial Center
201 Plaza Three, Jersey City, NJ 07311-3881
Telephone: (201) 938-3062
Fax: (201) 938-3780
Email: amrakovcic@aicpa.org

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. 250 of the companies were listed in the fortieth (1986) edition and each retained the number assigned in that edition. The other 350 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 950 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.

Beginning with *Accounting Trends & Techniques—1999,* Fifty-Third Edition, a new Section 4, *Comprehensive Income,* has been included. Former sections 4—*Stockholders' Equity,* 5—*Statement of Cash Flows,* and 6—*Independent Auditors' Report,* have been renumbered as sections 5, 6, and 7, respectively.

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.

George N. Dietz, CPA—Senior Manager, Accounting & Auditing Publications
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Accounting Trends & Techniques: (201) 938-3062
AICPA Technical Hotline: (888) 777-7077, option 2
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Section 1: General

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.

TABLE 1-1: INDUSTRY CLASSIFICATIONS

	1998	1997
Advertising	4	3
Aerospace	17	19
Apparel, shoes	19	18
Beverages	7	7
Building materials, glass	16	15
Chemicals	31	31
Computer and data services	13	10
Computers, office equipment	18	19
Electronics, electrical equipment	46	47
Engineering, construction	8	9
Entertainment	5	4
Food	38	38
Forest and paper products	27	27
Furniture	10	9
Hotels, casinos	3	2
Industrial and farm equipment	41	41
Medical products	11	10
Metal products	23	24
Metals	22	24
Mining, crude oil production	11	12
Motor vehicles and parts	22	23
Petroleum refining	19	22
Pharmaceuticals	12	12
Publishing, printing	22	21
Retailing-grocery stores	11	11
Retailing-other stores	22	21
Rubber and plastic products	12	13
Scientific, photographic, and control equipment	29	29
Semiconductors	9	7
Soaps, cosmetics	8	9
Textiles	10	10
Tobacco	5	5
Transportation equipment	4	4
Waste management	4	4
Wholesalers	14	14
Not otherwise classified	27	26
Total Companies	**600**	**600**

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—82% on the New York and 3% on the American. The remaining 15% were traded on "over-the-counter" exchanges. 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

	1998	1997	1996	1995
Less than $100,000,000	23	28	28	32
Between $100,000,000 and $500,000,000	74	76	86	101
Between $500,000,000 and $1,000,000,000	44	55	60	68
Between $1,000,000,000 and $2,000,000,000	134	132	120	114
More than $2,000,000,000	325	309	306	285
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, euro conversion, and year 2000. Certain survey companies discussed the year 2000 problem in the notes to financial statements. Such disclosures are presented on pages 83–84.

Examples of segment information disclosures are presented on pages 23–35.

Quarterly Financial Data

CHAMPION INTERNATIONAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

16. Quarterly Results of Operations (Unaudited)

(in millions of dollars, except per share amounts)		March 31	June 30	September 30	December 31
Net sales:	1998	$1,477.0	$1,473.8	$1,358.0	$1,344.2
	1997	1,366.7	1,407.5	1,478.4	1,482.9
Gross profit:	1998	$ 184.6	$ 186.7	$ 176.4	$ 152.3
	1997	87.1	129.2	185.4	193.7
Income (loss) before taxes (a):	1998	$ 25.1	$ 43.0	$ 41.9	$ (72.6)
	1997	(59.6)	(25.6)	30.2	(841.6)
Income taxes (benefit) (a,b):	1998	$ 6.1	$ 10.9	$ 10.6	$ (65.5)
	1997	(22.5)	(14.3)	10.1	(321.4)
Net income (loss) (a,b):	1998	$ 19.0	$ 32.1	$ 31.3	$ (7.1)
	1997	(37.1)	(11.3)	20.2	(520.2)
Basic earnings (loss) per common share (a,b):	1998	$ .20	$ .33	$ .33	$ (.07)
	1997	(.39)	(.12)	.21	(5.42)
Diluted earnings (loss) per common share (a,b):	1998	$ .20	$ .33	$ .32	$ (.07)
	1997	(.39)	(.12)	.21	(5.42)

(a) In the fourth quarter of 1997, the company recorded a provision for restructuring of $891 million ($552 million after-tax, or $5.76 per share). (Note 10)
In the fourth quarter of 1998, the company recorded a provision for restructuring of $80 million ($49 million after-tax, or $.52 per share). (Note 10)

(b) In the fourth quarter of 1998, the company recorded a benefit of $30 million, or $.32 per share, resulting from the reversal of previously established reserves that are no longer required.

OXFORD INDUSTRIES, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

L (In Part): Summarized Quarterly Data (Unaudited):

Following is a summary of the quarterly results of operations for the years ended May 29, 1998, May 30, 1997 and May 31, 1996:

	Fiscal Quarter				
$ in thousands, except per share amounts	First	Second	Third	Fourth	Total
1998					
Net sales:	$193,242	$208,062	$178,677	$194,537	$774,518
Gross profit	36,645	41,679	35,520	40,984	154,828
Net earnings	5,410	7,781	5,391	6,041	24,623
Basic earnings per share	0.61	0.88	0.61	0.69	2.79
Diluted earnings per share	0.61	0.87	0.60	0.67	2.75
1997*					
Net sales	$172,517	$203,234	$167,470	$159,974	$703,195
Gross profit	31,574	36,959	33,597	34,883	137,013
Net earnings	3,475	6,599	4,399	5,174	19,647
Basic earnings per share	0.40	0.75	0.51	0.59	2.25
Diluted earnings per share	0.40	0.75	0.50	0.58	2.23
1996**					
Net sales	$189,254	$187,066	$138,600	$149,523	$664,443
Gross profit	32,123	31,844	22,465	29,399	115,831
Net earnings (loss)	278	2,623	(2,020)	1,313	2,194
Basic earnings (loss) per share	0.03	0.30	(0.23)	0.15	0.25
Diluted earnings (loss) per share	0.03	0.30	(0.23)	0.15	0.25

* Includes an after-tax LIFO adjustment in the fourth quarter of $1,266,088, or $.09 per share favorable in 1997.

** Includes an after-tax adjustment in the first quarter of $2,700,000 or $.31 per share for a provision for environmental remediation.

SCHERING-PLOUGH CORPORATION (DEC)

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

Quarterly Data (Unaudited)

Three months ended	March 31		June 30		September 30		December 31	
	1998	1997	1998	1997	1998	1997	1998	1997
Net sales	$1,908	$1,568	$2,124	$1,720	$1,986	$1,709	$2,059	$1,781
Cost of sales	380	289	423	330	394	326	404	363
Gross Profit	1,528	1,279	1,701	1,390	1,592	1,383	1,655	1,418
Selling, general and administrative	712	594	828	679	762	681	839	710
Research and development	224	179	261	209	257	220	265	239
Other, net	(4)	9	9	8	1	15	(4)	14
Income before income taxes	596	497	603	494	572	467	555	455
Income taxes	146	122	148	121	140	114	136	112
Net income	$ 450	$ 375	$ 455	$ 373	$ 432	$ 353	$ 419	$ 343
Basic earnings per common share	$ .31	$ .26	$ .31	$ .25	$ .29	$ .24	$ .29	$ .23
Diluted earnings per common share	.30	.25	.31	.25	.29	.24	.28	.23
Dividends per common share	.095	.083	.11	.095	.11	.095	.11	.095
Common share prices:								
High	42 3/4	20 13/32	46 11/16	24 11/16	53 17/32	27 9/32	57 1/2	31 23/32
Low	30 27/32	16 9/32	39 1/16	17 5/8	43	23 1/2	45 13/16	25 27/32
Average shares outstanding for basic EPS (in millions)	1,466	1,463	1,467	1,464	1,469	1,465	1,470	1,465
Average shares outstanding for diluted EPS (in millions)	1,485	1,476	1,488	1,480	1,490	1,482	1,489	1,482

Certain 1997 amounts have been restated to reflect the 1998 2-for-1 stock split.

The Company's common shares are listed and principally traded on the New York Stock Exchange. The approximate number of holders of record of common shares as of December 31, 1998, was 47,000.

Selected Information For Five Years

AMERON INTERNATIONAL CORPORATION (NOV)

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	Year ended November 30				
(Dollars in thousands except per share data)	1998	1997	1996	1995	1994
Per common share data					
Net income (basic)	$ 5.17[1]	$ 4.84	$ 3.89	$ 3.16	$ 2.76[2]
Net income (diluted)	5.08[1]	4.73	3.87	3.15	2.75[2]
Dividends	1.28	1.28	1.28	1.28	1.28
Basic average shares	4,016,852	4,003,452	3,966,490	3,944,363	3,916,072
Diluted average shares	4,084,377	4,094,885	3,982,006	3,954,544	3,924,456
Stock price–high	64 5/8	70	50	37 7/8	43 1/8
Stock price–low	33 3/8	46 3/8	34 1/8	29	31 7/8
Price/earnings ratio (range)	13-7	15-10	13-9	12-9	16-12
Operating results					
Sales	$ 552,146	$ 533,506	$ 496,940	$ 481,405	$ 417,682
Gross profit	139,212	135,683	129,263	116,731	103,975
Interest expense	(15,646)	(12,433)	(11,134)	(11,715)	(11,191)
Provision for income taxes	(11,171)	(11,874)	(8,297)	(5,190)	(7,297)
Net income	20,746[1]	19,372	15,410	12,452	10,790[2]
Net income/sales	3.8%	3.6%	3.1%	2.6%	2.6%
Return on equity	13.0%	13.0%	11.0%	9.6%	9.0%
Financial condition at year end					
Working capital	$ 146,860	$ 154,027	$ 121,858	$ 114,458	$ 103,904
Property, plant and equipment, net	157,918	127,678	125,687	114,116	112,953
Investments, advances and equity in affiliated companies	22,182	33,777	33,722	36,197	37,315
Total assets	500,219	433,225	411,666	371,381	350,856
Long-term debt, less current portion	165,308	140,917	112,598	91,565	92,847
Cash flow					
Expenditures for property, plant and equipment	$ 32,744	$ 24,860	$ 25,227	$ 16,154	$ 14,934
Depreciation and amortization	18,699	16,676	16,445	16,226	15,995
Business acquisitions	46,419	—	29,032	—	—

[1] Includes net of tax gain of $17.5 million on sales of assets and net of tax charges of $14.1 million on asset write-downs and other charges.
[2] Includes net of tax gain of $1.8 million on the sale of a Colombian subsidiary.

DATA GENERAL CORPORATION (SEP)

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

In thousands, except per share amounts	Sept. 26, 1998	Sept 27, 1997	Year ended Sept. 28, 1996	Sept. 30, 1995	Sept. 24, 1994
Total revenues	$1,462, 109	$1,533,169	$1,322,250	$1,159,316	$1,120,505
Total cost of revenues	1,071,491	1,021,569	877,692	772,047	733,114
Research and development	118,731	109.984	98,022	85,886	90,826
Selling, general, and administrative	338,108	338,443	309,259	334,337	341,343
Restructuring charge	82,400	—	—	43,000	35,000
Total costs and expenses	1,610,730	1,469,996	1,284,973	1,235,270	1,200,283
Income (loss) from operations	(148,621)	63,173	37,277	(75,954)	(79,778)
Interest expense, net	1,014	4,873	5,632	4,116	8,168
Other income, net	240	—	—	41,972	2,353
Income (loss) before income taxes	(149,395)	58,300	31,645	(38,098)	(85,593)
Income tax provision	3,000	2,400	3,500	8,605	2,100
Net income (loss)	$ (152,395)	$ 55,900	$ 28,145	$ (46,703)	$ (87,693)
Basic net income (loss) per share	$ (3.11)	$ 1.35	$ 0.73	$ (1.26)	$ (2.45)
Diluted net income (loss) per share	$ (3.11)	$ 1.26	$ 0.68	$ (1.26)	$ (2.45)

(Dollars in thousands)	Sept. 26, 1998	Sept 27, 1997	As of Sept. 28, 1996	Sept. 30, 1995	Sept. 24, 1994
Current assets	$ 795,961	$ 858,236	$ 616,812	$ 591,485	$ 598,076
Current liabilities	430,714	391,822	366,184	370,226	326,865
Working capital	$ 365,247	$466,414	$ 250,628	$ 221,259	$ 271,211
Total assets	$1,065,064	$ 1,134,868	$ 860,443	$ 832,018	$ 821,864
Annual expenditures for property, plant, and equipment	$ 114,247	$ 110,505	$ 94,670	$ 96,471	$ 92,955
Long -term debt	$ 212,750	$ 212,750	$ 149,971	$ 153,457	$ 156,942
Other liabilities	$ 36,645	$ 11,516	$ 15,224	$ 28,791	$ 29,445
Stockholders' equity	$ 384,955	$ 518,780	$ 329,064	$ 279,544	$ 308,612
Employees	4,700	5,100	4,900	5,000	5,800

Results of operations are for 52-week periods, except 1995, which is for a 53-week period.
The company has not declared or paid cash dividends since its inception.

KELLWOOD COMPANY (APR)

SUPPLEMENTAL SELECTED FINANCIAL DATA

(Dollars in thousands except per share data)	1998	1997	1996	1995	1994
Net sales	$ 1,781,582	$1,521,005	$1,466,036	$1,364,766	$1,203,086
Net earnings	42,747	37,596	28,024	11,096	35,614
Earnings per share:					
Basic	$ 2.00	$ 1.78	$ 1.32	$ .53	$ 1.71
Diluted	1.95	1.75	1.31	.52	1.68
Cash dividends declared per share	.64	.60	.60	.60	.55
Working capital	$ 416,478	$ 247,114	$ 238,068	$ 236,922	$ 262,406
Total assets	1,015,513	874,587	796,688	768,137	641,857
Long-term debt	242,720	109,831	125,443	144,793	153,014
Total debt	399,754	284,369	272,406	277,336	170,940
Shareowners' equity	384,165	347,814	325,192	308,197	306,956
Equity per share	$ 17.86	$ 16.47	$ 15.32	$ 14.59	$ 14.64

NOTE: All per share data have been adjusted to reflect stock splits.

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

FEDDERS CORPORATION (AUG)

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

Fedders Corporation (the "Company") is the largest manufacturer of room air conditioners in North America based on units sold. The Company has strong relationships with retailers, which it has formed by establishing flexible, accurate-response manufacturing to accommodate customers' increasingly seasonal delivery requirements.

The Company's business is currently largely domestic and is affected by summer weather in major domestic markets. During fiscal 1998, the Company's domestic sales reflect an increasingly seasonal pattern, with more shipments occurring in the second half of the fiscal year and fewer in the off-season first half since leading retailers require just-in-time delivery. Favorable summer weather in southern domestic markets in fiscal 1998 increased in-season sales and depleted industry inventories in those markets at fiscal year-end (August 31), which positions U.S. manufacturers for a better year in fiscal 1999, assuming normal weather. This follows a period affected by cool summer weather in key U.S. markets in fiscal 1996 that increased industry inventories at some manufacturers (excluding the Company) and at retailers at the beginning of fiscal 1997 and reduced fiscal 1997 results all year long. By the end of the fiscal 1997 selling season, retail inventories declined to more customary levels, which benefited U.S. manufacturers in fiscal 1998.

The Company, in a move to enhance its competitiveness, implemented a restructuring plan (the "Restructuring") during fiscal 1998. The Restructuring did not result in any factory closings. However, it did involve shifting some additional production from North America to China and increasing component outsourcing. As part of the Restructuring, all Fedders International activities, including executive management located at the Company's headquarters in New Jersey, were relocated to Singapore. The sales, marketing, service, research and design and administrative support functions of Fedders North America were relocated to the Company's factory in Illinois.

During fiscal 1998, the Company's international sales were unfavorably affected by the international financial crisis. In fiscal 1997, the Company nearly doubled its international sales, as it did in the prior year.

In June 1998, the Company entered into a joint venture with Bosch-Siemens Hausgerate GmbH ("BSH") in Estella, Spain to manufacture room air conditioners in Spain for the European market and for export. This adds to the Company's international manufacturing presence, which began with the 1996 joint venture in Ningbo, China to manufacture air conditioners for export and for the Chinese market.

In August 1996, the Company merged with NYCOR, Inc. (the "Merger"), which, through its subsidiary Rotorex Company, Inc., manufactured rotary compressors principally for use in room air conditioners, and, through Melcor Corporation, manufactured thermoelectric modules. Rotorex has been the primary supplier of compressors to the Company for 25 years. The Company believes that a dedicated supply of compressors improves its flexibility to accurately respond to the just-in-time requirements of its customers. The supply of compressors from Rotorex, and from its Asian compressor licensees, also is strategically important for the Company's international growth.

Results of Operations

Net sales in fiscal 1998 totaled $322.1 million, an increase of 2.5% from sales of $314.1 million in fiscal 1997 but down from record sales of $371.8 million in fiscal 1996. The sales increase in fiscal 1998 reflects lower industry inventory levels entering fiscal 1998 compared to fiscal 1997 and favorable summer weather in the domestic southern market, offset in part by a decrease in international sales as a result of the international financial crisis. The sales decrease in fiscal 1997 reflects large, end-of-season industry inventory carryover of room air conditioners from the cool summer of fiscal 1996.

Operating Results as a Percent of Net Sales

	1998	1997	1996
Gross profit	21.7%	22.3%	22.3%
Selling, general and administrative expense	12.5	12.2	8.6
Restructuring	5.2	—	—
Operating income	4.0	10.1	13.7
Interest expense	2.7	1.1	0.3
Pre-tax income	1.4	9.2	13.5

The gross profit in fiscal 1998 changed little from fiscal 1997. The gross profit as a percent of net sales declined in fiscal 1998 due primarily to a change in the customer and product mix from fiscal 1997. In fiscal 1997, gross profit declined by 15.6% from fiscal 1996 due to the sales decline. The gross profit as a percent of net sales remained unchanged in fiscal 1997, from fiscal 1996, due primarily to changes in customer and product mix offset, in part, by lower absorption of factory overhead expense due to lower production levels.

Selling, general and administrative expenses ("SG&A") increased as a percent of net sales in fiscal 1998 as a result of a $2.9 million (0.9% of net sales) provision for the implementation of an early retirement program. This more than offset reductions in SG&A that resulted from the Restructuring. SG&A increased as a percent of net sales in fiscal 1997 from fiscal 1996 due, in part, to lower sales. SG&A increased by $6.3 million from fiscal 1996 primarily as a result of expenses related to operations acquired in the Merger, including $1.8 million of amortization of goodwill and $1.9 million of compressor research and development expense. SG&A also increased in fiscal 1997 due to infrastructure expansion to support future growth of international business.

The Restructuring charge in fiscal 1998 of $16.8 million consists of the write-down of fixed assets ($5.6 million), an amount for lease terminations ($4.9 million), personnel-related costs ($3.8 million) and administrative facility closing costs ($2.5 million).

Net interest expense increased in fiscal 1998 by $5.2 million and as a percent of net sales from fiscal 1997. The increase resulted from interest on the 9$^3/_8$% Senior Subordinated Notes due in 2007 (the "Notes") issued late in fiscal 1997. The increase was offset, in part, by a redemption of 8.5% Convertible Subordinated Debentures due in 2012 (the "Debentures") that were assumed in the Merger, and lower interest on very limited short-term borrowing in fiscal 1998, compared to fiscal 1997. Higher interest is also partially offset by the absence of preferred stock dividends after the redemption of Convertible Preferred Stock in September 1997. Net interest expense increased in fiscal 1997 by $2.5 million and as a percent of net sales from fiscal 1996, due to interest paid on the Debentures.

Including the charges for the Restructuring and early retirement, the Company's net income decreased to $3.0 million in fiscal 1998 from $18.8 million in fiscal 1997 and a record $31.2 million in fiscal 1996. Net income attributable to common stockholders, excluding the after-tax effect of charges for the Restructuring and early retirement, would have been approximately $15.8 million in fiscal 1998 compared to $16.3 million in fiscal 1997. Net income attributable to common stockholders in 1997 reflects the dividend requirement of $2.4 million paid on the Company's Convertible Preferred Stock that was issued in connection with the Merger and fully redeemed in September 1997. Net income in fiscal 1998 and 1997 reflects an effective tax rate of 35% versus 38% in fiscal 1996, principally due to a lower effective rate on state taxes and the release of prior-year tax provisions no longer required.

Liquidity and Capital Resources

Working capital requirements are seasonal. Cash balances peak in August, while greatest use of credit lines occurs early in the calendar year. The Company ended fiscal 1998 with cash of $91.0 million compared to $110.4 million at August 31 a year earlier, even after completing a $50.0 million stock repurchase program.

Net cash provided by operations in fiscal 1998 amounted to $38.8 million. Accounts receivable increased by $5.5 million, reflecting higher volume in fourth quarter sales of fiscal 1998 resulting from the favorable weather conditions compared to fiscal 1997. Ending inventories decreased by $10.6 million reflecting greater in-season sales. Accounts payable increased by $15.2 million, and primarily reflect the receipt of more raw materials during the month of August than in the prior year due to greater production requirements. Accrued expenses increased by $1.3 million and reflect an accrual for early retirement offset, in part, by lower marketing-related accruals due to changing customer mix. Accrued income taxes increased $4.4 million.

Net cash used in investing activities by the Company consisted primarily of capital expenditures of $8.5 million and an investment of $3.3 million in the Spanish joint venture offset, in part, by the disposal of $1.8 million of fixed assets, primarily real estate not utilized.

Net cash used in financing activities in fiscal 1998 amounted to $48.2 million. The Company repurchased $45.8 million or 7.7 million shares of its Preferred, Common and Class A Stock under a repurchase program funded in fiscal 1997 through the offering of the Notes. In August 1998, the Company announced an authorization to repurchase up to an additional $30 million of its outstanding stock. Dividend payments amounted to $3.5 million in fiscal 1998.

During fiscal 1998, the Company's $50 million, prime rate, revolving credit facility was utilized for a brief period in February and March with a maximum outstanding during the year of $8.6 million. Management believes that cash, earnings and borrowing capacity of the Company are adequate to meet the needs of its operations and long-term credit requirements, including capital expenditures and debt maturities.

Year 2000

The inventory and assessment phases of the Company's Year 2000 plan are materially complete with respect to internal information technology ("IT") and non-IT systems, such as embedded technology and microcontrollers. Testing and resolution phases of the plan are scheduled to be complete in the 1999 third fiscal quarter, which ends May 31. The Company has material third-party relationships with customers and suppliers that would have a material effect on its business if the customer or supplier were to have significant Year 2000 issues. Assessment of these relationships, in part through on-site audits, is ongoing and contingency plans are being developed to minimize the effect of any such issues. Contingency planning includes the use of alternate suppliers, which the Company has in place for all significant components. The Company's plan is to be Year 2000 compliant in the third fiscal quarter of 1999. The National Retail Federation has listed the Company as being a compliant Year 2000 EDI vendor.

Many of the Company's IT systems are already compliant. Non-compliant IT systems are being replaced in the normal course of business and are not a cost of Year 2000. Related costs are being expensed as incurred and in fiscal 1998 were immaterial to the operating results and are not expected to have a material impact on the Company's future earnings or cash flow.

INTERSTATE BAKERIES CORPORATION (MAY)

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

Results of Operations

Fiscal 1998 Compared With Fiscal 1997

Net sales for the fifty-two weeks ended May 30, 1998 were $3,265,842,000, increasing $53,411,000 and 1.7%, over net sales of $3,212,431,000 for the fifty-two weeks ended May 31, 1997. Excluding the impact of acquisitions and dispositions, net sales for fiscal 1998 were up only slightly over fiscal 1997. Selling prices remained relatively steady, as did overall unit volume. Branded units, after adjusting for acquisitions and dispositions, were up slightly more than 1% while non-branded units were down due to an emphasis on selling higher-margin, branded products.

Gross profit for fiscal 1998 was $1,723,922,000, representing 52.8% of net sales, an increase of $77,756,000 over gross profit of $1,646,166,000, or 51.2% of net sales, in fiscal 1997. This improvement in fiscal 1998 was attributable to lower ingredient costs, primarily flour, as well as favorable mix changes to higher-margin, branded products. These positive factors were partially offset by higher labor and labor-related costs experienced in fiscal 1998.

Selling, delivery and administrative expenses were $1,389,627,000, or 42.6% of net sales, for fiscal 1998 compared to $1,352,026,000, or 42.1% of net sales, for fiscal 1997. The 2.8% year-over-year dollar increase in selling, delivery and administrative expenses resulted from inflationary increases, primarily in labor and labor-related costs, as well as the impact of acquisitions, net of dispositions.

Reflecting these factors, operating income for fiscal 1998 rose $40,449,000, or 21.2%, to $231,592,000, representing 7.1% of net sales, from $191,143,000, or 6.0% of net sales, in fiscal 1997.

Interest expense decreased $3,968,000, or 17.6%, in fiscal 1998 to $18,624,000 from $22,592,000 in fiscal 1997. This decrease was due to somewhat lower average borrowing levels and interest rates, as well as increased interest capitalized on major capital projects during fiscal 1998.

The fiscal 1998 effective tax rate of 40.1% approximates the statutory rate, while the fiscal 1997 rate of 42.6% reflects the nondeductibility of amortization of various intangibles.

Based upon these overall results, net income for fiscal 1998 increased $30,747,000, or 31.6%, to $127,924,000 from $97,177,000 in fiscal 1997. Reflecting this increase, basic earnings per share improved 33.8% to $1.74 per share in fiscal 1998 from $1.30 per share in fiscal 1997, while diluted earnings per share improved 33.6% to $1.71 per share from $1.28 per share. Fiscal 1997 per share amounts have been adjusted for a two-for-one stock split effected in the form of a stock dividend paid November 3, 1997, as well as the fiscal 1998 adoption of Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," which defines the computation of basic and diluted earnings per share.

Fiscal 1997 Compared With Fiscal 1996

Net sales for the fifty-two weeks ended May 31, 1997 were $3,212,431,000, an increase of $334,251,000 and 11.6% over net sales of $2,878,180,000 for the fifty-two weeks ended June 1, 1996. This increase in net sales was primarily attributable to the acquisition of Continental Baking Company ("CBC") on July 22, 1995, with fiscal 1996 results reflecting only forty-five weeks of CBC's operations. Excluding the impact of fiscal 1997 acquisitions and dispositions, net sales rose approximately 3.8%.

Fiscal 1997's gross profit was $1,646,166,000, or 51.2% of net sales, up $221,177,000 from gross profit of $1,424,989,000, or 49.5% of net sales, in fiscal 1996. This margin improvement resulted from synergies realized through continuing integration of existing and acquired operations, particularly product sourcing efficiencies, and favorable mix changes to higher-margin, branded products. These factors, along with higher selling prices, more than offset the effect of higher ingredient costs experienced in fiscal 1997.

Selling, delivery and administrative expenses totaled $1,352,026,000, or 42.1% of net sales, for fiscal 1997 compared to $1,236,586,000, or 43.0% of net sales, in fiscal 1996. Continued emphasis on cost control, integration synergies and higher selling prices resulted in improved selling, delivery and administrative expenses as a percent of net sales in fiscal 1997.

Included in fiscal 1996 were other charges of $9,500,000 ($5,738,000 and $.08 per basic and diluted share on an after-tax basis) resulting from a payment due a union-administered multi-employer pension plan which failed.

Based upon these factors, operating income for fiscal 1997 was $191,143,000, or 6.0% of net sales, a $112,385,000 and 142.7% increase over fiscal 1996's operating income of $78,758,000, or 2.7% of net sales.

Interest expense for fiscal 1997 was $22,592,000, a decrease of $6,718,000 from fiscal 1996. The lower expense reflects both lower average borrowing levels and lower interest rates.

The fiscal 1997 effective tax rate of 42.6%, as well as the fiscal 1996 rate of 51.4%, reflects the nondeductibility of amortization of various intangibles.

Reflecting the improved operations, net income for fiscal 1997 improved to $97,177,000, or $1.30 and $1.28 per basic and diluted share, respectively, up from $24,463,000, or $.35 per basic and diluted share, for fiscal 1996, a diluted earnings per share improvement of 266%. Per share amounts have been adjusted for a fiscal 1998 two-for-one stock split, as well as the fiscal 1998 adoption of SFAS No. 128.

Capital Resources and Liquidity

The Company's primary source of liquidity is cash provided by operations which totaled $201,622,000 for fiscal 1998, an increase of $5,449,000 over fiscal 1997's $196,173,000. This increase represents improved operations, offset by less favorable changes in working capital components. Cash generated by operations during fiscal 1998, along with additional bank borrowings of $35,000,000 and stock issuance proceeds of $10,630,000, was used to fund net capital expenditures of $93,651,000, common stock repurchases of $91,687,000, acquisitions of $43,743,000 and common stock dividends of $20,434,000.

For fiscal 1999, the Company anticipates cash needs of approximately $240,000,000, consisting of $95,000,000 of planned capital expenditures, $25,000,000 of required debt reduction, $20,000,000 of common stock dividends and approximately $100,000,000 for two recently announced acquisitions. Both of the acquisitions are subject to regulatory approval, with closing dates expected to shortly follow such approval. The Company expects these cash needs to be funded by ongoing operations, borrowing capacity under its existing bank credit facility and a new $125,000,000 short-term credit facility from a major bank. The short-term credit facility is expected to be replaced with a new senior debt issuance during the second quarter of fiscal 1999. In addition, the Company will continue to evaluate among its investment alternatives the repurchase of additional shares of its common stock under its stock repurchase program.

Year 2000 Compliance

The Company has been assessing the impact that the turn of the century will have on its internal computer systems for several years. The Company has developed an overall plan to evaluate and correct all date-related computer system issues by mid-summer of 1999. This evaluation and correction process has already been completed on a number of the Company's most critical systems, with testing of changes already in process. The Company is also in the process of communicating with significant suppliers and customers to ascertain the status of their year 2000 compliance programs.

Based upon efforts to date and the assumed continued implementation of its year 2000 compliance plan, the Company does not anticipate that year 2000 issues will significantly impact the business or that the costs associated with year 2000 compliance will have a material impact on future consolidated financial position, results of operations or cash flows of the Company.

New Accounting Standards

See Note 2 to the Company's consolidated financial statements for discussions on new accounting standards relating to (1) other comprehensive income, (2) segment disclosures, (3) derivative instruments and hedging activities and (4) disclosures about pension and other postretirement benefit plans.

Forward-Looking Statements

The Company or its representatives may from time-to-time provide information, in either written or oral form, which contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. In receiving and reviewing such information, it should be kept in mind that forward-looking statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those discussed or projected. Factors which create these risks and uncertainties can be either internal to the Company or related to general external market conditions.

NATIONAL PRESTO INDUSTRIES, INC. (DEC)

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

1998 Compared to 1997

Net sales decreased by $2,467,000 from $109,540,000 to $107,073,000 or 2%.

Gross margins for 1998 increased $679,000 from $35,541,000 to $36,220,000 or 34% versus 32% as a percentage of sales in 1998 and 1997. This increase was primarily the result of increased operating efficiencies and cost savings.

Selling and general expenses decreased $5,436,000 largely due to reduced advertising expenses. As a percentage of net sales, selling and general expenses decreased from 21% to 17%.

Earnings before provision for income taxes increased $5,406,000 from $21,990,000 to $27,396,000. The provision for income taxes increased from $5,008,000 to $7,663,000, which resulted in an effective income tax rate increase from 23% to 28% as a result of increased earnings subject to tax. Net earnings increased $2,751,000 from $16,982,000 to $19,733,000, or 16%.

The Company maintains adequate liquidity for all of its anticipated capital requirements and dividend payments. As of year-end 1998, there were no material capital commitments outstanding.

Forward-looking statements in the Annual Report are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. There are certain important factors that could cause results to differ materially from those anticipated by some of the statements made above. Investors are cautioned that all forward-looking statements involve risks and uncertainty. In addition to the factors discussed above, among the other factors that could cause actual results to differ materially are the following: consumer spending and debt levels; interest rates;

continuity of relationships with and purchases by major customers; product mix; competitive pressure on sales and pricing, and increases in material or production cost which cannot be recouped in product pricing. Additional information concerning those and other factors is contained in the Company's Securities and Exchange Commission filings, including but not limited to the Form 10-K, copies of which are available from the Company without charge.

1997 Compared to 1996

Net sales increased by $3,532,000 from $106,008,000 to $109,540,000, due to increased unit volume primarily as a result of new product introductions.

Gross margins for 1997 increased $1,886,000 from $33,621,000 to $35,507,000 due to the volume increase. As a percentage of sales, gross margins were 32% in both years.

Selling and general expenses were relatively unchanged.

Other income, principally interest, increased from the 1996 level primarily as a result of a higher rate of return on a higher level of invested funds in the Company's portfolio of short-term marketable securities.

Both years were favorably impacted by litigation judgments/settlements of a nonrecurring nature.

Earnings before provision for income taxes increased $2,816,000 from $19,174,000 to $21,990,000. The provision for income taxes increased from $4,454,000 to $5,008,000 as a result of increased earnings subject to tax. The effective income tax rate was 23% in both years. Net earnings increased $2,262,000 from $14,720,000 to $16,982,000, or 15%.

Year 2000

The year 2000 (Y2K) issue is the result of computer programs using a two-digit format to indicate the year in any date. Computer systems with such software will be unable to interpret dates beyond the year 1999, thus causing computer errors which could lead to disruptions in operations. In 1997 the Company began the work necessary to address its Y2K exposure and focused primarily on two areas:

Internal Systems: During 1997, the Company began upgrading or replacing its affected programs or systems to become Y2K compliant, and expects this effort to be completed by March 31, 1999. Additionally, the Company is in the process of conducting full scale year 2000 et seq. simulations of mission critical systems to verify the efficacy of the upgrades and replacements. Those simulations should be completed by September 30, 1999. The conversion costs have been expensed as incurred, and are not considered material. At this time, the Company believes it is unnecessary to adopt a contingency plan.

External (Supplier) Systems: The Company has contacted suppliers of products and services to assess whether the suppliers are Y2K compliant or to monitor their progress toward Y2K compliance. The vast majority of the Company's key suppliers have responded that they either are or will be Y2K compliant prior to the year 2000. However, there can be no absolute assurance that suppliers and others will timely resolve their own Y2K compliance issues. Additionally, a small number of the Company's suppliers have provided inadequate responses as to their Y2K readiness, and as a result, the Company is implementing a contingency plan to address potential interruption of supplied products or services. The contingency plan includes use of alternate suppliers and/or stockpiling of certain supplied items. Costs-to-date for the external compliance program have also been immaterial.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company's interest income is affected by changes in the general level of U.S. interest rates. Changes in U.S. interest rates could affect the interest earned on the Company's cash equivalents and investments. Currently, changes in U.S. interest rates would not have a material effect on the interest earned on the Company's cash equivalents and investments. A majority of these cash equivalents and investments earn a fixed rate of interest while the remaining portion earn interest at a variable rate. The Company uses sensitivity analysis to determine its exposure to changes in interest rates. The Company does not anticipate that exposure to interest rate market risk will have a material impact on the Company due to the nature of the Company's investments.

Forward Looking Information Excerpts

GUILFORD MILLS, INC. (SEP)

Safe Harbor-Forward-Looking Statements

From time to time, the Company may publish forward-looking statements relative to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements.

All statements other than statements of historical fact included in this Annual Report, including, without limitation the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include: 1. general economic factors including, but not limited to, changes in interest rates, foreign currency translation rates, consumer confidence, housing starts, trends in disposable income, changes in consumer demand for goods produced, and cyclical or other downturns; 2. the overall level of automotive production and the production of specific car models; 3. fashion trends; 4. information and technological advances including Year 2000 issues; 5. cost and availability of raw materials, labor and natural and other resources; 6. domestic and foreign competition; 7. domestic and foreign governmental regulations and trade policies; 8. reliance on major customers; 9. success of marketing, advertising and promotional campaigns; or 10. inability to achieve cost reductions through consolidations and restructuring of acquired companies.

KELLOGG COMPANY (DEC)

1999 Outlook

Management is not aware of any adverse trends that would materially affect the Company's strong financial position. Should suitable investment opportunities or working capital needs arise that would require additional financing, management believes that the Company's strong credit rating, balance sheet, and earnings history provide a base for obtaining additional financial resources at competitive rates and terms. Based on the expectation of cereal volume growth, and strong results from product innovation and the continued global roll-out of convenience foods, management believes the Company is well-positioned to deliver sales and earnings growth for the full year 1999. The Company will continue to identify and pursue streamlining and productivity initiatives to optimize its cost structure.

The Company is currently reviewing strategies related to the Lender's Bagels business, given its performance since acquisition. The Company has evaluated the recoverability of Lender's long-lived assets as of December 31, 1998, and although this evaluation has not resulted in the recognition of an impairment loss, management expects to update its assessment during 1999.

Additional expectations for 1999 include a gross profit margin of 51-52%, and SGA% of 36-37%, an effective income tax rate of 36-37%, and capital spending of approximately $270 million.

The foregoing projections concerning impact of future borrowing costs, accounting changes, volume growth, profitability, capital spending, and common stock repurchase activity are forward-looking statements that involve risks and uncertainties. Actual results may differ materially due to the impact of competitive conditions, marketing spending and/or incremental pricing actions on actual volumes and product mix; the levels of spending on system initiatives, properties, business opportunities, continued streamlining initiatives, and other general and administrative costs; raw material price and labor cost fluctuations; foreign currency exchange rate fluctuations; changes in statutory tax law; interest rates available on short-term financing; the impact of stock market conditions on common stock repurchase activity; and other items.

TRW INC. (DEC)

Forward-Looking Statements

Statements in this filing that are not statements of historical fact are forward-looking statements. In addition, from time to time, the Company and its representatives make statements that are forward-looking. All forward-looking statements involve risks and uncertainties. This section provides readers with cautionary statements identifying, for purposes of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, important factors that could cause the Company's actual results to differ materially from those contained in forward-looking statements made in this report or otherwise made by, or on behalf of, the Company.

The following are some of the factors that could cause actual results to differ materially from estimates contained in the Company's forward-looking statements:

The Company's consolidated results could be affected by: the continued development of and demand for new products; the ability to continue technical innovation; availability of funding for research and development; the ability to successfully identify and integrate acquisitions; pricing pressures from customers; pricing pressures resulting from the European Economic Union's conversion to a single currency; the ability to effectively implement the company-wide Y2K compliance program in accordance with the estimated timetable and costs described herein; the introduction of competing products or technology by competitors; the ability to meet performance and delivery requirements on systems for customers; the economic, regulatory and political instability of certain emerging countries; economic conditions in Brazil and Asia; the effects of changes in laws and regulations as they relate to the Company's businesses; foreign exchange rates; the cost and availability of funds; interest rate risk; the impact of legal proceedings; and the ability to attract and retain skilled employees with high-level technical competencies.

The Company's automotive business also could be affected by: the ability to effectively implement the Company's automotive restructuring program; changes in consumer debt levels and interest rates; the cyclical nature of the automotive industry; moderation or decline in the automobile build rate; successful new product launches; successful implementation of the Company's Project ELITE (Earning Leadership in Tomorrow's Environment) and the ability to achieve cost reductions; work stoppages; customer warranty claims; changes to the regulatory environment regarding automotive safety; and the Company's ability to increase the vehicle content of its products per vehicle.

The Company's space, defense and information systems business also could be affected by: the level of defense funding by the government; the Company's ability to receive contract awards; the termination of existing government contracts; and the ability to develop and market products and services for customers outside of the traditional space, defense and information systems markets.

Certain statements contained in this report or otherwise made by or on behalf of the Company regarding the purchase of LucasVarity, particularly those regarding synergies, future performance and costs, depend on certain events, risks and uncertainties that may be outside of the Company's control. Factors which could cause actual operating results to differ materially from those described in such forward-looking statements include: unanticipated events and circumstances may occur rendering the transaction less beneficial to the Company than anticipated; the Company and LucasVarity face intense competition in their markets and there is, accordingly, no guarantee that after consummation of the transaction the Company will achieve the expected financial and operating results and synergies; and the ability of the Company and LucasVarity to integrate successfully their operations and thereby achieve the anticipated cost savings and be in a position to take advantage of potential opportunities for growth.

The foregoing list of important factors is not exclusive.

The Company cautions that any forward-looking statement reflects only the beliefs of the Company or its management at the time the statement is made. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement was made.

TEKTRONIX, INC. (MAY)

Forward Looking Statements

Statements and information included in the Chairman's letter and Management Review and elsewhere in this report that relate to the Company's goals, strategies and expectations as to future results and events are based on the Company's current expectations. They constitute forward looking statements subject to a number of risk factors that could cause actual results to differ materially from those currently expected or desired. As with many high technology companies, risk factors that could cause the Company's actual results or activities to differ materially from these forward looking statements include, but are not limited to: worldwide economic and business conditions in the electronics industry, including the continuing effect of the Asian economic crisis on demand for the Company's products; competitive factors, including pricing pressures, technological developments and products offered by competitors; changes in product and sales mix, and the related effects on gross margins; the Company's ability to deliver a timely flow of competitive new products, and market acceptance of these products; the availability of parts and supplies from third party suppliers on a timely basis and at reasonable prices; inventory risks due to changes in market demand or the Company's business strategies; changes in effective tax rates; customer demand; currency fluctuations; the fact that a substantial portion of the Company's sales are generated from orders received during the quarter, making prediction of quarterly revenues and earnings difficult; and other risk factors listed from time to time in the Company's Securities and Exchange Commission reports and in press releases.

Additional risk factors specific to the Company's current plans and expectations that could cause the Company's actual results or activities to differ materially from those stated include: the significant operational issues the Company faces in executing its strategy in Video and Networking; the timely introduction of new products scheduled during the Company's fiscal year, which could be affected by engineering or other development program slippages, the ability to ramp up production or to develop effective sales channels; the customers' acceptance of, and demand for, those products; and changes in the regulatory environment affecting the transition to high-definition television within the time frame anticipated by the Company.

Forward looking statements in this report speak only as of the date made. The Company undertakes no obligation to publicly release the result of any revisions to these forward looking statements which may be made to reflect subsequent events or circumstances or to reflect the occurrence of unanticipated events.

Euro Currency Conversion Excerpts

FORT JAMES CORPORATION (DEC)

Euro Conversion

On January 1, 1999, eleven of the fifteen members of the European Union (the "Participating Countries") established fixed conversion rates between their existing sovereign currencies (the "Legacy Currencies") and a single new currency (the "Euro"). For a three-year transition period, transactions can be conducted in both the Euro and the Legacy Currencies. After June 30, 2002, the Euro will be sole legal tender of the participating countries. The adoption of the Euro will affect a multitude of financial systems and business applications.

The Company has operations in seven of the Participating Countries and has product sales in all of the Participating Countries. The Company's European businesses affected by the Euro conversion are establishing plans to address the information system issues and the potential business implications of converting to a common currency. As part of this process, the Company is evaluating its information technology systems. The Company believes it will be able to modify its financial systems and business activities to accommodate the conversion and transition to the Euro. The Company is unable to determine the financial impact of the conversion on its operations, if any, given that the impact will depend on the competitive situations which exist in the various regional markets in which the Company participates and potential actions which may or may not be taken by the Company's competitors and suppliers.

HARSCO CORPORATION (DEC)

Euro Currency Conversion

On January 1, 1999, certain countries of the European Monetary Union established fixed conversion rates between their legacy currencies and one common currency, the euro. The euro now trades on currency exchanges and may be used in business transactions. Beginning in January 2002, new euro-denominated notes and coins will be issued and the existing legacy currency notes and coins will be withdrawn from circulation by July 1, 2002. The Company's arrangements for euro bank accounts and the modification of certain loan arrangements to accommodate the euro are near completion. The Company is evaluating other systems and business issues raised by the euro conversion. These issues include the need to adapt computer and other business systems and equipment and the long-term competitive implications of conversion. In 1998, the Company derived approximately 22% of its sales from the European geographic area, including non-European Monetary Union countries. The Company believes the euro conversion will not have a material effect on the Company's financial position or results of operations.

HONEYWELL INC. (DEC)

Euro Currency

In January 1999, the European Monetary Union (EMU) entered into a three-year transition phase during which a common currency called the Euro was introduced in participating countries. Initially, this new currency is being used for financial transactions, and progressively, it will replace the old national currencies that will be withdrawn by July 2002. The transition to the Euro currency will involve changing budgetary, accounting and fiscal systems in companies and public administrations, as well as the simultaneous handling of parallel currencies and conversion of legacy data.

Uncertainties Related to the Euro Conversion: In 1996, Honeywell began studying the ongoing process of European integration, focusing on issues and opportunities created by the EMU. Task teams were established to develop Honeywell's Euro strategies and policies. The findings of these teams have been integrated into our strategic and operational plans. At this time, there are no significant remaining uncertainties related to the Euro conversion and no material impact has been identified.

Competitive Implications: Making a broader European market requires product lines to become more international and less local. In 1993, Honeywell restructured and its market focus was changed from a country basis to a European line-of-business approach. Today, our pricing strategies are largely European, except in those instances where technical or cultural market characteristics warrant price differentiation. The expectations of our customers, with respect to the currency to be used in the transition period have been reflected in our changeover strategies, resulting in a pro-active dual currency capability since January 1, 1999. The same approach with our suppliers will allow us to benefit from the increased price transparency on the cost side. Plans are in place, including shared service centers and consolidation of operations, to pursue the economies of scale offered by the single European market. We believe converting to the Euro has no material impact on Honeywell's competitive position.

Information Technology and Other Systems: Compliance with European Commission regulations concerning conversion, triangulation and rounding rules related to the Euro introduction, have been addressed in detailed action plans involving all information systems in all Honeywell units, both for in-house and purchased systems. The cost of modification is insignificant, as the action plan builds on new systems implementation required for shared services and Year 2000 readiness. Timelines for implementation have been established, adequate resources are available and contingency plans are in place. We believe converting the information technology and other systems to the Euro has no material impact on Honeywell.

Currency Risk: With the convergence of short-term interest rates in the EMU countries, observed during the last two years, the foreign exchange exposure between the currencies of these countries has diminished considerably. Our foreign exchange exposure management has systematically been adapted to this evolution, thereby benefiting from reduced hedging cost. The definitive fixing of the exchange rates will only make this benefit permanent without creating any other issue or opportunity other than eliminating the spread on the spot exchange. All balance sheet exposures between EMU currencies and non-EMU currencies are systematically hedged from month to month. The functional currency will not change to Euro in 1999 in any of the Honeywell units concerned. Current plans call for functional currency conversion by year-end 2001. We do not anticipate this change will have a material impact on Honeywell. We believe converting to the Euro has no material impact on Honeywell's currency exchange cost and/or risk exposure.

Derivatives and Other Financial Instruments, Continuity of Contracts and Taxation: We believe converting to the Euro has no material impact on outstanding derivatives, other financial instruments, continuity of contracts or taxation.

THE McGRAW-HILL COMPANIES, INC. (DEC)

Euro Conversion

On January 1, 1999, certain member nations of the European Economic and Monetary Union ("EMU") adopted a common currency, the euro. For a three and a half-year transition period, noncash transactions may be denominated in either the euro or in the old national currencies. After July 1, 2002, the euro will be the sole legal tender for EMU countries. The adoption of the euro will affect a multitude of financial systems and business applications as the commerce of these nations will be transacted in the euro and the existing national currency. For the years ended December 31, 1998 and 1997, approximately 5% of the company's revenues were derived from EMU countries.

The company continues to address euro related issues and its impact on information systems, currency exchange rate risk, taxation, contracts, competition and pricing. Action plans currently being implemented are expected to be in compliance with all laws and regulations; however, there can be no certainty that external factors will not have an adverse effect on the company's operations. The company does not expect these costs to be material to its results of operations, financial condition or liquidity.

MINNESOTA MINING AND MANUFACTURING COMPANY (DEC)

The Euro Conversion

On January 1, 1999, 11 of the 15 member countries of the European Union (EU) established fixed conversion rates through the European Central Bank (ECB) between existing local currencies and the euro, the EU's new single currency. The participating countries agreed to adopt the euro as their common legal currency on that date. From that date, the euro is traded on currency exchanges and is available for non-cash transactions.

In February 1997, the company created a European Monetary Union (EMU) Steering Committee and project teams representing all company business and staff units in Europe. The objective of these teams is to ensure a smooth transition to EMU for the company and its constituencies. The teams are assessing the euro's impact on the company's business and pricing strategies for customers and suppliers. The teams also are focused on ensuring that the company's business processes and IT systems can process transactions in both euros and local currencies during the transition period and can convert all relevant local-currency data to the euro by December 31, 2001, in the participating countries.

The European market contributed 26 percent of consolidated 3M sales and 20 percent of consolidated operating income, excluding the restructuring charge, in 1998. The company believes that the euro will, over time, increase price competition for the company's products across Europe due to cross-border price transparency, but adverse effects of increased price competition will be offset somewhat by new business opportunities and efficiencies. The company, however, is not able to estimate the anticipated net long-term impact of the euro introduction on the company.

The company has made significant investments in IT systems and has consolidated IT operations in Europe. These investments are expected to enable the company to manage customer orders, invoices, payments and accounts in both euros and in local currencies during the transition period. During this period, the company anticipates spending $35 million to $50 million to complete the conversion. Because the company believes its IT systems will be ready by December 31, 2001, for the euro conversion, it has not developed contingency plans at this time.

Year 2000 Excerpts

DEERE & COMPANY (OCT)

Year 2000

The company has established a global program (the "Year 2000 Program") to address the inability of certain computer and infrastructure systems to process dates in the Year 2000 and later. The major assessment areas include information systems, mainframe computers, personal computers, the distributed network, the shop floor, facilities systems, the company's products, product research and development facilities, and the readiness of the company's suppliers and distribution network. The program includes the following phases: identification and assessment, business criticality analysis, project work prioritization, compliance plan development, remediation and testing, production implementation, and contingency plan development for mission critical systems.

The company is on schedule to become Year 2000 compliant with its mission critical activities and systems, allowing substantial time for further testing, verification and the final conversion of less important systems. Over 90 percent of the company's systems identified as being mission critical have been tested and verified as being Year 2000 compliant. The company's goal has been to have all remaining mission critical and non-mission critical systems compliant by October 31, 1999, and the progress to date makes this goal realistic. The company has initiated information and infrastructure systems modifications to ensure that both information technology (IT) and non-IT systems are compliant.

The company is assessing the Year 2000 readiness of its suppliers and dealers, raising awareness among its supply base by sponsoring seminars and developing contingency plans for its mission critical suppliers. The company is surveying over 3,000 of its major suppliers and is following up as appropriate with prioritization based on mission criticality. The company is requiring suppliers of new software or equipment and third parties who develop or modify software to provide a written warranty that their product is Year 2000 compliant and has been tested accordingly. In some instances, the company is independently testing the software.

The total cost of the modifications and upgrades to date has not been material and the future costs to become Year 2000 compliant are not expected to be material. These costs are expensed as incurred and do not include the cost of scheduled replacement software. Other major systems projects have not been deferred due to the Year 2000 compliance projects.

Although no assurances can be given as to the company's compliance, particularly as it relates to third-parties, based upon the progress to date, the company does not expect the consequences of any of the company's unanticipated or unsuccessful modifications to have a material adverse effect on its financial position or results of operations. However, the failure to correct a material Year 2000 problem could result in the interruption of certain normal business activities and operations. The company's most reasonably likely worst case scenario is that the Year 2000 noncompliance of a critical third party, such as an energy supplier, could cause the supplier to fail to deliver, with the result that production is interrupted at one or more facilities. Such a disruption in production could result in lost sales or profits. The company is developing contingency plans, which should be complete by early 1999, should any Year 2000 failures occur in any of the assessment areas noted above.

DONALDSON COMPANY, INC. (JUL)

Year 2000 and Euro Currency Issues

The company has developed plans to address the potential for business interruption related to the impact of Year 2000 on computer systems. Financial, information and operating systems (including any equipment with embedded microprocessors) have been surveyed and assessed. In most cases, identified problems have already been rectified or detailed plans are in place to modify impacted systems prior to the end of 1998. In some cases identified problems will be addressed with repair projects to be completed in 1999. Progress against these plans is monitored and reported to senior management and to the Audit Committee of the Board of Directors on a regular basis. Implementation of required changes to, and testing of, critical business systems is expected to be complete by the end of 1998. Changes to all other systems are expected to be complete by July 1999. Testing of non-critical systems will be performed on a spot basis; more extensive testing may be initiated if it is deemed appropriate.

The company has also surveyed its significant suppliers to assess the potential impact on operations if key third parties are not successful in converting their systems in a timely manner. Responses to these surveys are incomplete at this time. Responses received to date indicate that our suppliers are aware of the Year 2000 issue and are implementing all necessary changes, mostly scheduled for completion by mid-1999. Vendors not responding to surveys are now being evaluated and follow-up action will take place over the next several months.

Incremental costs (including contractor expenses and the cost of internal resources dedicated to achieving Year 2000 compliance) are charged to expense as incurred. Total costs for all relevant activity is estimated to be $5 million, of which approximately 70 percent has been spent to date.

In general, the company has a relatively low risk profile relative to Year 2000 issues. Only a small percentage of our products contain microprocessors and all of our product range is now Year 2000 compliant. Our information systems (financial, purchasing, manufacturing planning, etc.) are easily inventoried and detailed modification plans exist and are being executed. Our manufacturing systems are, in general, standard pieces of equipment with relatively few proprietary or unique operating systems or controls. At this time, the company does not have in place a comprehensive, global contingency plan relative to potential Year 2000 disruptions. Rather, each significant system either has been repaired and tested, or is being repaired. For systems currently being reworked, contingency plans exist to address unforeseen problems.

The most reasonably likely negative scenario is that modification work will not proceed on schedule, causing some increase to the total cost of achieving Year 2000 compliance. The impact on the company's results of operations if the company or its suppliers or customers are not fully Year 2000 compliant is not reasonably determinable. However, since we are depending on our ability to execute modification plans and our vendors to continue material supply without interruption, there can be no assurance that unforeseen difficulties will not arise for the company or its customers and that related costs will not thereby be incurred. This dependence on the performance of our employees, contractors and vendors, as it relates to the Year 2000 issue, does not appear significantly different from our dependence on these groups relative to a wide range of other expectations (e.g., product quality, dependable delivery, technical support, etc.).

JOHNSON & JOHNSON (DEC)

Year 2000

The Year 2000 problem may occur when computer systems use the two digits "00" to represent the year 2000. As a result, these systems may not process dates after 1999, causing system errors or failures. The Company has had a program in place since the fourth quarter of 1996 to address Year 2000 issues in our critical business areas relating to information management systems (IM), non-IM systems with embedded technology, products, suppliers and customers. A report on this program's process has been provided to the Board of Directors.

The Company has completed its review of critical IM systems and is in the process of correcting issues as necessary. These corrective actions will be substantially complete by the second quarter of 1999. Additionally, the Company is reviewing all other automated systems including non-IM systems with embedded technology and adjusting these systems as needed. This phase is also expected to be completed by the end of the second quarter of 1999.

The Company has made substantial progress in its assessment and testing plan for all its products. The Company has substantially completed this plan at year-end 1998 with full completion expected by the third quarter of 1999.

The Company's ability to implement its Year 2000 program and the related non-implementation costs cannot be accurately determined at this time. Although a failure to completely correct one system may adversely affect other systems, the Company does not believe that these effects are likely. A material adverse effect on the financial condition and results of operations of the business may occur if a significant number of such failures should take place, requiring manual backup methods and related costs.

The Company has been reviewing and has requested assurances on the status of Year 2000 readiness of its critical suppliers. Many of these suppliers however, have either declined to provide or have limited their assurances on the status of their Year 2000 readiness. The Company has established a plan for continued monitoring of critical suppliers during 1999.

Although the Company has contacted major customers to assess the status of their Year 2000 issues, their Year 2000 readiness is unclear. If a significant number of suppliers and customers experience disruptions as a result of Year 2000 issues, this could have a material adverse effect on the financial position and results of operations of the Company.

The Company is formulating contingency plans to deal with the impact of Year 2000 problems on critical suppliers and major customers. For critical suppliers, these plans may include identifying the availability of alternate utilities and raw material supply sources as well as increasing levels of inventory. To mitigate the effects of lack of Year 2000 readiness of major customers, the Company has few alternatives other than manual methods. Regardless of the contingency plans developed, there can be no assurance that these plans will address all Year 2000 problems or that implementation of these plans will be successful.

The total cost of addressing the Company's Year 2000 readiness issues is not expected to be material to the Company's financial condition or results of operations. Since the initiation of the Year 2000 readiness program in 1996, the Company estimates that it has expensed approximately $125 million in internal and external costs on a pre-tax basis. The Company currently estimates that the total costs for addressing Year 2000 readiness will approximate $200 million on a pre-tax basis. These costs are being expensed as incurred and are funded through operating cash flows. No projects material to the financial condition or results of operations of the Company have been deferred or delayed as a result of the Company's Year 2000 program.

KNAPE & VOGT MANUFACTURING COMPANY (JUN)

Year 2000 Compliance

The Year 2000 issue is the result of computer systems that use two digits rather than four to define the applicable year, which may prevent such systems from accurately processing dates ending in the year 2000 and after. This could result in system failures or in miscalculations causing disruption of operations, including, but not limited to, an inability to process transactions, to send and receive electronic data, or to engage in routine business activities and operations.

In 1995 the Company established a Year 2000 task force for Information Technology ("IT") to develop and implement a Year 2000 readiness program. The Company has developed a Year 2000 readiness plan, and has completed the audit, assessment and scope phases of its plan. The Company has completed an inventory of the software applications that it uses.

The Company has also installed its Corporate Information System software at its subsidiaries to improve efficiency and facilitate Year 2000 compliance. The Company estimates that the implementation phase is 50% complete for the Company's IT systems. The Company's readiness program includes installing software releases designed to cause the software to be Year 2000 compliant. The Company is in the process of testing its IT systems for Year 2000 compliance, and expects testing activities to continue into 1999. The Company's goal is to be substantially Year 2000 compliant by December 1998, to allow for testing all systems during 1999.

In addition, in 1997 the Company began evaluating non-IT systems such as imbedded chips in production equipment and personal computer hardware and software. With respect to these non-IT systems, the Company has completed the audit phase, and the assessment and scope phases are approximately 50% complete. The Company is presently in the process of testing and implementation, and is upgrading its non-IT systems to become Year 2000 compliant. The Company's goal is to complete the remediation of non-IT systems by June 30, 1999.

In addition to reviewing its internal systems, the Company has had formal communications with its significant customers, vendors and freight companies concerning Year 2000 compliance, including electronic commerce. There can be no assurance that the systems of other companies that interact with the Company will be sufficiently Year 2000 compliant so as to avoid an adverse impact on the Company's operations, financial condition and results of operations. The Company does not believe that its products and services involve any Year 2000 risks.

The Company does not presently anticipate that the costs to address the Year 2000 issue will have a material adverse effect on the Company's financial condition, results of operations or liquidity. Present estimated cost for remediation are as follows:

	Previous Fiscal Years	Fiscal 1999
Labor	$313,000	$276,000
Software	4,000	44,000
Hardware	34,000	0
Year 2000 solution providers	101,000	76,000
	$452,000	$396,000

The Company presently anticipates that it will complete its Year 2000 assessment and remediation by December 31, 1999. However, there can be no assurance that the Company will be successful in implementing its Year 2000 remediation plan according to the anticipated schedule. In addition, the Company may be adversely affected by the inability of other companies whose systems interact with the Company to become Year 2000 compliant and by potential interruptions of utility, communication or transportation systems as a result of Year 2000 issues.

Although the Company expects its internal systems to be Year 2000 compliant as described above, the Company intends to prepare a contingency plan that will specify what it plans to do if it or important external companies are not Year 2000 compliant in a timely manner. The Company expects to prepare its contingency plan during 1999.

RYERSON TULL, INC. (DEC)

Year 2000

The Company's State of Readiness

The Company began planning to address Year 2000 issues in 1996. As part of this process, the Company established a Year 2000 panel with representatives from all business units. This panel has monitored the progress of the Company's Year 2000 compliance and met regularly throughout 1998. In 1999, Year 2000 activities will be related to contingency planning. Therefore, the Company executive staff and the business unit presidents will now serve as the monitoring and advisory board for Year 2000 matters. This will ensure that the top management of the Company is actively involved in the issue and is directing the final stages of preparation.

During 1998, Company personnel and outside consultants identified and corrected problems that may have interfered with Year 2000 readiness. The primary focus was on the Company's internal computer systems.

An assessment of the majority of the Company's hardware, software and procedures was completed in 1997. This assessment identified 40 major systems areas. These were further broken down into upgrade units. Each of the units with the exception of two systems identified below was corrected to be Year 2000 compliant, tested and installed. All unit testing was completed by the end of 1998. The Company is conducting integrated testing during the first quarter of 1999.

The Company has also performed an assessment of microprocessors embedded in its equipment, distribution facilities and corporate offices. Based on vendor representations and internal testing, the Company believes that it has no Year 2000 compliance issues in this area.

The Company addressed all Year 2000 issues which are critical to its operations, with two exceptions—payroll and accounts receivable. Both operations are handled through software packages and the Company expects to have complete Year 2000 software releases installed and tested by the end of the first quarter of 1999.

The Company has identified a number of suppliers whose Year 2000 compliance may be critical to the Company. These suppliers include metal suppliers, outside processing facilities and contract carriers. The Company intends to survey these suppliers as to their Year 2000 compliance. The Company will use the results of these surveys to aid in contingency planning.

The Costs to Address the Company's Year 2000 Issues

The Company has estimated that expenses incurred through the end of 1998 totaled approximately $5.5 million. Currently, it is expected that the Company will spend an additional $1.0 million to bring its systems into Year 2000 compliance. This estimate is based on information currently available and may need to be increased as more information becomes available and as compliance implementation and contingency planning proceed.

The Risks of the Company's Year 2000 Issues

Although the Company believes it is unlikely, it is possible the Company could experience an adverse impact that could be material to the results of operations or the financial position of the Company as a result of potential failure by major customers or suppliers, or a delay or oversight in the Company's effort, to address Year 2000 issues.

In addition, if the suppliers of necessary telecommunications, energy and transportation needs fail to provide their services, such failure could also have an adverse impact on the results of operations or financial position of the Company.

The Company's Contingency Plans

The Company expects to establish contingency plans, in the event all systems and critical suppliers have not been made Year 2000 compliant, during 1999.

Market Risk Information Excerpts From Management's Discussion And Analysis

BRUNSWICK CORPORATION (DEC)

Risk Management

The Company is exposed to market risk from changes in foreign currency exchange rates, interest rates and commodity prices. The Company enters into various hedging transactions to mitigate these risks in accordance with guidelines established by the Company's management. The Company does not use financial instruments for trading or speculative purposes.

The Company uses foreign currency forward and option contracts to manage foreign exchange exposure related to transactions, assets and liabilities that are subject to risk from foreign currency rate changes. The Company's principal currency exposures relate to the Taiwanese dollar, Japanese yen, Canadian dollar, European currencies and the Australian dollar. Hedging of an asset or liability is accomplished through the use of financial instruments as the gain or loss on the hedging instrument offsets the gain or loss on the asset or liability. Hedging of anticipated transactions is accomplished with financial instruments as the realized gain or loss occurs on or near the maturity date of the anticipated transaction.

The Company uses interest-rate swap agreements to mitigate the effect of changes in interest rates on the Company's investments and borrowings. The Company's net exposure to interest-rate risk primarily consists of fixed-rate instruments. Interest-rate risk management is accomplished through the use of interest-rate swaps and floating-rate instruments that are benchmarked to U.S. and European short-term money market interest rates.

Raw materials used by the Company are exposed to the effect of changing commodity prices. Accordingly, the Company uses commodity swap agreements to manage fluctuations in prices of anticipated purchases of certain raw materials.

The Company uses a value-at-risk (VAR) computation to estimate the maximum potential one-day reduction in the fair market value of its interest rate-sensitive financial instruments and to estimate the maximum one-day reduction in pretax earnings related to its foreign currency, interest rate and commodity price-sensitive derivative financial instruments. The VAR computation includes the Company's debt; foreign currency forwards and options; interest rate swap agreements; and commodity swap agreements.

The amounts shown below represent the estimated potential loss that the Company could incur from adverse changes in foreign exchange rates, interest rates or commodity prices using the VAR estimation model. The VAR model uses the variance-covariance statistical modeling technique and uses historical foreign exchange rates, interest rates and commodity prices to estimate the volatility and correlation of these rates and prices in future periods. It estimates a loss in fair market value using statistical modeling techniques and includes substantially all market risk exposures. The estimated potential losses shown in the table below have no effect on the Company's results of operations or financial condition.

Risk category	Amount in millions	Time period	Confidence level
Foreign exchange	$0.1	1 day	95%
Interest rates	$5.2	1 day	95%
Commodity prices	$—	1 day	95%

The 95 percent confidence level signifies the Company's degree of confidence that actual losses would not exceed the estimated losses shown above. The amounts shown disregard the possibility that interest rates, foreign currency exchange rates and commodity prices could move in the Company's favor. The VAR model assumes that all movements in rates and commodity prices will be adverse. Actual experience has shown that gains and losses tend to offset each other over time, and it is highly unlikely that the Company could experience losses such as these over an extended period of time. These amounts should not be considered projections of future losses, since actual results may differ significantly depending upon activity in the global financial markets.

H.J. HEINZ COMPANY (APR)

Market Risk Factors

The following discussion about 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.

The Company is exposed to market risks from adverse changes in foreign exchange rates, interest rates and commodity prices. As a policy, the Company does not engage in speculative or leveraged transactions, nor does the Company hold or issue financial instruments for trading purposes.

Foreign Exchange Rate Sensitivity: The Company's cash flow and earnings are subject to fluctuations due to exchange rate variation. Foreign currency risk exists by nature of the Company's global operations. The Company manufactures and sells its products in a number of locations around the world, and hence foreign currency risk is well diversified.

When appropriate, the Company may attempt to limit its exposure to changing foreign exchange rates through both operational and financial market actions. These actions may include entering into forward, option and swap contracts to hedge existing exposures, firm commitments and, potentially, anticipated transactions. The instruments are used to reduce risk by essentially creating offsetting currency exposures. As of April 29, 1998, the Company held contracts for the purpose of hedging certain intercompany cash flows with an aggregate notional amount of approximately $630 million. In addition, the Company also held separate contracts in order to hedge purchases of certain raw materials and finished goods and for payments arising from certain foreign currency denominated obligations totaling approximately $280 million. Most of the Company's contracts mature within one year of the fiscal year-end. The contracts that effectively meet the risk reduction and correlation criteria, as measured on a currency-by-currency basis are accounted for as hedges. Accordingly, gains and losses are deferred in the cost basis of the underlying transaction. In those circumstances when it is not appropriate to account for the contracts as hedges, any gains and losses from market-to-market and settlement are recorded in miscellaneous income and expense. At April 29, 1998, unrealized gains and losses on outstanding foreign currency contracts are not material. As of April 29, 1998, the potential gain or loss in the fair value of the Company's outstanding foreign currency contracts, assuming a hypothetical 10% fluctuation in the currencies of such contracts, would be approximately $90 million. However, it should be noted that any change in the value of the contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedge items. In addition, this hypothetical calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar.

Substantially all of the Company's foreign affiliates' financial instruments are denominated in their respective functional currencies. Accordingly, exposure to exchange risk on foreign currency financial instruments is not material.

Interest Rate Sensitivity: The Company is exposed to changes in interest rates primarily as a result of its borrowing and investing activities used to maintain liquidity and fund business operations. The Company continues to utilize commercial paper to fund working capital requirements in the U.S. and Canada. The Company also borrows in different currencies from other sources to meet the borrowing needs of its foreign affiliates. The nature and amount of the Company's long-term and short-term debt can be expected to vary as a result of future business requirements, market conditions and other factors. The Company may utilize interest rate swap agreements to lower funding costs, to diversify sources of funding or to alter interest rate exposure. There are no interest rate swap agreements outstanding at April 29, 1998.

The following table summarizes the Company's debt obligations at April 29, 1998. The interest rates represent weighted-average rates, with the period end rate used for the variable rate debt obligations. The fair value of the debt obligations approximated the recorded value as of April 29, 1998.

	Expected Fiscal Year of Maturity						
(Dollars in thousands)	1999	2000	2001	2002	2003	Thereafter	Total
Fixed rate	$ 34,519	$582,538	$18,513	$ 14,464	$457,190	$346,889	$1,454,113
Average interest rate	7.21%	7.01%	7.75%	9.53%	6.28%	6.42%	
Variable rate	$305,107	$ 3,687	—	$1,340,824	—	$ 7,432	$1,657,050
Average interest rate	6.40%	5.75%	—	5.64%	—	5.30%	

Commodity Price Sensitivity: The Company is the purchaser of certain commodities such as corn, wheat and soybean meal and oil. The Company generally purchases these commodities based upon market prices that are established with the vendor as part of the purchase process. In general, the Company does not use significant levels of commodity financial instruments to hedge commodity prices due to a high correlation between the commodity cost and the ultimate selling price of the product. On occasion, the Company may enter into commodity future or option contracts, as deemed appropriate, to reduce the effect of price fluctuations on some future manufacturing requirements. Such contracts are accounted for as hedges, with gains and losses recognized as part of cost of products sold, and generally have a term of less than one year. As of April 29, 1998, unrealized gains and losses related to commodity contracts held by the Company were not material nor would they have been given a hypothetical 10% fluctuation in market prices. It should be noted that any change in the value of the contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged items.

PHILIP MORRIS COMPANIES INC. (DEC)

Market Risk

The Company is exposed to market risk, primarily related to foreign exchange, commodity prices and interest rates. These exposures are actively monitored by management. To manage the volatility relating to these exposures, the Company enters into a variety of derivative financial instruments. The Company's objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates, foreign currency rates and commodity prices. It is the Company's policy and practice to use derivative financial instruments only to the extent necessary to manage exposures. Since the Company uses currency rate-sensitive and commodity price-sensitive instruments to hedge a certain portion of its existing and anticipated transactions, the Company expects that any loss in value for those instruments generally would be offset by increases in the value of those hedged transactions. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Foreign Exchange Rates: The Company is exposed to foreign exchange movements, primarily in European, Japanese, other Asian and Latin American currencies. Consequently, it enters into various contracts, which change in value as foreign exchange rates change, to preserve the value of commitments and anticipated transactions. The Company uses foreign currency option contracts to hedge certain anticipated foreign currency revenues and raw materials purchases. The Company also enters into short-term currency forward contracts, primarily to hedge intercompany transactions denominated in foreign currencies and to hedge the purchase of commodities. At December 31, 1998, the Company had long and short forward exchange/option contracts with U.S. dollar equivalent values of $3.6 billion and $4.5 billion, respectively. At December 31, 1997, the Company had long and short forward exchange/option contracts with U.S. dollar equivalent values of $1.3 billion and $1.2 billion, respectively.

The Company also seeks to protect its foreign currency net asset exposure, primarily the Swiss franc and German mark, through the use of foreign-currency denominated debt or currency swap agreements. At December 31, 1998 and 1997, the notional amounts of currency swap agreements aggregated $2.5 billion and $1.4 billion, respectively.

Commodities: The Company is exposed to price risk related to anticipated purchases of certain commodities used as raw materials by the Company's food businesses. Accordingly, the Company enters into commodity future, forward and option contracts to manage fluctuations in prices of anticipated purchases, primarily coffee, cocoa, sugar, wheat and corn. At December 31, 1998 and 1997, the Company had net long commodity positions of $158 million and $266 million, respectively. Unrealized losses on net commodity positions were immaterial at December 31, 1998 and 1997.

Interest Rates: The Company manages its exposure to interest rate risk through the proportion of fixed rate debt and variable rate debt in its total debt portfolio. To manage this mix, the Company may enter into interest rate swap agreements, in which it exchanges the periodic payments, based on a notional amount and agreed-upon fixed and variable interest rates. The Company's percentage of fixed rate debt to total debt (consumer products and financial services) was 93% and 98% at December 31, 1998 and 1997, respectively. The decrease reflects an interest rate swap agreement entered into by the Company during 1998. The agreement effectively converts $800 million of fixed rate debt to variable rate debt. The Company had no interest rate swap agreements at December 31, 1997.

Use of the above-mentioned derivative financial instruments has not had a material impact on the Company's financial position at December 31, 1998 and 1997 or the Company's results of operations for the years ended December 31, 1998, 1997 and 1996.

Value at Risk: The Company uses a value at risk ("VAR") computation to estimate the potential one-day loss in the fair value of its interest rate-sensitive financial instruments and to estimate the one-day loss in pre-tax earnings of its foreign currency and commodity price-sensitive derivative financial instruments. The VAR computation includes the Company's debt; short-term investments; foreign currency forwards, swaps and options; and commodity futures, forwards and options. Anticipated transactions, foreign currency trade payables and receivables, and net investments in foreign subsidiaries, which the foregoing instruments are intended to hedge, were excluded from the computation.

The VAR estimates were made assuming normal market conditions, using a 95% confidence interval. The Company used a "variance/co-variance" model to determine the observed interrelationships between movements in interest rates and various currencies. These interrelationships were determined by observing interest rate and forward currency rate movements over the preceding quarter for the calculation of VAR amounts at December 31, 1998 and 1997 and over each of the four preceding quarters for the calculation of average VAR amounts during each year. The values of foreign currency and commodity options do not change on a one-to-one basis with the underlying currency or commodity and were valued accordingly in the VAR computation.

The estimated potential one-day loss in fair value of the Company's interest rate-sensitive instruments, primarily debt, under normal market conditions and the estimated potential one-day loss in pre-tax earnings from foreign currency and commodity instruments under normal market conditions, as calculated in the VAR model, follow:

(in millions)	At 12/31/98	Earnings impact Average	High	Low
Instruments sensitive to:				
Foreign currency rates	$41	$17	$41	$ 7
Commodity prices	$ 2	$ 4	$ 6	$ 2

(in millions)	At 12/31/98	Fair value impact Average	High	Low
Instruments sensitive to:				
Interest rates	$47	$45	$60	$36

(in millions)	At 12/31/97	Earnings impact Average	High	Low
Instruments sensitive to:				
Foreign currency rates	$ 5	$ 7	$15	$ 3
Commodity prices	$ 7	$ 8	$17	$ 5

(in millions)	At 12/31/97	Fair value impact Average	High	Low
Instruments sensitive to:				
Interest rates	$37	$40	$47	$37

The VAR computation is a risk analysis tool designed to statistically estimate the maximum probable daily loss from adverse movements in interest rates, foreign currency rates and commodity prices under normal market conditions. The computation does not purport to represent actual losses in fair value or earnings to be incurred by the Company, nor does it consider the effect of favorable changes in market rates. The Company cannot predict actual future movements in such market rates and does not present these VAR results to be indicative of future movements in such market rates or to be representative of any actual impact that future changes in market rates may have on its future results of operations or financial position.

PILGRIM'S PRIDE CORPORATION (SEP)

Market Risk Sensitive Instruments and Positions

The risk inherent in the Company's market risk sensitive instruments and positions is the potential loss arising from adverse changes in the price of feed ingredients, foreign currency exchange rates and interest rates as discussed below. The sensitivity analyses presented do not consider the effects that such adverse changes may have an overall economic activity nor do they consider additional actions management may take to mitigate its exposure to such changes. Actual results may differ.

Feed Ingredients:

The Company is a purchaser of certain commodities, primarily corn and soybean meal. As a result, the Company's earnings are affected by changes in the price and availability of such feed ingredients. As market conditions dictate, the Company from time to time will lock-in future feed ingredient prices, using various hedging techniques including forward purchase agreements with suppliers and futures contracts. The Company does not use such financial instruments for trading purposes and is not a party to any leveraged derivatives. Market risk is estimated as a hypothetical 10% increase in the weighted-average cost of the Company's primary feed ingredients as of September 26, 1998. Based on projected 1999 feed consumption, such an increase would result in an increase to cost of sales of approximately $16.3 million in 1999, after considering the effect of forward purchase commitments and future contracts outstanding as of September 26, 1998. As of September 26, 1998, the Company had hedged approximately 45.6% of its 1999 feed requirements.

Foreign Currency

The Company's earnings are affected by foreign exchange rate fluctuations related to the Mexican peso net monetary position of its Mexico subsidiaries. The Company primarily manages this exposure by attempting to minimize its Mexican peso net monetary position, but has also from time to time considered executing hedges to help minimize this exposure. However, such instruments have historically not been economically feasible. The Company is also exposed to the effect of potential exchange rate fluctuations to the extent that amounts are repatriated from Mexico to the United States. However, the Company currently anticipates that the cash flows of its Mexico subsidiaries will continue to be reinvested in its Mexico Operations. In addition, the Mexican peso exchange rate can directly and indirectly impact the Company's results of operations and financial position in several manners, including potential economic recession in Mexico resulting from a devalued peso. The impact on the Company's financial position and results of operations of a hypothetical change in the exchange rate between the U.S. dollar and the Mexican peso cannot be reasonably estimated. Foreign currency exchange losses, representing the decline in the U.S. dollar value of the net monetary assets of the Company's Mexico subsidiaries, were $2.3 million, $0.4 million and $1.3 million for 1998, 1997 and 1996, respectively. The operating loss of the Company's Mexico subsidiaries of $8.2 million in 1996 was primarily the result of the peso devaluation and other economic factors at least partially attributable to the peso devaluation. On December 3, 1998, the Mexican peso closed at 10.0 to 1 U.S. dollar, a decrease from 10.24 at September 26, 1998. No assurance can be given as to the future valuation of the Mexican peso and how further movements in the peso could affect future earnings of the Company.

Interest Rates

The Company's earnings are also affected by changes in interest rates due to the impact those changes have on its variable-rate debt instruments. The Company has variable-rate debt instruments representing approximately 22.5% of its total long-term debt at September 26, 1998. If interest rates average 25 basis points more in 1999, than they did during 1998, the Company's interest expense would be increased by $0.1 million. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's variable-rate long-term debt at September 26, 1998.

Market risk for fixed-rate long-term debt is estimated as the potential increase in fair value resulting from a hypothetical 25 basis points decrease in interest rates and amounts to approximately $0.7 million, using discounted cash flow analysis.

PIONEER HI-BRED INTERNATIONAL, INC. (AUG)

Market Risks

The Company uses derivative instruments to manage risks associated with its grower compensation costs and foreign-currency-based transactions.

The Company uses derivative instruments such as commodity futures and options to hedge the commodity risk involved in compensating growers. Pioneer contracts with independent growers to produce the Company's finished seed inventory. Contracts with growers generally allow them to settle with Pioneer for the market price of grain for a period of time following harvest. It is the Company's policy to hedge commodity risk prior to setting the retail price of seed. The hedge gains or losses are accounted for as inventory costs and expensed as cost of goods sold when the associated crop inventory is sold. At August 31, 1998 and 1997, net unrealized losses on these contracts for corn and soybeans totaled $13 million and $4 million, respectively. A 10 percent change in the market price of the commodity contracts would impact 1998 net unrealized losses by approximately $1 million. The contract volumes at year end depend upon the acreage contracted with growers, the crop yield, the percentage growers have marketed to Pioneer, and the percentage of crop hedged by the Company. Since these positions are a hedge to inventory costs, any change in the cost of these positions is offset by an opposite change in inventory costs.

The Company uses derivative instruments such as forward exchange contracts, purchased options, and cross currency swaps to hedge foreign-currency-denominated transactions such as exports, contractual flows, and royalty payments. While derivative hedge instruments are subject to price fluctuations from exchange and interest rate movements, the Company expects these price changes to generally be offset by changes in the U.S. dollar value of foreign sales and cash flows. Therefore, hedging gains and losses are matched with the costs of the underlying exposures and accounted for in inventory, sales, or net financial costs. At August 31, 1998 and 1997, net unrealized losses from foreign-currency hedge contracts totaled $1 million and $4 million, respectively. A 10 percent change in exchange rates would impact 1998 net unrealized losses by approximately $14 million.

The Company does not trade in commodity-based or financial instruments with the objective of earning financial gain on rate or price fluctuations, nor does it trade in these instruments when there are no underlying transaction related exposures.

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* in reporting information about a public business enterprise's operating segments. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

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			
	1998	1997	1996	1995
Industry segments				
Revenue	387	306	312	327
Operating income or loss	305	271	279	297
Identifiable assets	362	297	307	323
Depreciation expense	365	300	311	322
Capital expenditures	358	297	303	319
Geographic area				
Revenue	297	283	281	272
Operating income or loss	111	213	208	221
Identifiable assets	177	269	258	259
Depreciation expense	38	17	16	23
Capital expenditures	25	18	17	24
Export sales	111	168	154	167
Sales to major customers	136	145	137	166

AGCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Segment Reporting

The company has four geographic reportable segments: North America; South America; Europe/Africa/Middle East; and Asia/Pacific. Each segment distributes a full range of agricultural equipment and related replacement parts. The accounting policies of the segments are the same as described in the summary of significant accounting policies. The Company evaluates segment performance based on income from operations. Sales for each segment are based on the location of the third-party customer. All intercompany transactions between segments have been eliminated. The Company's selling, general and administrative expenses and engineering expenses are charged to each segment based on the region where the expenses are incurred. As a result, the components of operating income for one segment may not be comparable to another segment. Segment results for 1998, 1997 and 1996 are as follows (in millions):

	North America	South America	Europe/Africa/ Middle East	Asia/ Pacific	Consolidated
1998					
Net sales	$940.9	$315.3	$1,597.8	$ 87.4	$2,941.4
Income from operations	57.0	13.5	136.2	15.8	222.5
Depreciation and amortization	14.3	8.9	32.9	1.5	57.6
Assets	876.7	260.9	922.5	30.2	2,090.3
Capital expenditures	14.5	6.4	40.1	—	61.0
1997					
Net sales	$956.6	$334.3	$1,781.4	$152.1	$3,224.4
Income from operations	108.3	19.3	192.4	32.1	352.1
Depreciation and amortization	11.1	9.4	27.2	1.7	49.4
Assets	799.9	245.2	926.4	33.6	2,005.1
Capital expenditures	20.4	7.2	44.4	0.1	72.1
1996					
Net sales	$862.6	$100.3	$1,184.9	$169.7	$2,317.5
Income from operations	94.1	(0.3)	125.1	35.3	254.2
Depreciation and amortization	9.3	2.9	15.1	1.9	29.2
Assets	715.8	253.4	614.3	39.7	1,623.2
Capital expenditures	12.2	0.8	32.0	0.2	45.2

A reconciliation from the segment information to the consolidated balances for income from operations and assets is set forth below (in millions):

	1998	1997	1996
Segment income from operations	$ 222.5	$ 352.1	$ 254.2
Restricted stock compensation expense	(12.0)	(14.8)	(20.0)
Nonrecurring expenses	(40.0)	(18.2)	(22.3)
Consolidated income from operations	$ 170.5	$ 319.1	$ 211.9
Segment assets	$2,090.3	$2,005.1	$1,623.2
Cash and cash equivalents	15.9	31.2	41.7
Receivable from affiliates	15.2	18.5	12.5
Investments in affiliates	95.2	87.6	80.5
Other current and noncurrent assets	163.3	139.5	153.0
Intangible assets	370.5	339.0	205.6
Consolidated total assets	$2,750.4	$2,620.9	$2,116.5

Net sales by customer location for the years ended December 31, 1998, 1997 and 1996 were as follows (in millions):

	1998	1997	1996
Net sales:			
United States	$ 759.0	$ 738.5	$ 690.0
Canada	142.4	182.6	153.8
Germany	449.3	470.5	141.3
France	321.5	347.8	231.2
United Kingdom and Ireland	122.2	179.5	217.1
Other Europe	540.3	614.6	422.4
South America	315.3	334.3	100.3
Middle East	115.8	105.7	92.3
Asia	36.7	87.8	102.7
Australia	50.7	64.3	67.0
Africa	48.7	63.3	80.6
Mexico, Central America and Caribbean	39.5	35.5	18.8
	$2,941.4	$3,224.4	$2,317.5

Net sales by product for the years ended December 31, 1998, 1997 and 1996 were as follows (in millions):

	1998	1997	1996
Net sales:			
Tractors	$1,838.8	$1,990.6	$1,393.0
Combines	293.5	330.5	262.5
Other machinery	318.5	389.7	258.6
Replacement parts	490.6	513.6	403.4
	$2,941.4	$3,224.4	$2,317.5

BAXTER INTERNATIONAL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Segment Information: The company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131) in 1998. This statement establishes standards for the reporting of information about operating segments in annual and interim financial statements and requires restatement of prior year information. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker(s) in deciding how to allocate resources and in assessing performance. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers. The adoption of SFAS No. 131 did not affect results of operations or financial position but did affect the disclosure of segment information, as presented in Note 13.

13. Segment Information

Baxter is a global leader in providing critical therapies for life-threatening conditions. The company operates in four segments, each of which are strategic businesses that are managed separately because each business develops, manufactures and sells distinct products and services. The segments and a description of their businesses are as follows: I.V. Systems/Medical Products, technologies and systems to provide intravenous fluid and drug delivery; Blood Therapies, biopharmaceutical and blood-collection and separation products and technologies; Renal, products and services to treat end-stage kidney disease; and CardioVascular, products and services to treat late-stage heart disease and vascular disorders. The company's products and services are used in more than 100 countries, with the principal markets being the United States, Europe, Japan and Latin America. The four segments' principal products include intravenous solutions and infusion pumps; blood-clotting therapies, vaccines, and machines for collecting, separating and storing blood; dialysis equipment, solutions and supplies; and prosthetic heart valves and cardiac catheters, respectively.

Management utilizes more than one measurement and multiple views of data to measure segment performance and to allocate resources to the segments. However, the dominant measurements are consistent with the company's consolidated financial statements and, accordingly, are reported on the same basis herein. Management evaluates the performance of its segments and allocates resources to them primarily based on pretax income along with cash flows and overall economic returns. Intersegment sales are generally accounted for at amounts comparable to sales to unaffiliated customers, and are eliminated in consolidation. The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies, as discussed in Note 1.

Certain items are maintained at the company's corporate headquarters (Corporate) and are not allocated to the segments. They primarily include most of the company's debt and cash and equivalents and related net interest expense, corporate headquarters costs, certain non-strategic investments and nonrecurring gains and losses, deferred income taxes, certain portions of goodwill, certain foreign currency fluctuations, hedging activities, and certain litigation liabilities and related insurance receivables.

As of and for the years ended December 31 (in millions)	I.V. Systems/ Medical Products	Blood Therapies	Renal	Cardio-Vascular	Other	Total
1998						
Net sales	$2,314	$1,861	$1,530	$894	—	$6,599
Depreciation and amortization	137	101	81	64	$ 43	426
Pretax income	388	396	349	164	(748)	549
Assets	2,285	2,642	1,360	836	2,962	10,085
Expenditures for long-lived assets	146	212	129	49	60	596
1997						
Net sales	$2,110	$1,765	$1,384	$879	—	$6,138
Depreciation and amortization	128	98	67	65	$ 40	398
Pretax income	329	375	339	153	(673)	523
Assets	1,937	2,305	1,055	856	2,554	8,707
Expenditures for long-lived assets	135	191	100	52	18	496
1996						
Net sales	$1,956	$1,284	$1,343	$855	—	$5,438
Depreciation and amortization	118	49	65	63	$ 53	348
Pretax income	280	250	332	153	(222)	793
Assets	1,794	1,103	987	776	2,936	7,596
Expenditures for long-lived assets	130	92	106	49	21	398

Included in 1997 pretax income for the Blood Therapies segment is a $17 million gain relating to the disposal of a non-strategic investment, and a $32 million gain relating to the divestiture of certain assets of the Immunotherapy division.

With respect to depreciation and amortization, and expenditures for long-lived assets, the differences between the segment totals and the consolidated totals relates to assets maintained at Corporate.

As of and for the years ended December 31 (in millions)	1998	1997	1996
Pretax income			
Total pretax income from segments	$1,297	$1,196	$1,015
Unallocated amounts			
In-process research and development charges	(116)	(352)	—
Charge for exit and other reorganization costs	(131)	—	—
Net litigation charge	(178)	—	—
Interest expense, net	(161)	(163)	(103)
Certain currency exchange rate activity	(119)	(48)	(27)
Gain on disposal of investment	20	—	—
Other corporate items	(63)	(110)	(92)
Consolidated income before income taxes	$ 549	$ 523	$ 793
Assets			
Total segment assets	$7,123	$6,153	$4,660
Unallocated assets			
Cash and equivalents	709	465	761
Deferred income taxes	596	290	233
Insurance receivables	639	735	872
Certain portions of goodwill	635	659	682
Other corporate assets	383	405	388
Consolidated total assets	$10,085	$8,707	$7,596

Geographic Information: The following geographic area data include net sales based on product shipment destination and long-lived assets based on physical location.

As of and for the years ended December 31 (in millions)	1998	1997	1996
Net sales			
United States	$3,145	$2,887	$2,665
Japan	543	570	602
Other countries	2,911	2,681	2,171
Consolidated totals	$6,599	$6,138	$5,438
Long-lived assets			
United States	$1,448	$1,267	$1,170
Other countries	1,225	1,093	673
Consolidated totals	$2,673	$2,360	$1,843

CONSOLIDATED PAPERS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Segment Information

The company's principal business is the manufacture of paper and paper-related products. Consolidated Papers, Inc. is a leading manufacturer of coated and supercalendered printing papers. The company is also the nation's leading manufacturer of coated specialty papers used in consumer product packaging and labeling. Other products and services include recycled pulp made from printed, preconsumer and postconsumer scrap paper, paperboard, paperboard products, corrugated products, and hospitality and lodging services provided at a company-owned hotel.

The company's headquarters and major operating facilities are all located in the United States. Some forestlands and a small wood production facility are located in Canada. These Canadian operations account for $.6 million of consolidated total assets.

The principal markets for the company's products are in the United States. Export sales, primarily to Canada, amounted to $88.2 million in 1998, $65.8 million in 1997 and $37.4 million in 1996.

Sales to one customer amounted to 13.6%, 14.3% and 13.0% of consolidated net sales in 1998, 1997 and 1996, respectively. Sales to another customer amounted to 10.1% and 10.2% of net sales in 1998 and 1997.

The company is managed along product lines including coated and supercalendered printing papers, coated specialty papers, paperboard products, and corrugated products. Several operating divisions producing groundwood-free, groundwood and supercalendered printing papers have been aggregated into the coated and supercalendered printing papers reportable segment because these operating segments are similar in economic characteristics, products, production processes, type of customer and distribution methods. The coated specialty papers, paperboard products and corrugated products operating segments do not meet the quantitative thresholds for a reportable segment and thus are included in the "Other" category.

The coated and supercalendered printing papers reportable segment derives revenues from the sale of printing papers used by commercial printers and publishers for magazines, annual reports, advertising brochures, catalogs, coupons and newspaper inserts. The "Other" category includes the sales of coated specialty papers (used for flexible packaging, pressure-sensitive labels and technical papers), recycled pulp, paperboard products and corrugated products, as well as revenues from the company-owned hotel.

Segment sales include intersegment sales valued at arm's-length transfer prices. Segment operating profit is revenue less direct and allocable operating expenses. Segment identifiable assets are those which are directly used in or identified to segment operations. Corporate items include nonoperating overhead, selling, general and administrative expense, research and development expenditures, interest expense, intersegment eliminations, and other income and deductions items. Corporate assets are principally cash and cash equivalents, certain nontrade receivables, prepaid items, equity method investments, and certain nonoperating fixed assets.

Financial information by business segment follows:

(in thousands)	Printing Papers	Other	Corporate Items	Total
1998				
Revenues	$1,751,226	$281,690	$(43,601)	$1,989,315
Segment profit (loss)	323,475	16,575	(161,781)	178,269
Total assets	2,754,789	325,538	547,159	3,627,486
Capital expenditures	315,459	29,663	3,734	348,856
Depreciation and amortization	160,514	18,168	(4,434)	174,248
1997				
Revenues	$1,440,005	$284,820	$(45,514)	$1,679,311
Segment profit (loss)	264,710	28,578	(102,894)	190,394
Total assets	2,514,870	313,684	518,956	3,347,510
Capital expenditures	181,582	50,338	4,278	236,198
Depreciation and amortization	105,063	21,248	2,289	128,600
1996				
Revenues	$1,296,536	$277,122	$(28,567)	$1,545,091
Segment profit (loss)	325,654	44,133	(80,617)	289,170
Total assets	1,575,482	401,015	555,745	2,532,242
Capital expenditures	175,501	108,550	3,842	287,893
Depreciation and amortization	87,808	17,867	2,145	107,820

THE BFGOODRICH COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

N. Business Segment Information

The Company's operations are classified into two reportable business segments: BFGoodrich Aerospace ("Aerospace") and BFGoodrich Performance Materials ("Performance Materials"). The Company's two reportable business segments are managed separately based on fundamental differences in their operations.

Aerospace consists of four business groups: Aerostructures; Landing Systems; Sensors and Integrated Systems; and Maintenance, Repair and Overhaul. They serve commercial, military, regional, business and general aviation markets. Aerospace's major products are aircraft engine nacelle and pylon systems; aircraft landing gear and wheels and brakes; sensors and sensor-based systems; fuel measurement and management systems; aircraft evacuation slides and rafts; ice protection systems, and collision warning systems. Aerospace also provides maintenance, repair and overhaul services on commercial airframes and components.

Performance Materials consists of three business groups: Textile and Industrial Coatings, Polymer Additives and Specialty Plastics, and Consumer Specialties. They serve various markets such as personal-care, pharmaceuticals, printing, textiles, industrial, construction and automotive. Performance Materials' major products are thermoplastic polyurethane; high-heat-resistant plastics; synthetic thickeners and emulsifiers; polymer emulsions, resins and additives, and textile thickeners, binders, emulsions and compounds.

The Company's business is conducted on a global basis with manufacturing, service and sales undertaken in various locations throughout the world. Aerospace's products and services and Performance Materials' products are principally sold to customers in North America and Europe.

Segment operating income is total segment revenue reduced by operating expenses identifiable with that business segment. Corporate includes general corporate administrative costs and Advanced Technology Group research expenses.

The Company evaluates performance and allocates resources based on operating income. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. There are no intersegment sales.

(in millions)	1998	1997	1996
Sales			
Aerospace	$2,755.2	$2,468.3	$2,021.4
Performance Materials	1,195.6	904.7	824.4
Total sales	$3,950.8	$3,373.0	$2,845.8
Operating income			
Aerospace	$ 386.4	$ 260.3	$ 253.6
Performance Materials	145.8	128.2	109.5
	532.2	388.5	363.1
Corporate General and Administrative Expenses[2]	(55.4)	(138.4)	(52.8)
Total operating income	$ 476.8	$ 250.1	$ 310.3
Assets			
Aerospace	$2,372.5	$2,347.0	$2,169.2
Performance Materials	1,369.5	877.3	784.6
Corporate	450.6	269.6	626.0
Total assets	$4,192.6	$3,493.9	$3,579.8
Capital Expenditures			
Aerospace	$ 134.1	$ 81.9	$ 64.6
Performance Materials	70.6	73.2	97.5
Corporate	3.8	4.8	35.0
Total capital expenditures	$ 208.5	$ 159.9	$ 197.1
Depreciation and Amortization Expenses			
Aerospace	$ 87.3	$ 82.6	$ 79.3
Performance Materials	75.3	48.2	39.0
Corporate	2.8	8.0	21.5
Total depreciation and amortization	$ 165.4	$ 138.8	$ 139.8
Geographic areas			
Net sales			
United States	$2,631.7	$2,307.8	$1,989.7
Europe[1]	843.8	723.7	525.2
Other Foreign	475.3	341.5	330.9
Total	$3,950.8	$3,373.0	$2,845.8
Property			
United States	$1,104.8	$ 947.3	$1,015.1
Europe	148.3	116.5	108.3
Other Foreign	2.8	1.3	18.6
Total	$1,255.9	$1,065.1	$1,142.0

[1] European sales in 1998, 1997 and 1996 included $262.3 million, $418.9 million and $248.5 million, respectively, of sales to customers in France. Sales were allocated to geographic areas based on where the product was shipped to.

[2] Corporate general and administrative expenses in 1997 include merger costs of $77.0 million.

In 1998, 1997 and 1996, sales to Boeing, solely by the Aerospace Segment, totaled 14 percent, 14 percent and 13 percent, respectively, of consolidated sales. Sales to Boeing include sales to McDonnell Douglas which merged with Boeing in 1997.

ELI LILLY AND COMPANY (DEC)

SEGMENT INFORMATION
(Dollars in millions)

The company operates in one significant business segment—pharmaceutical products. Operations of the animal health business are not material and are included with pharmaceutical products for purposes of segment reporting.

Year ended December 31	1998	1997	1996
Net sales—to unaffiliated customers			
Neurosciences	$4,487.8	$3,515.3	$2,665.8
Endocrinology	1,482.5	1,381.8	1,286.6
Anti-infectives	1,160.9	1,272.5	1,465.6
Animal health	614.4	589.8	547.3
Cardiovascular	536.9	421.0	325.4
Gastrointestinal	418.0	525.4	532.2
Oncology	339.2	210.6	104.1
Other pharmaceutical	197.1	71.3	71.3
Net sales	$9,236.8	$7,987.7	$6,998.3
Geographic information			
Net sales—to unaffiliated customers[1]:			
United States	$5,836.2	$4,881.8	$3,917.3
Western Europe	1,692.3	1,462.9	1,455.2
Other foreign countries	1,708.3	1,643.0	1,625.8
	$9,236.8	$7,987.7	$6,998.3
Long-lived assets:			
United States	$3,421.9	$3,333.4	$3,595.1
Western Europe	675.4	632.2	663.4
Other foreign countries	654.4	663.9	685.6
	$4,751.7	$4,629.5	$4,944.1

[1] Net sales are attributed to the countries based on the location of the subsidiary making the sale.

The largest category of products is the neurosciences group, which includes Prozac, Zyprexa, Darvon® and Permax. Endocrinology products consist primarily of Humulin, Humatrope, Humalog and Iletin. Anti-infectives include primarily Ceclor, Keflex, Lorabid, Nebcin®, Tazidime and Vancocin. Cardiovascular products consist primarily of ReoPro and Dobutrex. The gastrointestinal group is entirely composed of Axid. Oncology products consist primarily of Gemzar. Animal health products include Tylan; Micotil; Surmax; Rumensin®, a nonhormonal cattle feed additive; anticoccidial agents for use in broilers and layer replacements, the largest of which is Coban®; and other products for livestock and poultry. The other pharmaceutical product group includes Evista and other miscellaneous pharmaceutical products and services.

Most of the pharmaceutical products are distributed through wholesalers that serve physicians and other health care professionals, pharmacies and hospitals. In 1998, the company's four largest wholesalers each accounted for between 10 percent and 17 percent of consolidated net sales. Animal health products are sold to wholesale distributors, retailers, manufacturers and producers.

Total assets on the consolidated balance sheet include amounts from the discontinued operations of PCS (see Note 3). Total assets from continuing operations for 1998, 1997 and 1996 were $10.6 billion, $10.6 billion and $9.9 billion, respectively. Long-lived assets disclosed above consist of property and equipment, goodwill and certain sundry assets of the continuing operations.

The company is exposed to the risk of changes in social, political and economic conditions inherent in foreign operations, and the company's results of operations and the value of its foreign assets are affected by fluctuations in foreign currency exchange rates.

POTLATCH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Segment Information

In the fourth quarter of 1998, the company adopted the Financial Accounting Standards Board Statement No. 131, "Disclosures About Segments of an Enterprise and Related Information," which establishes standards for reporting information about a company's operating segments. The company has divided its operations into three reportable segments: wood products, printing papers and pulp and paper, based upon similarities in product lines, manufacturing processes, marketing and management of its businesses. The wood products segment produces oriented strand board, lumber, plywood and particleboard. The printing papers segment produces coated printing papers. The pulp and paper segment produces bleached kraft pulp, paperboard and consumer tissue.

The reporting segments follow the same accounting policies used for the company's consolidated financial statements and described in the summary of significant accounting policies. Management evaluates a segment's performance based upon profit or loss from operations before income taxes. Intersegment sales or transfers are recorded based on prevailing market prices.

Following is a tabulation of business segment information for each of the past three years. Corporate information is included to reconcile segment data to the consolidated financial statements.

(Dollars in thousands)	1998	1997	1996
Segment sales:			
Wood products:			
Oriented strand board	$ 171,464	$ 106,807	$ 150,545
Lumber	225,668	247,232	201,022
Plywood	54,561	64,511	57,468
Particleboard	14,494	12,875	12,087
Logs, chips, etc.	124,536	119,435	111,118
	590,723	550,860	532,240
Printing papers	406,277	429,217	441,037
Pulp and paper:			
Pulp	12,467	11,183	12,346
Paperboard	390,708	420,054	404,136
Tissue	235,799	218,310	222,169
	638,974	649,547	638,651
	1,635,974	1,629,624	1,611,928
Elimination of intersegment sales	(70,096)	(60,754)	(57,479)
Total consolidated net sales	$1,565,878	$ 1,568,870	$ 1,554,449
Intersegment sales or transfers:[1]			
Wood products	$ 69,984	$ 60,649	$ 57,033
Printing papers	—	35	279
Pulp and paper	112	70	167
Total	$ 70,096	$ 60,754	$ 57,479
Operating income:			
Wood products	$ 73,811	$ 47,674	$ 68,056
Printing papers	14,204	33,358	48,570
Pulp and paper	53,394	51,043	40,867
	141,409	132,075	157,493
Corporate items:			
Administration expense	(37,247)	(31,385)	(30,752)
Interest expense	(49,744)	(46,124)	(43,869)
Other, net	3,757	69	3,454
Consolidated earnings before taxes on income	$ 58,175	$ 54,635	$ 86,326
Depreciation, Amortization and Cost of Fee Timber Harvested:			
Wood products	$ 54,245	$ 50,586	$ 49,072
Printing papers	41,618	39,436	35,318
Pulp and paper	53,525	58,689	56,092
	149,388	148,711	140,482
Corporate	890	1,074	1,039
Total	$ 150,278	$ 149,785	$ 141,521
Assets:			
Wood products	$ 671,381	$ 690,468	$ 698,151
Printing papers	685,743	644,457	592,228
Pulp and paper	825,547	842,337	850,612
	2,182,671	2,177,262	2,140,991
Corporate	194,635	187,874	124,688
Total consolidated assets	$2,377,306	$2,365,136	$2,265,679
Capital Expenditures:			
Wood products	$ 28,404	$ 31,578	$ 43,992
Printing papers	87,147	81,913	103,574
Pulp and paper	30,674	44,054	92,083
	146,225	157,545	239,649
Corporate	802	940	259
Total	$147,027	$158,485	$239,908

[1] Intersegment sales for 1998-1996, the majority of which were based on prevailing market prices, consisted primarily of chips, pulp logs and other fiber sales to the printing papers and pulp and paper segments. The company's timber, timberlands and related logging facilities have been assigned to the wood products segment.

All of the company's manufacturing facilities and all other assets are located within the continental United States. However, the company sells and ships products to many foreign countries. Geographic information regarding the company's net sales is summarized as follows:

(Dollars in thousands)	1998	1997	1996
United States	$1,392,223	$1,382,674	$1,357,801
Japan	64,129	69,494	89,355
Australia	23,022	30,869	32,585
Canada	31,234	35,867	25,599
China	25,939	23,061	24,279
Italy	18,631	11,933	8,866
Other foreign countries	10,700	14,972	15,964
Total consolidated net sales	$1,565,878	$1,568,870	$1,554,449

SARA LEE CORPORATION (JUN)

NOTES TO FINANCIAL STATEMENTS (Dollars in millions)

Industry Segment Information

The corporation's business segments are described in the Operations Review on pages 22 through 35. During the fourth quarter of 1998, the corporation adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). The adoption of SFAS 131 requires the presentation of descriptive information about reportable segments which is consistent with that made available to the management of the corporation to assess performance. As a result of this change, the corporation now reports segment performance on an after-tax basis and separately reports information on its Foodservice operations. In determining the net income of each segment of the corporation, interest expense is allocated based upon the average invested capital in each business, and effective tax rates are determined for each business segment. The Foodservice business was previously included in a reportable segment which included the corporation's packaged meats and bakery businesses. The packaged meats and bakery businesses are now presented in the Sara Lee Foods segment.

	Sara Lee Foods	Coffee and Tea	Household and Body Care	Foodservice	Branded Apparel	Corporate	Inter-segment	Total
1998								
Sales[1]	$5,441	$2,806	$2,003	$2,585	$7,317	$ —	$(141)	$20,011
Operating income (loss)[2]	230	358	67	88	(840)	(170)	—	(267)
Net interest	(30)	(16)	(31)	(7)	(92)	—	—	(176)
Pretax income (loss)	200	342	36	81	(932)	(170)	—	(443)
Net income (loss)[3]	119	239	(22)	51	(797)	(113)	—	(523)
Assets	2,157	1,434	2,053	519	4,627	199[4]	—	10,989
Depreciation and amortization	146	87	88	23	251	23	—	618
Additions to long-lived assets	257	187	328	52	169	3	—	996
1997								
Sales[1]	$5,357	$2,813	$1,843	$2,372	$7,482	$ —	$(133)	$19,734
Operating income	394	440	228	82	761	(262)	—	1,643
Net interest	(24)	(12)	(24)	(5)	(94)	—	—	(159)
Pretax income	370	428	204	77	667	(262)	—	1,484
Net income	232	290	130	48	483	(174)	—	1,009
Assets	2,295	1,921	1,530	454	6,471	282[4]	—	12,953
Depreciation and amortization	150	90	78	17	326	19	—	680
Additions to long-lived assets	674	107	85	45	401	4	—	1,316
1996								
Sales[1]	$4,422	$2,896	$1,837	$2,201	$7,370	$ —	$(102)	$18,624
Operating income	349	428	214	73	729	(242)	—	1,551
Net interest	(21)	(13)	(24)	(6)	(109)	—	—	(173)
Pretax income	328	415	190	67	620	(242)	—	1,378
Net income	207	273	118	41	436	(159)	—	916
Assets	1,629	2,033	1,571	416	6,635	318[4]	—	12,602
Depreciation and amortization	118	86	78	17	312	23	—	634
Additions to long-lived assets	157	188	141	25	279	13	—	803

[1] Includes sales between segments. Such sales are at transfer prices that are equivalent to market value.
[2] Includes provisions for restructuring reported in the 1998 Consolidated Statement of Income as follows: Sara Lee Foods $208; Coffee and Tea $71; Household and Body Care $185; Foodservice $2; and Branded Apparel $1,574.
[3] Includes provisions for restructuring, net of tax, reported in the 1998 Consolidated Statement of Income as follows: Sara Lee Foods $133; Coffee and Tea $46; Household and Body Care $164; Foodservice $1; and Branded Apparel $1,281.
[4] Principally cash and equivalents, certain fixed assets and certain other noncurrent assets.

Geographic Area Information

	United States	France	Netherlands	Other	Total
1998					
Sales	$11,849	$1,724	$1,311	$5,127	$20,011
Long-lived assets	2,452	500	1,246	1,349	5,547
1997					
Sales	$11,497	$1,764	$1,340	$5,133	$19,734
Long-lived assets	4,158	526	1,240	1,439	7,363
1996					
Sales	$11,244	$1,008	$1,400	$4,972	$18,624
Long-lived assets	4,191	137	1,370	1,517	7,215

WEYERHAEUSER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Nature of Operations: The company's principal business segments, which account for the majority of sales, earnings and the assets base, are:

• Timberlands, which is engaged in the management of 5.1 million acres of company-owned and .2 million acres of leased commercial forestland in the United States (3.3 million acres in the South and 2 million acres in the Pacific Northwest).

• Wood products, which produces a full line of solid wood products that are sold primarily through the company's own sales organizations to wholesalers, retailers and industrial users in North America, the Pacific Rim and Europe. It is also engaged in the management of 27 million acres of forestland in Canada under long-term licensing arrangements (of which 18.9 million acres are considered to be productive forestland).

• Pulp, paper and packaging, which manufactures and sells pulp, paper, paperboard and containerboard in North American, Pacific Rim and European markets and packaging products for the domestic markets, and which operates an extensive wastepaper recycling system that serves company mills and worldwide markets.

18. Business Segments

The company is principally engaged in the growing and harvesting of timber and the manufacture, distribution and sale of forest products. The business segments are timberlands (including logs, chips and timber); wood products (including softwood lumber, plywood and veneer; composite panels; oriented strand board; hardwood lumber; treated products; doors; raw materials; and building materials distribution); pulp, paper and packaging (including pulp, paper, containerboard, packaging, paperboard and recycling); and real estate and related assets.

The timber-based businesses involve a high degree of intergration among timber operations; building materials conversion facilities; and pulp, paper, containerboard and paperboard primary manufacturing and secondary conversion facilities. This integration includes extensive transfers of raw materials, semi-finished materials and end products between and among these groups. The company's accounting policies for segments are the same as those described in "Note 1. Summary of Significant Accounting Policies." Management evaluates segment performance based on the contributions to earnings of the respective segments. Accounting for segment profitability in integrated manufacturing sites involves allocation of joint conversion and common facility costs based upon the extent of usage by the respective product lines at that facility. Transfer of products between segments is accounted for at current market values.

An analysis and reconciliation of the company's business segment information to the respective information in the consolidated financial statements is as follows:

For the three-year period ended December 27, 1998 Dollar amounts in millions	1998	1997	1996
Sales to and revenues from unaffiliated customers:			
Timberlands	$ 636	$ 797	$ 867
Wood products	4,475	4,577	4,373
Pulp, paper and packaging	4,312	4,609	4,648
Real estate and related assets	1,192	1,093	1,009
Corporate and other	151	134	217
	$10,766	$11,210	$11,114
Intersegment sales:			
Timberlands	$ 488	$ 520	$ 513
Wood products	184	190	246
Pulp, paper and packaging	74	95	88
Corporate and other	13	35	35
	759	840	882
Total sales and revenues	11,525	12,050	11,996
Intersegment eliminations	(759)	(840)	(882)
	$10,766	$11,210	$11,114
Approximate contribution (charge) to earnings:[1]			
Timberlands	$ 487	$ 535	$ 503
Wood products	183	172	302
Pulp, paper and packaging	150	164	307
Real estate and related assets	124	111	43
Corporate and other	(225)	(186)	(183)
	719	796	972
Interest expense[1]	(324)	(341	(338)
Less capitalized interest	68	84	86
Earnings before income taxes	463	539	720
Income taxes	(169)	(197)	(257)
	$ 294	$ 342	$ 463
Depreciation, amortization and fee stumpage:			
Timberlands	$ 55	$ 72	$ 79
Wood products	188	171	148
Pulp, paper and packaging	348	353	355
Real estate and related assets	5	12	16
Corporate and other	20	20	19
	$ 616	$ 628	$ 617
Noncash charges for closure or disposition of facilities:			
Wood products	$ 25	$ 40	$ —
Pulp, paper and packaging	42	49	—
Corporate and other	4	—	—
	$ 71	$ 89	$ —
Equity in income/(loss) from equity affiliates, joint ventures and limited partnerships:			
Timberlands	$ 1	$ 3	$ —
Pulp, paper and packaging	27	(10)	5
Real estate and related assets	14	14	5
	$ 42	$ 7	$ 10

	1998	1997	1996
Capital expenditures (including acquisitions):			
Timberlands	$ 87	$ 75	$ 505
Wood products	212	240	361
Pulp, paper and packaging	776	327	415
Real estate and related assets	2	3	9
Corporate and other	32	24	37
	$1,109	$ 669	$1,327
Investments in and advances to equity affiliates, joint ventures and limited partnerships:			
Timberlands	$ 218	$ 216	$ —
Pulp, paper and packaging	264	33	35
Real estate and related assets	120	116	115
	$ 602	$ 365	$ 150
Assets:			
Timberlands	$1,675	$1,676	$1,578
Wood products	2,129	2,128	2,080
Pulp, paper and packaging	6,346	6,589	6,721
Real estate and related assets	1,900	2,004	2,628
Corporate and other	1,164	1,160	1,184
	13,214	13,557	14,191
Less: Intersegment eliminations	(380)	(482)	(595)
	$12,834	$13,075	$13,596

Certain reclassifications have been made to conform prior years' data to the current format.

(1) Interest expenses of $17million, $40 million and $67 million in 1998, 1997 and 1996, respectively, is included in the determination of "approximate contribution to earnings" and excluded from "interest expense" for financial services businesses.

19. Geographical Areas

The company attributes sales to and revenues from unaffiliated customers in different geographical areas on the basis of the location of the customer.

Export sales from the United States consist principally of pulp, paperboard, logs, lumber and wood chips to Japan; containerboard, pulp, lumber and recycling material to other Pacific Rim countries; and pulp and hardwood lumber to Europe.

Long-lived assets consist of timber and timberlands and property and equipment used in the generation of revenues in the different geographical areas.

Selected information related to the company's operations by geographical area is as follows:

For the three-year period ended December 27, 1998 Dollar amounts in millions	1998	1997	1996
Sales to and revenues from unaffiliated customers:			
United States	$ 8,999	$ 8,985	$ 8,676
Japan[1]	604	1,032	1,320
Canada	514	510	473
Europe	338	354	323
Other foreigh countries	311	329	322
	$10,766	$11,210	$11,114
Export sales from the United States:			
Japan[1]	$ 501	$ 893	$ 1,185
Other	588	634	573
	$ 1,089	$ 1,527	$ 1,758
Earnings before income taxes:			
United States	$ 413	$ 432	$ 614
Foreign entities	50	107	106
	$ 463	$ 539	$ 720
Long-lived assets:			
United States	$ 6,649	$ 7,426	$ 7,562
Canada	1,345	903	930
Other foreign countries	26	12	5
	$ 8,020	$ 8,341	$ 8,497

(1) 1998 export sales to Japan include only one month's sales of newsprint due to the company's change in ownership of its newsprint subsidiary from 80 percent to 50 percent in February.

WHIRLPOOL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Business Segment Information

The company adopted the Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," during the fourth quarter of 1998. Statement No. 131 established standards for reporting information about operating segments in annual financial statements and in interim financial reports issued to stockholders. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing performance of the segment.

The company identifies such segments based upon geographical regions of operations because each operating segment manufactures home appliances and related components, but serves strategically different markets. The chief operating decision maker evaluates performance based upon each segment's operating income, which is defined as income before interest income or interest expense, taxes and minority interests. Intersegment sales and transfers are generally at current market prices, as if the sales or transfers were to third parties. The "Other" segment primarily includes corporate expenses and eliminations.

The company generally evaluates business segments based on net sales, not including intersegment appliance sales. Intersegment sales are included in Other/Eliminations. Latin America consists of the company's Brazilian subsidiaries in 1997 and 1998. Total assets are those assets directly associated with the respective operating activities. Other assets consist principally of assets related to corporate activities, including the equity investment in Brazil in 1996 and the assets of discontinued operations held for sale in 1997.

Substantially all of the company's trade receivables are from distributors and retailers.

Sales activity with Sears, Roebuck and Co., a North American major home appliance retailer, represented 17%, 20% and 21% of consolidated net sales in 1998, 1997 and 1996. Related receivables were 16%, 17% and 24% of consolidated trade receivables for December 31, 1998, 1997 and 1996.

The company conducts business in two countries which individually comprised over ten percent of consolidated net sales and total assets within the last three years. The United States represented 50%, 57% and 58% of net sales for 1998, 1997 and 1996, respectively, while Brazil totaled 20% for 1998. As a percentage of total assets, the United States accounted for 53%, 64% and 79% at the end of 1998, 1997 and 1996. Brazil accounted for 24% and 28% of total assets at the end of 1998 and 1997, respectively. The company's Brazilian affiliates were consolidated in November of 1997 and therefore not included in both 1996 calculations and only in the total asset calculation for 1997.

(millions of dollars)	North America	Europe	Latin America	Asia	Other and Eliminations	Total Whirlpool
Geographic segments						
Net sales						
1998	$5,599	$2,439	$2,090	$313	$ (118)	$10,323
1997	$5,263	$2,343	$ 447	$400	$ 164	$ 8,617
1996	$5,310	$2,494	$ —	$461	$ 258	$ 8,523
Intangible amortization						
1998	$ 3	$ 16	$ 6	$ 4	$ 10	$ 39
1997	$ 3	$ 16	$ 1	$ 4	$ 10	$ 34
1996	$ —	$ 19	$ —	$ 4	$ 12	$ 35
Depreciation						
1998	$ 143	$ 94	$ 126	$ 15	$ 21	$ 399
1997	$ 145	$ 110	$ 3	$ 13	$ 51	$ 322
1996	$ 145	$ 107	$ —	$ 13	$ 53	$ 318
Restructuring costs and special charges						
1998	$ —	$ —	$ —	$ —	$ —	$ —
1997	$ —	$ —	$ —	$ —	$ 396	$ 396
1996	$ —	$ —	$ —	$ —	$ 30	$ 30
Operating profit (loss)						
1998	$ 630	$ 122	$ 120	$ (17)	$ (167)	$ 688
1997	$ 546	$ 54	$ 22	$ (62)	$ (549)	$ 11
1996	$ 545	$ (15)	$ —	$ (70)	$ (182)	$ 278
Total assets						
1998	$2,091	$2,298	$2,499	$722	$ 325	$ 7,935
1997	$2,046	$1,999	$2,403	$672	$1,150	$ 8,270
1996	$2,020	$2,501	$ —	$722	$2,772	$ 8,015
Capital expenditures						
1998	$ 188	$ 78	$ 239	$ 25	$ 12	$ 542
1997	$ 128	$ 84	$ 49	$100	$ 17	$ 378
1996	$ 148	$ 103	$ —	$ 63	$ 22	$ 336

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 1998, 151 survey companies were on a 52-53 week fiscal year. During 1998, 9 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

	1998	**1997**	**1996**	**1995**
January	25	24	21	23
February	11	10	11	11
March	14	14	15	15
April	9	10	10	8
May	14	14	14	16
June	52	53	57	58
July	8	11	11	14
August	14	14	15	15
September	38	36	37	35
October	23	22	23	23
November	15	15	14	17
Subtotal	**223**	**223**	**228**	**235**
December	377	377	372	365
Total Companies	**600**	**600**	**600**	**600**

Change in Date of Fiscal Year End

BAKER HUGHES INCORPORATED

Consolidated Statements of Financial Position

	December 31,1998	December 31,1997

Consolidated Statements of Operations

	Year Ended December 31, 1998	Three Months Ended December 31,1997	Year Ended September 30, 1997	1996

Consolidated Statements of Cash Flows

	Year Ended December 31, 1998	Three Months Ended December 31,1997	Year Ended September 30, 1997	1996

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Basis of Presentation

Change in Year-end: On August 27, 1998, the Board of Directors of Baker Hughes approved a change in the fiscal year-end of the Company from September 30 to December 31, effective with the calendar year beginning January 1, 1998. A three-month transition period from October 1, 1997 through December 31, 1997 (the "Transition Period") precedes the start of the 1998 fiscal year. "1997" and "1996" refer to the respective years ended September 30, the Transition Period refers to the three months ended December 31, 1997 and "1998" refers to the twelve months ended December 31, 1998.

INDEPENDENT AUDITORS' REPORT

Stockholders of Baker Hughes Incorporated:

We have audited the accompanying consolidated statements of financial position of Baker Hughes Incorporated and its subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 1998, the three month period ended December 31, 1997 and for each of the two 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 December 31, 1998 and 1997, and the results of their operations and their cash flows for the year ended December 31, 1998, the three month period ended December 31, 1997 and for each of the two years in the period ended September 30, 1997 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, 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.

BASSETT FURNITURE INDUSTRIES, INCORPORATED

Consolidated Balance Sheets

November 28, 1998 and November 30, 1997

Consolidated Statements of Operations

For the years ended November 28, 1998, November 30, 1997, November 30, 1996

Consolidated Statements of Cash Flows

For the years ended November 28, 1998, November 30, 1997, November 30, 1996

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Principles of Consolidation and Fiscal Year: The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant intercompany balances and transactions are eliminated in consolidation. The Company changed its fiscal year effective 1998 to end on the Saturday nearest November 30. Prior to 1998, the fiscal year ended on November 30.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of Bassett Furniture Industries, Incorporated:

We have audited the accompanying consolidated balance sheets of Bassett Furniture Industries, Incorporated (a Virginia corporation) and subsidiaries as of November 28, 1998 and November 30, 1997, and the related consolidated statements of operations, stockholders' equity, 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. The accompanying 1996 financial statements of Bassett Furniture Industries, Incorporated and subsidiaries were audited by other auditors whose report dated December 17, 1996, expressed an unqualified opinion on those financial statements.

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 1998 and 1997 financial statements referred to above present fairly, in all material respects, the financial position of Bassett Furniture Industries, Incorporated and subsidiaries as of November 28, 1998 and November 30, 1997, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

THE DIAL CORPORATION

Consolidated Balance Sheet

	December 31,1998	January 3,1998

Statement of Consolidated Operations and Comprehensive Income

		Fiscal year ended	
	December 31, 1998	January 3,1998	December 28, 1996

Statement of Consolidated Cash Flows

		Fiscal year ended	
	December 31, 1998	January 3,1998	December 28, 1996

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B (In Part): Significant Accounting Policies

Beginning with 1998, the Company's fiscal year end is December 31. Prior to 1998, the Company's fiscal year ended on the Saturday closest to the end of December. Fiscal year 1998 consisted of 52 weeks, fiscal year 1997 consisted of 53 weeks and fiscal year 1996 consisted of 52 weeks.

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of The Dial Corporation:

We have audited the accompanying consolidated balance sheets of The Dial Corporation as of December 31, 1998, and January 3, 1998, and the related consolidated statements of operations and comprehensive income, cash flows and stockholders' equity for each of the three fiscal years in the period ended December 31, 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 The Dial Corporation as of December 31, 1998, and January 3, 1998, and the results of its operations and its cash flows for each of the three fiscal years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

FLOWERS INDUSTRIES, INC.

Consolidated Balance Sheet

	January 2, 1999	January 3, 1998	January 28, 1997

Consolidated Statement of Income

	For the 52 weeks ended January 2, 1999	For the 27 weeks ended January 3, 1998	For the 52 weeks ended June 28, 1997	June 29, 1996

Consolidated Statement of Cash Flows

	For the 52 weeks ended January 2, 1999	For the 27 weeks ended January 3, 1998	For the 52 weeks ended June 28, 1997	June 29, 1996

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Basis of Presentation and Summary of Significant Accounting Policies

Change in Fiscal Year End: In January 1998, Flowers changed its fiscal year end from the Saturday nearest June 30 to the Saturday nearest December 31. Unless stated otherwise, all references to (i) "fiscal 1996" shall mean Flowers' full fiscal year ended June 29, 1996; (ii) "fiscal 1997" shall mean Flowers' full fiscal year ended June 28, 1997; (iii) "twenty-seven week transition period ended January 3, 1998" shall mean Flowers' twenty-seven week transition period from June 29, 1997 through January 3, 1998, and (iv) "fiscal 1998" shall mean the Company's full fiscal year ended January 2, 1999. As a result, the Company has presented its financial position as of January 2, 1999, January 3, 1998 and June 28, 1997 and has presented its results of operations, cash flow and changes in stockholders' equity for fiscal 1998, the twenty-seven week transition period ended January 3, 1998, fiscal 1997 and fiscal 1996. For comparative purposes, the Company has included unaudited condensed consolidated financial information of Flowers in Note 15 for the fifty-two weeks ended January 3, 1998 and the twenty-seven weeks ended January 4, 1997.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Flowers Industries, Inc.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Flowers Industries, Inc. and its subsidiaries (the "Company") at January 2, 1999, January 3, 1998 and June 28, 1997, and the results of their operations and their cash flows for the year ended January 2, 1999, for the twenty-seven week period ended January 3, 1998, and for each of the two years in the period ended June 28, 1997, in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 1 of the Notes to Consolidated Financial Statements, during the year ended January 2, 1999, the Company changed its method of accounting for start-up costs and organizational costs. In addition, during the twenty-seven week period ended January 3, 1998, the Company changed its method of accounting for business process reengineering costs and the measurement date used in its accounting for pensions.

LACLEDE STEEL COMPANY

Consolidated Balance Sheets

	September 30,1998	December 31,1997

Consolidated Statements of Operations and Comprehensive Income (Loss)

	Nine months ended September 30, 1998	Year ended December 31, 1997	1996

Consolidated Statements of Cash Flows

	Nine months ended September 30, 1998	Year ended December 31, 1997	1996

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Change in Fiscal Year

Effective September 30, 1998 the Company changed its year end from December 31 to September 30. The consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit), and cash flows are presented for the nine months ended September 30, 1998 and each of the two years in the period ended December 31, 1997. For comparative purposes only, the following table presents the condensed results of operations for the nine months ended September 30, 1998 and 1997:

Condensed Consolidated Statements of Operations (in thousands, except per share amounts)	Nine months ended September 30, 1998	1997 (Unaudited)
Net sales	$232,289	$245,356
Costs and expenses	284,961	244,202
Earnings (loss) before income taxes	(52,672)	1,154
Provision (benefits) for income taxes	31,140	489
Net income (loss)	$ (83,812)	$ 665
Basic and diluted net earnings (loss) per share	$ (20.73)	$ 0.09

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Laclede Steel Company and Chapter 11 Trustee of Laclede Steel Company:

We have audited the accompanying consolidated balance sheets of Laclede Steel Company and Subsidiaries (Debtors-in-Possession) as of September 30, 1998 and December 31, 1997, and the related statements of operations and comprehensive income (loss), stockholders' equity (deficit) and cash flows for the nine months ended September 30, 1998 and for each of the two 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, such consolidated financial statements present fairly, in all material respects, the financial position of Laclede Steel Company and Subsidiaries at September 30, 1998 and December 31, 1997, and the results of their operations and their cash flows for the nine months ended September 30, 1998 and each of the two years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

As discussed in Note 1, on November 30, 1998, the Company filed for reorganization under Chapter 11 of the Federal Bankruptcy Code. The accompanying consolidated financial statements do not purport to reflect or provide for the consequences of the bankruptcy proceedings. In particular, such consolidated financial statements do not purport to show (a) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (b) as to prepetition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof; (c) as to stockholder accounts, the effect of any changes that may be made in the capitalization of the Company; or (d) as to operations, the effect of any changes that may be made in its business.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1, the Company's recurring losses from operations, negative working capital, stockholders' capital deficiency and defaults under the Company's debt agreements raise substantial doubt about its ability to continue as a going concern.

Management's plans concerning these matters are also discussed in Note 1. The consolidated financial statements do not include adjustments that might result from the outcome of this uncertainty.

MILACRON INC.

Consolidated Balance Sheet

December 31, 1998 and December 27, 1997

Consolidated Statement of Earnings

Fiscal years ended December 31, 1998, December 27, 1997 and December 28, 1996

Consolidated Statement of Cash Flows

Fiscal years ended December 31, 1998, December 27, 1997 and December 28, 1996

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Change in Fiscal Year End: Effective in 1998, the company changed its fiscal year from a 52-53 week year ending on the Saturday closest to December 31 to a calendar year ending on December 31. Fiscal year ends are as follows:

1998: December 31, 1998
1997: December 27, 1997
1996: December 28, 1996

The change in fiscal year did not have a material effect on financial condition, results of operations or cash flows for the year 1998.

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Milacron Inc.

We have audited the accompanying Consolidated Balance Sheet of Milacron Inc. and subsidiaries as of December 31, 1998, and December 27, 1997, and the related Consolidated Statements of Earnings, Comprehensive Income and Shareholders' Equity, and Cash Flows for each of the three years in the period ended December 31, 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Milacron Inc. and subsidiaries at December 31, 1998, and December 27, 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

WANG LABORATORIES, INC.

Consolidated Balance Sheets

	December 31, 1998	June 30, 1998	June 30, 1997

Consolidated Statements of Operations

	Six months ended December 31, 1998	Year ended June 30, 1998	1997	1996

Consolidated Statements of Cash Flows

	Six months ended December 31, 1998	Year ended June 30, 1998	1997	1996

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Effective July 1, 1998, the Company changed its fiscal year from a twelve month period ending June 30 to a twelve month period ending December 31. The consolidated financial statements include presentation of the transition period beginning on July 1, 1998 and ending on December 31, 1998.

The following table presents certain financial information for the six months ended December 31, 1998 and 1997, respectively (amounts in millions except per share amounts):

	Six months ended December 31, 1998	1997 (Unaudited)
Revenues	$1,818.0	$651.1
Gross Profit	$ 364.2	$144.2
Income (loss) from continuing operations before income taxes and minority interests	$ (23.5)	$ 37.2
Provision for income taxes	$ 14.2	$ 13.4
Income (loss) from continuing operations	$ (39.8)	$ 23.8
Net income (loss) applicable to common stockholders	$ (46.8)	$ 16.7
Diluted earnings (loss) per common share	$ (1.01)	$ 0.42
Weighted average common shares	46.2	40.3

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Wang Laboratories, Inc.

We have audited the accompanying consolidated balance sheets of Wang Laboratories, Inc. and subsidiaries (the "Company") as of December 31, 1998, June 30, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for the six months ended December 31, 1998 and for each of the three years in the period ended June 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wang Laboratories, Inc. and subsidiaries at December 31, 1998, June 30, 1998 and 1997, and the consolidated results of their operations and their cash flows for the six months ended December 31, 1998 and for each of the three years in the period ended June 30, 1998, in conformity with generally accepted accounting principles.

Definition of Fiscal Year

BROWN GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Accounting Period: The Company's fiscal year is the 52 or 53-week period ending the Saturday nearest to January 31. Fiscal years 1998, 1997 and 1996 ended on January 30, 1999, January 31, 1998, and February 1, 1997, respectively. Fiscal years 1998, 1997 and 1996 each included 52 weeks.

THE MAY DEPARTMENT STORES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Fiscal Year: The Company's fiscal year ends the Saturday closest to January 31. Fiscal years 1998, 1997, and 1996 ended on January 30, 1999, January 31, 1998, and February 1, 1997, respectively. References to years in this annual report relate to fiscal years rather than calendar years.

MERRIMAC INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Accounting Period: The Company's fiscal year is the 52-53 week period ending on the Saturday closest to December 31. The Company has quarterly dates that correspond with the Saturday closest to the last day of each calendar quarter and each quarter consists of 13 weeks in a 52-week year. Every fifth year, the additional week to make a 53-week year (fiscal year 1997 was the latest and fiscal year 2002 will be the next) is added to the fourth quarter, making such quarter consist of 14 weeks.

SPEIZMAN INDUSTRIES, INC.

SUMMARY OF ACCOUNTING POLICIES

Fiscal Year: The Company maintains its accounting records on a 52-53 week fiscal year. The fiscal year ends on the Saturday closest to June 30. Years ending June 27, 1998, June 28, 1997 and June 29, 1996 included 52 weeks.

VARIAN ASSOCIATES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Fiscal Year: The Company's fiscal years reported are the 52- or 53-week periods which ended on the Friday nearest September 30. Fiscal year 1998 comprises the 53-week period ended on October 2, 1998. Fiscal years 1997 and 1996 comprise the 52-week periods ended on September 26, 1997 and September 27, 1996, respectively.

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 1998, 354 survey companies presented an income statement as the first financial statement followed by a balance sheet; 12 survey companies presented an income statement as the first financial statement followed by a statement of changes in retained earnings; and 193 survey companies presented a balance sheet as the first financial statement followed by an income statement. The remaining 41 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 1998, 13 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

	1998	1997	1996	1995
To nearest dollar	31	30	33	40
To nearest thousand dollars:				
Omitting 000	345	349	352	354
Presenting 000	9	13	17	20
To nearest million dollars	215	208	198	186
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

	1998	1997	1996	1995
General reference only	431	445	431	431
General and direct references	167	155	169	168
Direct reference only	2	—	—	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 follows.

TABLE 1-7: DISCLOSURE OF ACCOUNTING POLICIES

	Number of Companies			
	1998	1997	1996	1995
Depreciation methods	587	586	581	584
Consolidation policy	578	583	583	585
Use of estimates	568	582	577	358
Inventory pricing	543	555	555	560
Property	521	526	509	510
Cash equivalents	503	509	492	495
Amortization of intangibles	448	439	419	415
Earnings per share calculation	413	475	482	470
Financial instruments	406	398	327	311
Translation of foreign currency	366	358	351	338
Interperiod tax allocation	359	358	362	384
Stock-based compensation	281	290	253	219
Employee benefits	101	290	253	219
Nature of operations	267	274	239	204
Research and development costs	173	178	181	165
Fiscal years	157	158	156	156
Advertising costs	151	129	123	—
Environmental costs	136	145	130	122
Credit risk concentrations	124	126	100	91
Capitalization of interest	81	75	86	89

ABBOTT LABORATORIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Nature of Business and Concentration of Risk: The Company's principal business is the discovery, development, manufacture and sale of a broad line of health care products and services. Due to the nature of the Company's operations, it is not subject to significant concentration risks relating to customers, products or geographic locations.

Basis of Consolidation: The consolidated financial statements include the accounts of the parent company and subsidiaries, after elimination of intercompany transactions. The accounts of foreign subsidiaries are consolidated as of November 30 due to the time needed to consolidate these subsidiaries. No events occurred related to these foreign subsidiaries in December 1998, 1997, and 1996 which materially affected the financial position or results of operations.

Use of Estimates: The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on estimates and assumptions by management. Actual results could differ from those amounts. Significant estimates include amounts for litigation, income taxes, sales rebates and inventory and accounts receivable exposures.

Cash, Cash Equivalents and Investment Securities: Cash equivalents consist of time deposits and certificates of deposit with original maturities of three months or less. Investments in marketable equity securities are classified as available-for-sale and are recorded at fair value with any unrealized holding gains or losses, net of tax, included as a component of earnings and other comprehensive income employed in the business. Investments in debt securities are classified as held-to-maturity, as management has both the intent and ability to hold these securities to maturity, and are reported at cost, net of any unamortized premium or discount. Income relating to these securities is reported as interest income.

Inventories: Inventories are stated at the lower of cost (first-in, first-out basis) or market. Cost includes material and conversion costs.

Property and Equipment: Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets. In 1998, the Company elected early adoption of the provisions of the American Institute of Certified Public Accountants' Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This statement requires capitalization of certain costs incurred in the development of internal-use software. Adoption of the provisions of this statement did not have a material effect on the financial statements of the Company. The following table shows estimated useful lives of property and equipment:

Classification	Expected Useful Lives
Buildings	10 to 50 years (average 29 years)
Equipment	3 to 20 years (average 11 years)

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference.

Intangible Assets: Intangible assets, primarily purchased intangible assets and goodwill resulting from business acquisitions, are amortized on a straight-line basis over up to 40 years. Accumulated amortization as of December 31, 1998, 1997, and 1996, was $163 million, $98 million, and $55 million, respectively.

Product Liability: Provisions are made for the portions of probable losses that are not covered by product liability insurance.

Translation Adjustments: For foreign operations in highly inflationary economies, translation gains and losses are included in net foreign exchange (gain) loss. For remaining foreign operations, translation adjustments are included as a component of earnings and other comprehensive income employed in the business.

Revenue Recognition: Revenue from product sales is recognized upon shipment to customers. Provisions for discounts and rebates to customers, and returns and other adjustments are provided for in the same period the related sales are recorded.

Research and Development: Internal research and development costs are expensed as incurred. Third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved.

Comprehensive Income: In 1998, the Company adopted the provisions of Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." As a result, certain balance sheet reclassifications were made to previously reported amounts to achieve the required presentation of comprehensive income.

ALBERTSON'S, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

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.

Consolidation: The consolidated financial statements include the results of operations, account balances and cash flows of the Company and its wholly owned subsidiaries. All material intercompany balances have been eliminated.

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.

Inventories: The Company values inventories at the lower of cost or market. Cost of substantially all inventories is determined on a last-in, first-out (LIFO) basis.

Capitalization, Depreciation and Amortization: Land, buildings and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful life of the asset. Estimated useful lives are generally as follows: buildings and improvements—10 to 35 years; fixtures and equipment—3 to 8 years; leasehold improvements—10 to 15 years; and capitalized leases—25 to 30 years. 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.

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

Beneficial lease rights and lease liabilities are recorded on purchased leases based on differences between contractual rents under the respective lease agreements and prevailing market rents at the date of the acquisition of the lease. Beneficial lease rights are amortized over the lease term using the straight-line method. Lease liabilities are amortized over the lease term using the interest method.

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

Goodwill: Goodwill resulting from business acquisitions represents the excess of purchase price over fair value of net assets acquired and is being amortized over 40 years using the straight-line method. Accumulated amortization amounted to $2.7 million as of January 28, 1999. Periodically, 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 asset costs.

Self-Insurance: The Company is primarily self-insured for property loss, workers' compensation and general liability costs. Self-insurance liabilities are based on claims filed and estimates for claims *incurred but not reported*. These liabilities are not discounted.

Unearned Income: Unearned income consists primarily of buying and promotional allowances received from vendors in connection with the Company's buying and merchandising activities. These funds are recognized as revenue when earned by purchasing specified amounts of product or promoting certain products.

Store Opening and Closing Costs: Noncapital expenditures incurred in opening new stores or remodeling existing stores are expensed in the year in which they are incurred. When a store is closed, the remaining investment in fixed assets, net of expected recovery value, is expensed. For properties under operating lease agreements, the present value of any remaining liability under the lease, net of expected sublease recovery, is also expensed.

Advertising: Advertising costs incurred to produce media advertising for major new campaigns are expensed in the year in which the advertising takes first place. Other advertising costs are expensed when incurred. Cooperative advertising income from vendors is recorded in the period in which the related expense is incurred. Net advertising expenses of $48.7 million, $44.0 million and $34.7 million were included with cost of sales in the Company's Consolidated Earnings for 1998, 1997 and 1996, respectively.

Stock Options: Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue 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," and related Interpretations. Accordingly, compensation cost of 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 option exercise price and is charged to operations over the vesting period. Income tax benefits attributable to stock options exercised are credited to capital in excess of par value.

Company-owned Life Insurance: The Company has purchased life insurance policies to cover its obligations under deferred compensation plans for officers, key employees and directors. Cash surrender values of these policies are adjusted for fluctuations in the market value of underlying investments. The cash surrender value is adjusted each reporting period and any gain or loss is included with other income (expense) in the Company's Consolidated Earnings.

Income Taxes: The Company provides for deferred income taxes resulting from temporary differences in reporting certain income and expense items for income tax and financial accounting purposes. The major temporary differences and their net effect are shown in the "Income Taxes" note.

Earnings Per Share: Earnings per share (EPS) are computed in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share." Basic EPS is computed by dividing consolidated net earnings by the weighted average number of common shares outstanding. Diluted EPS is computed by dividing consolidated net earnings by the sum of the weighted average number of common shares outstanding and the weighted average number of potential common shares outstanding. Potential common shares consist solely of outstanding options under the Company's stock option plans. There were no outstanding options excluded from the computation of potential common shares (option price exceeded the average market price during the period) in 1998. Outstanding options excluded in 1997 and 1996 amounted to 1,520,000 shares and 24,000 shares, respectively.

Reclassifications: Certain reclassifications have been made in prior years' financial statements to conform to classifications used in the current year.

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. These estimates and assumptions affect the reported amounts of assets and liabilities and 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.

CLARCOR INC. (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Accounting Policies

Principles of Consolidation: The consolidated financial statements include all domestic and foreign subsidiaries that are more than 50% owned and controlled. CLARCOR Inc. and its subsidiaries are hereinafter collectively referred to as the "Company" or CLARCOR.

Minority interests represent an outside shareholder's 10% ownership of the common stock of Filtros Baldwin de Mexico (FIBAMEX) and outside shareholders' 20% ownership of Baldwin-Unifil S.A.

Foreign Currency Translation: Financial statements of foreign subsidiaries are translated into U.S. dollars at current rates, except that revenues, costs and expenses are translated at average current rates during each reporting period. Net exchange gains or losses resulting from the translation of foreign financial statements and the effect of exchange rate changes on intercompany transactions of a long-term investment nature are accumulated and credited or charged directly to a separate component of shareholders' equity.

Plant Assets: Depreciation is provided by the straight-line and accelerated methods for financial statement purposes and by the accelerated method for tax purposes. The provision for depreciation is based on the estimated useful lives of the assets (15 to 40 years for buildings and improvements and 3 to 15 years for machinery and equipment). It is the policy of the Company to capitalize renewals and betterments and to charge to expense the cost of current maintenance and repairs.

Excess of Cost Over Fair Value of Assets Acquired: The excess of cost over fair value of assets acquired is being amortized over a forty-year period, using the straight-line method subject to impairment write-offs determined by underlying cash flows. Accumulated amortization was $7,809 and $7,192 at November 30, 1998 and 1997, respectively.

Pensions and Postretirement Benefits: In February 1998, the FASB issued Statement of Financial Accounting Standards No. 132 (SFAS 132), "Employers' Disclosure about Pensions and other Postretirement Benefits." Effective for fiscal year 1998, the Company adopted SFAS 132, which requires certain disclosures related to pensions and postretirement benefits. See Note H.

Statements of Cash Flows: All highly liquid investments that are readily saleable are considered to be short-term cash investments. The carrying amount approximates fair value. The Company has certain non-cash transactions related to stock option and award plans that are described in Note L.

Concentrations of Credit: Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of short-term cash investments and trade receivables. The Company places its short-term cash investments in high-grade municipal securities. At November 30, 1998 and 1997, the Company held short-term municipal securities with a total cost of $32,420 and $27,620, respectively, with an original maturity of three months or less. Cost approximates market for these securities. Concentrations of credit risk with respect to trade receivables are limited due to the Company's large number of customers and their dispersion across many different industries and locations.

Income Taxes: The Company provides for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes." SFAS 109 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities.

Stock-Based Compensation: On November 30, 1997, the Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation." SFAS 123 encourages, but does not require, companies to adopt a fair value based method for determining expense related to stock-based compensation. The disclosures are presented in Note L. The Company continues to account for stock-based compensation using the intrinsic value method as prescribed under Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees," and related Interpretations.

Revenue Recognition: Revenue is recognized upon shipment of goods to customers.

Net earnings Per Common Share: The Company adopted Statement of Financial Accounting Standards No. 128 (SFAS 128), "Earnings per Share" in the first quarter of fiscal year 1998. SFAS 128 requires presentation of basic earnings per share and diluted earnings per share, simplifies computational guidelines, and increases the comparability of earnings per share on an international basis. Basic earnings per common share is based on the weighted average number of common shares outstanding during the respective years. Diluted earnings per share is based on the weighted average number of common shares outstanding and dilutive common stock equivalents. See Note M.

Use of Management's Estimates: The preparation of the 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 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.

Accounting Period: The Company's fiscal year ends on the Saturday closest to November 30. Each of the fiscal years ended November 28, 1998, November 29, 1997, and November 30, 1996, was comprised of fifty-two weeks. In the consolidated financial statements, all fiscal years are shown to begin as of December 1 and end as of November 30 for clarity of presentation.

Reclassifications: Certain reclassifications have been made to conform prior years' data to the current presentation. These reclassifications had no effect on reported earnings.

NIKE, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. 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 $4.1 million was recorded directly to retained earnings in the first quarter of fiscal year 1997.

Recognition of Revenues: Revenues recognized include sales plus fees earned on sales by licensees. Sales are recognized upon shipment of product.

Advertising: Advertising production costs are expensed the first time the advertisement is run. Media (TV and print) placement costs are expensed in the month the advertising appears. Total advertising and promotion expenses were $1.13 billion, $978.3 million and $642.5 million for the years ended May 31, 1998, 1997 and 1996, respectively. Included in prepaid expenses and other assets was $175.9 million and $111.9 million at May 31, 1998 and 1997, respectively, relating to prepaid advertising and promotion expenses.

Cash and Equivalents: Cash and equivalents represent cash and short-term, highly liquid investments with original maturities of three months or less.

Inventory Valuation: Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for substantially all U.S. inventories. Non-U.S. inventories are valued on a first-in, first-out (FIFO) basis.

Property, Plant and Equipment and Depreciation: Property, plant and equipment are recorded at cost. Depreciation for financial reporting purposes is determined on a straight-line basis for buildings and leasehold improvements and principally on a declining balance basis for machinery and equipment, based upon estimated useful lives ranging from two to forty years.

Identifiable Intangible Assets and Goodwill: At May 31, 1998 and 1997, the Company had patents, trademarks and other identifiable intangible assets with a value of $220.7 million and $219.2 million, respectively. The Company's excess of purchase cost over the fair value of net assets of businesses acquired (goodwill) was $321.0 million and $326.3 million at May 31, 1998 and 1997, respectively.

Identifiable intangible assets and goodwill are being amortized over their estimated useful lives on a straight-line basis over five to forty years. Accumulated amortization was $105.9 million and $81.2 million at May 31, 1998 and 1997, respectively. Amortization expense, which is included in other income/expense, was $19.8 million, $19.8 million and $21.8 million for the years ended May 31, 1998, 1997 and 1996, respectively. Intangible assets are periodically reviewed by the Company for impairments where the fair value is less than the carrying value.

Other Liabilities: Other liabilities include amounts with settlement dates beyond one year, and are primarily composed of long-term deferred endorsement payments of $9.5 million and $15.8 million at May 31, 1998 and 1997, respectively. Deferred payments to endorsers relate to amounts due beyond contract termination, which are discounted at various interest rates and accrued over the contract period.

Endorsement Contracts: Accounting for endorsement contracts is based upon specific contract provisions. Generally, endorsement payments are expensed uniformly over the term of the contract after giving recognition to periodic performance compliance provisions of the contracts. Contracts requiring prepayments are included in prepaid expenses or other assets depending on the length of the contract.

Foreign Currency Translation: Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are included in the currency translation adjustment in shareholders' equity.

Derivatives: The Company enters into foreign currency contracts in order to reduce the impact of certain foreign currency fluctuations. Firmly committed transactions and the related receivables and payables may be hedged with forward exchange contracts or purchased options. Anticipated, but not yet firmly committed, transactions may be hedged through the use of purchased options. Premiums paid on purchased options and any gains are included in prepaid expenses or accrued liabilities and are recognized in earnings when the transaction being hedged is recognized. Gains and losses arising from foreign currency forward and option contracts, and cross-currency swap transactions are recognized in income or expense as offsets of gains and losses resulting from the underlying hedged transactions. Hedge effectiveness is determined by evaluating whether gains and losses on hedges will offset gains and losses on the underlying exposures. This evaluation is performed at inception of the hedge and periodically over the life of the hedge. Occasionally, hedges may cease to be effective or may be terminated prior to recognition of the underlying transaction. Gains and losses on these hedges are deferred and included in the basis of the underlying transaction. Hedges are terminated if the underlying transaction is no longer expected to occur and the related gains and losses are recognized in earnings. Cash flows from risk management activities are classified in the same category as the cash flows from the related investment, borrowing or foreign exchange activity. See Note 15 for further discussion.

Income Taxes: Income taxes are provided currently on financial statement earnings of non-U.S. subsidiaries expected to be repatriated. The Company intends to determine annually the amount of undistributed non-U.S. earnings to invest indefinitely in its non-U.S. operations.

The Company accounts for income taxes using the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of other assets and liabilities. See Note 6 for futher discussion.

Earnings Per Share: Basic earnings per common share is calculated by dividing net income by the average number of common shares outstanding during the year. Diluted earnings per common share is calculated by adjusting outstanding shares, assuming conversion of all potentially dilutive stock options.

On October 23, 1996 and October 30, 1995, the Company issued additional shares in connection with two-for-one stock splits effected in the form of a 100% stock dividend on outstanding Class A and Class B common stock. The per common share amounts in the Consolidated Financial Statements and accompanying notes have been adjusted to reflect these stock splits.

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

Reclassifications: Certain prior year amounts have been reclassified to conform to fiscal 1998 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

SYSCO CORPORATION (JUN)

SUMMARY OF ACCOUNTING POLICIES

Business and Consolidation: SYSCO Corporation (SYSCO) is engaged in the marketing and distribution of a wide range of food and related products to the foodservice or "food-prepared-away-from-home" industry. These services are performed from 70 distribution facilities for approximately 300,000 customers located in the 37 states where facilities are situated, in 11 adjacent states and Alaska. The company also has one facility in Vancouver, British Columbia and one in Peterborough, Ontario, which service customers in those areas.

The accompanying financial statements include the accounts of SYSCO and its subsidiaries. All significant intercompany transactions and account balances have been eliminated. Certain amounts in the prior years have been reclassified to conform to the 1998 presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets, liabilities, sales and expenses. Actual results could differ from the estimates used.

Earnings of acquisitions recorded as purchases are included in SYSCO's results of operations from the date of acquisition.

Inventories: Inventories consist of food and related products held for resale and are valued at the lower of cost (first-in, first-out method) or market.

Plant and Equipment: Capital additions, improvements and major renewals are classified as plant and equipment and are carried at cost. Depreciation is recorded using the straight-line method which reduces the book value of each asset in equal amounts over its estimated useful life. Maintenance, repairs and minor renewals are charged to earnings when they are incurred. Upon the disposition of an asset, its accumulated depreciation is deducted from the original cost, and any gain or loss is reflected in current earnings.

Applicable interest charges incurred during the construction of new facilities are capitalized as one of the elements of cost and are amortized over the assets' estimated useful lives. Interest capitalized during the past three years was $2,095,000 in 1998, $2,215,000 in 1997 and $2,783,000 in 1996.

Goodwill and Intangibles: Goodwill and intangibles represent the excess of cost over the fair value of tangible net assets acquired and are amortized over 40 years using the straight-line method. Accumulated amortization at June 27, 1998, June 28, 1997 and June 29, 1996 was $74,554,000, $66,521,000 and $58,668,000, respectively.

Computer Systems Development Project: In the second quarter of fiscal 1998, SYSCO recorded a one-time, after-tax, non-cash charge of $28,053,000 to comply with a new consensus ruling by the Emerging Issues Task Force of the Financial Accounting Standards Board (EITF Issue No. 97-13), requiring reengineering costs associated with computer systems development to be expensed as they are incurred. Prior to this ruling, SYSCO had capitalized business process reengineering costs incurred in connection with its SYSCO Uniform Systems information systems redevelopment project in accordance with generally accepted accounting principles.

No costs were capitalized in fiscal 1998 and fiscal 1997, while $2,994,000 was capitalized during fiscal 1996. Amounts that remain capitalized are being amortized as completed portions of the project are put into use. Accumulated amortization, including the one-time charge, at June 27, 1998, June 28, 1997 and June 29, 1996 was $36,532,000, $1,624,000 and $753,000, respectively.

Insurance Program: SYSCO maintains a self-insurance program covering portions of workers' compensation and general and automobile liability costs. The amounts in excess of the self-insured levels are fully insured. Self-insurance accruals are based on claims filed and an estimate for significant claims incurred but not reported.

Income Taxes: SYSCO follows the liability method of accounting for income taxes as required by the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes."

Cash Flow Information: For cash flow purposes, cash includes cash equivalents such as time deposits, certificates of deposit and all highly liquid instruments with original maturities of three months or less.

New Accounting Standards: In the second quarter of fiscal 1998, SYSCO adopted 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. Unlike primary earnings per share, basic earnings per share excludes any dilutive effect of stock options. Diluted earnings per share under SFAS No. 128 is very similar to the previously reported fully-diluted earnings per share. Earnings per share amounts for each period have been presented and restated to conform to the SFAS No. 128 requirements.

In fiscal 1998, SYSCO adopted SFAS No. 130, "Reporting Comprehensive Income." The adoption of this standard did not have an effect on SYSCO's reported net earnings in fiscal 1998 as SYSCO has no additional comprehensive income under the statement.

In March 1998, the AICPA issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The SOP provides guidance with respect to accounting for the various types of costs incurred for computer software developed or obtained for SYSCO's use. SYSCO is required to and will adopt SOP 98-1 in the first quarter of fiscal 2000 and believes that adoption will not have a significant effect on its consolidated results of operations or financial position.

In April 1998, the AICPA issued SOP 98-5, "Reporting on the Costs of Start-Up Activities." At adoption, SOP 98-5 requires SYSCO to write-off any unamortized start-up costs as a cumulative effect of a change in accounting principle and, going forward, expense all start-up activity costs as they are incurred. SYSCO is required to and will adopt SOP 98-5 in the first quarter of fiscal 2000 and believes that adoption will not have a significant effect on its consolidated results of operations or financial position.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for fiscal years beginning after June 15, 1999. SYSCO is required to and will adopt SFAS No. 133 in the first quarter of fiscal 2000. SYSCO does not expect adoption to have a significant effect on its consolidated results of operations or financial position.

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 making disclosures in accordance with *Statement of Financial Accounting Standards Nos. 128-132.*

Examples of accounting change disclosures follow.

TABLE 1-8: ACCOUNTING CHANGES

	Number of Companies			
	1998	1997	1996	1995
Software development costs (SOP 98-1)	37	1	—	—
Start-up costs (SOP 98-5)	29	2	—	—
Business process reengineering costs (EITF 97-13)	10	28	—	—
Inventories	5	4	5	3
Depreciable lives	4	3	3	2
Software revenue recognition	4	—	—	—
Impairment of long-lived assets (SFAS 121)	3	39	134	87
Reporting entity	2	1	1	6
Other	13	57	28	102

Software Development Costs

DAYTON HUDSON CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Internal Use Software

The Company adopted SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," in first quarter 1998. The adoption resulted in decreased expense, which increased pre-tax earnings by approximately $68 million, net of depreciation, for 1998 ($.09 per share), partially offsetting its other systems expenses. The annual impact of software capitalization will diminish significantly over the next few years. Software is depreciated over four years.

PRIMEDIA INC. (DEC)

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

2 (In Part): Summary of Significant Accounting Policies

Recent Accounting Pronouncements: In 1998, the Company adopted the American Institute of Certified Public Accountants' ("AICPA") Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Under the Company's previous accounting policy, costs for internal use software, whether developed or obtained, were generally expensed as incurred. In compliance with SOP 98-1, the Company expenses costs incurred in the preliminary project stage and, thereafter, capitalizes costs incurred in the developing or obtaining of internal use software. Certain costs, such as maintenance and training, are expensed as incurred. Capitalized costs are amortized over a period of not more than five years and are subject to impairment evaluation in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The adoption of SOP 98-1 resulted in an increase in operating income and a decrease in net loss of approximately $12,450 ($.09 per share) for the year ended December 31, 1998.

PREMARK INTERNATIONAL, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

New Accounting Pronouncements: Effective for fiscal year 1998, the company adopted the American Institute of Certified Public Accountants' Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The statement requires capitalization of certain costs incurred in the development of internal-use software, including external direct material and service costs, employee payroll and payroll-related costs. Prior to adoption of SOP 98-1, the company expensed these costs as incurred. The effect of this change in accounting principle on earnings in 1998 is immaterial.

Start-Up Costs

AMCAST INDUSTRIAL CORPORATION (AUG)

Consolidated Statements of Income

($ in thousands)	1998	1997	1996
Income before Cumulative Effect of Accounting Change	$16,765	$12,983	$15,926
Cumulative effect of accounting change, net of tax	(8,588)	—	—
Net income	$ 8,177	$12,983	$15,926
Basic Earning per Share			
Income before cumulative effect of accounting change	$ 1.82	$ 1.50	$ 1.85
Cumulative effect of accounting change	(.93)	—	—
Net income	$ .89	$ 1.50	$ 1.85
Diluted Earnings per Share			
Income before cumulative effect of accounting change	$ 1.81	$ 1.48	$ 1.84
Cumulative effect of accounting change	(.93)	—	—
Net income	$ .88	$ 1.48	$ 1.84

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

Accounting Policies (In Part)

Effective September 1, 1997, the Company also adopted the provisions of the American Institute of Certified Public Accountants' Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 provides guidance on the financial reporting of start-up and organization costs and requires such costs to be expensed as incurred. The total amount of deferred start-up costs reported as a cumulative effect of a change in accounting principle is $8,588, net of tax benefits of $5,044. The Company's share of CTC's cumulative effect of a change in accounting principle is $3,529, net of tax. Pro forma earnings per share amounts, assuming the new accounting principle is applied retroactively, are as follows:

	1997	1996
Basic Earnings per Share:		
Income before cumulative effort of accounting change-as reported	$1.50	$1.85
Income before cumulative effect of accounting change-pro forma	$1.52	$1.36
Net income-as reported	$1.50	$1.85
Net income-pro forma	$1.52	$1.36
Diluted Earnings per Share:		
Income before cumulative effect of accounting change-as reported	$1.48	$1.84
Income before cumulative effect of accounting change-pro forma	$1.51	$1.36
Net income-as reported	$1.48	$1.84
Net income-pro forma	$1.51	$1.36

EXXON CORPORATION (DEC)

Consolidated Statement of Income

(millions of dollars)	1998	1997	1996
Income before cumulative effect of accounting change	$6,440	$8,460	$7,510
Cumulative effect of accounting change	(70)	—	—
Net income	$6,370	$8,460	$7,510
Net income per common share (dollars)			
Before cumulative effect of accounting change	$ 2.64	$ 3.41	$ 3.01
Cumulative effect of accounting change	(0.03)	—	—
Net income	$ 2.61	$ 3.41	$ 3.01
New income per common share—assuming dilution (dolars)			
Before cumulative effect of accounting change	$ 2.61	$ 3.37	$ 2.99
Cumulative effect of accounting change	(0.03)	—	—
Net income	$ 2.58	$ 3.37	$ 2.99

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Accounting Change

The American Institute of Certified Public Accountants' Statement of Position 98-5, "Reporting on the Costs of Start-up Activities," was implemented in the fourth quarter of

1998, effective as of January 1, 1998. This statement requires that costs of start-up activities and organizational costs be expensed as incurred. The cumulative effect of this accounting change on years prior to 1998 was a charge of $70 million (net of $70 million income tax effect), or $0.03 per common share, that was reflected in the first quarter of 1998. This new accounting requirement did not have a significant effect on 1998 income before the cumulative effect of the accounting change.

Business Process Reengineering Costs

UNIFI, INC. (JUN)

Consolidated Statements of Income

(Amounts in thousands, except per share data)	1998	1997	1996
Income before extraordinary item and cumulative effect of accounting change	128,901	115,665	78,377
Extraordinary item (net of applicable income taxes of $3,692)	—	—	5,898
Cumulative effect of accounting change (net of applicable income taxes of $2,902)	4,636	—	—
Net income	$124,265	$115,665	$72,479
Earning per common share:			
Income before extraordinary item and cumulative effect of accounting change	$ 2.10	$ 1.83	$ 1.19
Extraordinary item	—	—	.09
Cumulative effect of accounting change	.07	—	—
Net income per common share	$ 2.03	$ 1.83	$ 1.10
Earnings per common share—assuming dilution:			
Income before extraordinary item and cumulative effect of accounting change	$ 2.08	$ 1.81	$ 1.18
Extraordinary item	—	—	.09
Cumulative effect of accounting change	.07	—	—
Net income per common share	$ 2.01	$ 1.18	$ 1.09

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Cumulative Effect of Accounting Change and Extraordinary Charge

Pursuant to Emerging Issues Task Force No. 97-13 issued in November 1997, the Company changed its accounting policy in the second quarter of fiscal 1998 regarding a project to install an entirely new computer software system which it began in fiscal 1995. Previously, substantially all direct external costs relating to the project were capitalized, including the portion related to business process reengineering. In accordance with this accounting pronouncement, the unamortized balance of these reengineering costs as of September 28, 1997, of $7.5 million ($4.6 million after tax) or $.07 per diluted share were written off as a cumulative catch-up adjustment in the second quarter of fiscal 1998.

Measurement of Goodwill Impairment

THE BLACK & DECKER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Strategic Repositioning

Change in Accounting for Goodwill: On a periodic basis through December 31, 1997, the Corporation estimated the future undiscounted cash flows of the businesses to which goodwill related in order to determine that the carrying value of the goodwill had not been impaired.

As a consequence of the strategic repositioning plan, the Corporation elected to change its method of measuring goodwill impairment from an undiscounted cash flow approach to a discounted cash flow approach effective January 1, 1998. On a periodic basis, the Corporation estimates the future discounted cash flows of the businesses to which goodwill relates. When such estimate of the future discounted cash flows, net of the carrying amount of tangible net assets, is less than the carrying amount of goodwill, the difference will be charged to operations. For purposes of determining the future discounted cash flows of the businesses to which goodwill relates, the Corporation, based upon historical results, current projections, and internal earnings targets, determines the projected future operating cash flows, net of income tax payments, of the individual businesses. These projected future cash flows are then discounted at a rate corresponding to the Corporation's estimated cost of capital, which also is the hurdle rate used by the Corporation in making investment decisions. Future discounted cash flows for the recreational products business, the glass container-forming and inspection equipment business, and the household products business in North America, Latin America, and Australia included an estimate of the proceeds from the sale of such businesses, net of associated selling expenses and taxes. The Corporation believes that measurement of the value of goodwill through a discounted cash flow approach is preferable in that such a measurement facilitates the timely identification of impairment of the carrying value of investments in businesses and provides a more current and, with respect to the businesses to be sold, more realistic valuation than the undiscounted approach.

In connection with the Corporation's change in accounting policy with respect to measurement of goodwill impairment, $900.0 million of goodwill was written off through a charge to operations during the first quarter of 1998. That goodwill write-off represented a per-share net loss of $9.80 both on a basic and diluted basis for 1998. The write-off of goodwill related to the Building Products segment and the Fastening and Assembly Systems segment and included a $40.0 million write-down of goodwill associated with one of the divested businesses, and represented the amount necessary to write-down the carrying values of goodwill for those businesses to the Corporation's best estimate, as of January 1, 1998, of those businesses' future discounted cash flows using the methodology described in the preceding paragraph. This change represents a change in accounting principle which is indistinguishable from a change in estimate.

Reporting Entity

ASHLAND INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Basis of Presentation: The consolidated financial statements include the accounts of Ashland and its majority-owned subsidiaries, except Arch Coal, Inc. Investments in joint ventures, 20% to 50% owned affiliates and Arch Coal are accounted for on the equity method. Ashland Coal, Inc. and Arch Mineral Corporation merged on July 1, 1997, to form Arch Coal, Inc., in which Ashland has a 55% ownership interest. In 1998, Ashland adopted Emerging Issues Task Force Issue No. 96-16 (EITF 96-16), "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights." The adoption of EITF 96-16 resulted in a change in the method of accounting for Ashland's investment in Arch Coal from consolidation to the equity method. As a result of the accounting change and the restatement of prior periods for comparison purposes, all of Ashland's coal investments are now accounted for on the equity method for all periods presented. The change had no effect on Ashland's net income or common stockholders' equity, but reduced its revenues, costs, assets and liabilities, and changed certain components of its cash flow.

EXXON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Equity Company Information

During the fourth quarter of 1998, Exxon de-consolidated the majority owned power companies in Hong Kong and China. These financial statements reflect the de-consolidation of these companies retroactive to January 1, 1998. These affiliates are now accounted for as equity companies, in compliance with the Financial Accounting Standards Board Emerging Issues Task Force ruling on Issue No. 96-16, which requires equity company reporting for a majority owned affiliate when minority shareholders possess the right to participate in significant management decisions. Exxon's 1998 net income was not affected by the de-consolidation. Below is a summary of the effect on Exxon's January 1, 1998 consolidated balance sheet related to the de-consolidation of the power generation companies in Hong Kong and China:

	Increase/(Decrease) (millions of dollars)
Net propoerty, plant and equipment	$(4,156)
Other assets	(174)
Investments and advances	757
Total assets	$(3,573)
Short and long-term debt	$(2,475)
Other liabilities	(586)
Minority interest	(512)
Total liabilities	$(3,573)

Valuation of Pension Plan Assets

KNIGHT-RIDDER, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pension and Other Postretirement Benefit Plans (In Part)

In the fourth quarter of 1998, the company changed the method of accounting used to determine the market-related value of plan assets, effective Dec. 29, 1997. The method was changed to: (1) align the method of calculating the return component of net periodic pension costs with the related plans' investment strategy; and (2) to minimize significant year-to-year fluctuations in pension costs caused by financial market volatility. The effect of this change on 1998 results of operations, including the cumulative effect of prior years, was not material.

Amortization of Pension Obligation Gain/Loss

ARMCO INC. (DEC)

Consolidated Statements of Income and Comprehensive Income

(Dollars in millions, except per share amounts)	1998	1997	1996
Income before extraordinary loss and cumulative effect of an accounting change	$109.6	$79.8	$32.5
Extraordinary loss on retirement of debt	—	(3.0)	—
Cumulative effect of a change in accounting for postretirement benefits (Note 2)	237.5	—	—
Net income	347.1	76.8	32.5
Basic earnings per share			
Income from continuing operations	$ 0.85	$0.55	$0.08
Income from discontinued operations	—	0.03	0.06
Extraordinary loss on retirement of debt	—	(0.03)	—
Cumulative effect of an accounting change	2.20	—	—
Net income	$ 3.05	$0.55	$0.14
Diluted earnings per share			
Income from continuing operations	$0.81	$0.55	$0.08
Income from discontinued operations	—	0.03	0.06
Extraordinary loss on retirement of debt	—	(0.03)	—
Cumulative effect of an accounting change	1.88	—	—
Net income	$ 2.69	$0.55	$0.14

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

2 (In Part): Pension and Other Postretirement Benefits

Effective January 1, 1998, Armco changed its method of amortizing unrecognized net gains and losses related to its obligations for pensions and other postretirement benefits. In 1998, Armco recognized income of $237.5, or $2.20 per share of common stock ($1.88 per diluted share), for the cumulative effect of this accounting change.

At the time it originally adopted the standards governing accounting for pensions and other postretirement benefits, Armco chose to use a minimum amortization method whereby unrecognized net gains and losses, to the extent they exceeded 10% of the larger of the benefit obligations or plan assets, were amortized over the average remaining service life of active participants. At Armco, the average remaining service life is approximately 15 years. Use of this method, however, resulted in the accumulation of $419.3 of unrecognized net gains for pensions and other postretirement benefits through 1997. Under the new accounting method, Armco recognizes into income, as a fourth quarter adjustment, any unrecognized net gains and losses which exceed the 10% corridor, as described above, and amortizes amounts inside the corridor over the average remaining service life of active participants. Adoption of the new method increased 1998 income from continuing operations by approximately $3.0, or $0.03 per share of common stock.

Deferred Compensation Arrangement

FLOWSERVE CORPORATION (DEC)

Consolidated Statements of Income

(Amounts in thousands, except per share data)	1998	1997	1996
Earnings before cumulative effect of change in accounting principle	$47,655	$51,566	$71,097
Cumulative effect of change in accounting principle, net	(1,220)	—	—
Net earnings	$48,875	$51,566	$71,097
Earnings per share (diluted and basic)			
Before cumulative effect of change in accounting principle	$ 1.20	$ 1.26	$ 1.72
Cumulative effect of change in accounting principle, net	.03	—	—
Net earnings per share	$ 1.23	$ 1.26	$ 1.72

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

7. Deferred Compensation—Rabbi Trust

In September 1998, the Company adopted the provisions of EITF No. 97-14 "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested." This standard established new guidelines for deferred compensation arrangements where amounts earned by an employee are invested in the employer's stock that is placed in a Rabbi Trust. The EITF requires that the Company's stock held in the trust be recorded at historical cost, the corresponding deferred compensation liability recorded at the current fair value of the Company's stock and the stock held in the Rabbi Trust classified as treasury stock. The difference between the historical cost of the stock and the fair value of the liability at September 30, 1998, has been recorded as a cumulative effect of a change in accounting principle of $1,220, net of tax. Prior-year financial statements have not been restated to reflect the change in accounting principle. The effect of the change on 1997 income before the cumulative effect would have been a reduction of $490. The effect of the change on 1996 income would not have been material.

Stock-Based Compensation

THE BOEING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Share-based Plans: In 1998 the Company adopted the expense recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation.* The Company values stock options issued based upon an option-pricing model and recognizes this value as an expense over the period in which the options vest. Potential distribution from the ShareValue Trust, described in Note 16, have been valued based upon an option-pricing model, with the related expense recognized over the life of the trust. Share-based expense associated with Performance Shares described in Note 16 is determined based on the market value of the Company's stock at the time of the award applied to the maximum number of shares contingently issuable based on stock price, and is amortized over a five-year award period. Performance Shares were first issued in 1998. Prior to 1998, the Company recognized no expense for stock options and ShareValue Trust expense was determined based on the change in the distributable market value of the trust. Share-based plans expenses for stock options, the ShareValue Trust, Performance Shares and other share-based awards are offset by a credit to additional paid-in capital.

16. Share-Based Plans

The Share-based expense plans expense caption on the Consolidated Statements of Operations represents the total expense recognized for all company plans that are payable only in stock. These plans are described below.

In 1998 the Company adopted the expense recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation.* Had the Company not adopted SFAS No. 123, 1998 net earnings would have been $1,229, and basic and diluted earnings per share would have been $1.27 and $1.26. The following table compares 1997 and 1996 results as reported to the results had the Company adopted the expense recognition provision of SFAS No. 123:

	1997	1996
Net earnings (loss)		
As reported	$(178)	$1,818
Pro forma under SAFS No. 123	(332)	1,852
Basic earnings (loss) per share		
As reported	$ (.18)	$ 1.88
Pro forma under SFAS No. 123	(.34)	1.91
Diluted earnings (loss) per share		
As reported	$ (.18)	$ 1.85
Pro forma under SFAS No. 123	(.34)	1.89

Contract Revenue Recognition

BROWN & SHARPE MANUFACTURING COMPANY (DEC)

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

2. Accounting Change

Until 1998, it had been the Company's policy to recognize revenue on the percentage of completion method for its larger, more fully configured machines. In the fourth quarter of 1998, management elected to change its method of accounting for these machines from the percentage of completion method to the completed contract method. The new accounting method was adopted because management believes that the new method results in a better matching of cost and revenue and it is more practical to recognize revenues upon shipment as the Company's financial position and results of operations would not vary materially from those resulting from use of the percentage of completion method due to the short-term nature of the production cycle. This new method also more closely correlates revenue recognition with the cash realization relating to the sale, since payments are due after the machines are actually shipped to the customers rather than during the production period.

As a result of the adoption of the new accounting method described above, 1998 sales and net income decreased $2.2 million and $493 thousand ($.04 per share), respectively. In addition, the results of operations for the years ended December 31, 1997 and 1996 have been restated as follows:

	1997		1996	
	Sales	Net (Loss)	Sales	Net Income
As previously reported	$322,513	$(10,530)	$344,877	$7,805
Increase (decrease)	7,247	(1,366)	(2,193)	(373)
Restated	$329,760	$ (9,164)	$342,684	$7,432

The effect of the change, on a basic and diluted per share basis, was to decrease 1997 loss by $.10 per share and 1996 earnings by $.04 per share.

In addition, due to the restatement, accounts receivable and inventories at December 31, 1997 decreased $7.9 million and increased $4.4 million, respectively, while retained earnings (deficit) at December 31, 1995 increased $3.5 million.

Highly Inflationary Foreign Operation

COLGATE-PALMOLIVE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Dollars in millions

2 (In Part): Summary of Significant Accounting Policies

Accounting Changes: During 1998, as required by generally accepted accounting principles, the Company ceased to account for its Brazilian operations as highly inflationary as historical inflation levels had fallen sharply. The effect of this change was to reduce shareholders' equity by $98.4, primarily related to the recognition of deferred tax benefits expected to be realized in the future. However, since the close of 1998, the Brazilian currency has devalued sharply. Based on management's best estimates and events to date, this devaluation will result in a charge to cumulative translation adjustments of approximately $250 to be recognized in 1999 which will be, in effect, a write-down of the Company's foreign-currency-denominated assets (primarily goodwill and property, plant and equipment). This will be accompanied by lower amortization and depreciation expense in future periods. The Company remains cautious on the outlook for operations in Brazil in 1999.

Furnace Rebuild Costs

JOHNS MANVILLE CORPORATION (DEC)

Consolidated Statement of Income and Comprehensive Income

(in thousands of dollars, except per share amounts)	1998	1997	1996
Income before extraordinary items and cumulative effect of accounting change	$185,291	$150,000	$406,771
Extraordinary losses, net of tax	(31,754)		(316,285)
Cumulative effect of a change in accounting for furnace rebuilds, net of tax (Note 21)	27,409		
Net income	180,946	150,000	90,486
Preference stock redemption premium/dividends			(60,341)
Net income applicable to common stock	180,946	150,000	30,145
Foreign currency translation adjustments, net of tax	(12,186)	(17,384)	(6,013)
Comprehensive income	$168,760	$132,616	$ 24,132
Earnings per common share			
Basic:			
Income from continuing operations	$ 1.16	$ .81	$. 86
Gain on disposal of discontinued operations, net of tax		.12	1.43
Income before extraordinary items and cumulative effect of accounting change	1.16	.93	2.29
Extraordinary losses, net of tax	(.20)		(2.09)
Cumulative effect of a change in accounting for furnace rebuilds, net of tax (Note 21)	.17		
Net income applicable to common stock	$ 1.13	$ .93	$ .20
Diluted:			
Income from continuing operations	$ 1.15	$ .80	$ .85
Gain on disposal of discontinued operations, net of tax		.12	1.42
Income before extraordinary items and cumulative effect of accounting change	1.15	.92	2.27
Extraordinary losses, net of tax	(.20)		
Cumulative effect of a change in accounting for furnace rebuilds, net of tax (Note 21)	.17		(2.07)
Net income applicable to common stock	$ 1.12	$ .92	$ .20

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. Cumulative Effect of Accounting Change

Effective January 1, 1998, the Company changed its method of accounting for glass furnace rebuild costs to the capitalization method from the allowance method. Under the capitalization method, costs to periodically rebuild the refractory components of the glass furnaces are capitalized when incurred and depreciated on a straight-line basis over the estimated useful life of the rebuild. The capitalization method provides an improved measure of the Company's capital investment and is consistent with industry practice. Previously, estimated costs to rebuild furnaces were credited to an allowance and charged to operations over the estimated period to the next rebuild date. The cumulative effect of this change in accounting principle increased 1998 earnings by $27.4 million, net of taxes of $17.9 million. This change resulted in an increase in depreciation expense but eliminated the provision for furnace rebuilds. The pro forma effect of this change on net income was not material.

Derivative Financial Instruments

TIME WARNER INC. (DEC)

Consolidated Statement of Shareholders' Equity

(millions)	Preferred Stock	Common Stock	Paid-In Capital	Accumulated Deficit	Total
Balance at December 31, 1997	4	11	12,675	(3,334)	9,356
Net income				168	168
Foreign currency translation adjustments				4	4
Increase in realized and unrealized losses on derivative financial instruments, net of $13 million tax benefit				(20)	(20)
Cumulative effect of change in accounting for derivative financial instruments, net of $3 million tax benefit				(18)	(18)
Comprehensive income (loss)				134	134
Common stock dividends				(216)	(216)
Preferred stock dividends				(540)	(540)
Issuance of common stock in connection with the conversion of zero-coupon convertible notes due 2013			1,150		1,150
Issuance of common stock in connection with the conversion of convertible preferred stock	(2)	1	151	(150)	—
Repurchases of Time Warner common stock		(1)	(2,239)		(2,240)
Shares issued pursuant to stock option, dividend reinvestment and benefit plans		1	1,397	(190)	1,208
Balance at December 31, 1998	$2	$12	$13,134	$(4,296)	$8,852

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Financial Instruments: Effective July 1, 1998, Time Warner adopted FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). FAS 133 requires that all derivative financial instruments, such as interest rate swap contracts and foreign exchange contracts, be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in the fair value of derivative financial instruments are either recognized periodically in income or shareholders' equity (as a component of comprehensive income), depending on whether the derivative is being used to hedge changes in fair value or cash flows. The adoption of FAS 133 did not have a material effect on Time Warner's primary financial statements, but did reduce comprehensive income by $18 million in the accompanying consolidated statement of shareholders' equity.

The carrying value of Time Warner's financial instruments approximates fair value, except for differences with respect to long-term, fixed-rate debt. (Note 7) and certain differences relating to cost method investments and other financial instruments that are not significant. The fair value of financial instruments is generally determined by reference to market values resulting from trading on a national securities exchange or in an over-the-counter market. In cases where quoted market prices are not available, such as for derivative financial instruments, fair value is based on estimates using present value or other valuation techniques.

Reporting Standards Effective For Future Periods

AMETEK, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): New Accounting Pronouncements

Pending Accounting Pronouncements: In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) No. 98-1 *"Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."* The Statement is effective for the Company's financial statements beginning in 1999. Adoption of the Statement will have an insignificant effect on the Company's consolidated results of operations, financial position, and cash flows.

In April 1998, The AICPA issued SOP 98-5, *"Reporting on the Costs of Start-up Activities,"* which provided guidance on the financial reporting for start-up and organization costs. The Statement requires costs for start-up activities to be expensed as incurred, and is effective for the Company's financial statements beginning in 1999. Adoption of the Statement will have no effect on the Company's consolidated results of operations, financial position, or cash flows.

In June 1998, the FASB issued Statement No. 133, *"Accounting for Derivative Instruments and Hedging Activities."* The Statement establishes accounting and reporting standards for derivative financial instruments. The Statement requires recognition of derivatives in the statement of financial position, to be measured at fair value. Gains or losses resulting from changes in the value of derivatives would be accounted for depending on the intended use of the derivative and whether it qualifies for hedge accounting. This Statement is effective for the Company's financial statements beginning in 2000. The Company is currently studying the future effects of adopting this Statement. However, due to the Company's limited use of derivative financial instruments, adoption of Statement No. 133 is not expected to have a significant effect on the Company's consolidated results of operations, financial position, or cash flows.

BAXTER INTERNATIONAL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Start-up Costs: Effective at the beginning of 1999, the company will adopt AICPA Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-up Activities." This SOP requires that costs of start-up and organization activities previously capitalized be expensed and reported as a cumulative effect of a change in accounting principle, and requires that such costs subsequent to adoption be expensed as incurred. Management currently estimates that the after-tax cumulative effect adjustment that will be recognized upon adoption of the SOP in the first quarter of 1999 will be between $30 million and $35 million. Excluding the initial effect of adopting the standard, management does not anticipate that the new SOP will have a material impact on future results of operations.

THE COASTAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"): The Financial Accounting Standards Board ("FASB") has issued FAS 133 to be effective for all fiscal quarters of fiscal years beginning after June 15, 1999. FAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The accounting for changes in the fair value of a derivative will depend on the intended use of the derivative and the resulting designation. The Company is currently evaluating the impact of FAS 133.

Emerging Issues Task Force Issue No. 98-10: The FASB Emerging Issues Task Force Issue No. 98-10, to be effective for years beginning after December 15, 1998, states that energy trading contracts (as defined) should be marked to market with the gains and losses included in earnings and separately disclosed in the financial statements or footnotes thereto. The Company does not believe the application of Issue No. 98-10 will have a material effect on its consolidated financial statements.

Statement of Position 98-5 ("SOP 98-5"): The AICPA has issued SOP 98-5, to be effective for periods beginning after December 15, 1998. SOP 98-5 provides guidance on accounting for costs incurred to open new facilities, conduct business in new territories or otherwise commence some new operation. The application of SOP 98-5 is not expected to have a material effect on the Company's consolidated financial statements.

MONSANTO COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

New Accounting Standards (In Part)

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133). FAS 133 requires all derivatives to be recognized as assets or liabilities on the balance sheet and measured at fair value. Changes in the fair value of derivatives should be recognized in either net income or other comprehensive income, depending on the designated purpose of the derivative. This statement is effective for Monsanto on Jan. 1, 2000. Because of the effect of recent acquisitions, Monsanto is reassessing its position and has not yet determined the effect this statement will have on its consolidated financial position or results of operations.

TEXAS INSTRUMENTS INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

Accounting Policies and Practices (In Part)

Accounting standard SFAS No. 133 was issued in 1998 and is effective in 2000. It requires that all derivatives be marked-to-market on an ongoing basis. This applies whether the derivatives are stand-alone instruments, such as forward currency exchange contracts and interest rate swaps, or embedded derivatives, such as call options contained in convertible debt investments. Along with the derivatives, the underlying hedged items are also to be marked-to-market on an ongoing basis. These market value adjustments are to be included either in the income statement or stockholders' equity, depending on the nature of the transaction. The company expects to adopt the standard in the first quarter of 2000 on a cumulative basis. Based on analysis to date, the company expects the most significant impact of this standard will be the cumulative, as well as ongoing mark-to-market, adjustment through the income statement of the embedded call option on Micron Technology, Inc. (Micron) common shares contained in the convertible note received from Micron in connection with TI's 1998 sale of its memory business. The value of this option can be volatile given its sensitivity to changes in the value of Micron common shares. For example, at September 30, 1998, the estimated value of the option was $82 million; at December 31, 1998, it was $192 million. Under SFAS No. 133, this change in value of $110 million could be included in the income statement. Under current accounting principles, the change in value of the Micron convertible note, including the embedded call, is an adjustment to stockholders' equity.

Accounting standard SOP 98-1 was issued in 1998 and is effective in 1999. It requires capitalization of the development costs of software to be used internally, e.g., for manufacturing or administrative processes. The company, which currently capitalizes significant development costs for internal-use software, expects to adopt the standard in the first quarter of 1999 for developmental costs incurred in that quarter and thereafter. The effect is not expected to be material. Accounting standard SOP 98-5 was issued in 1998 and is effective in 1999. It requires expensing, rather than capitalizing, the cost of start-up activities. The company currently expenses such amounts as incurred and therefore expects no material effect from adoption of this standard.

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			
	1998	1997	1996	1995
Credit	33	49	53	45
Insurance	19	21	21	26
Leasing	7	9	4	6
Banks	5	3	5	6
Real estate	4	5	7	9

AMERICAN BILTRITE INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of American Biltrite Inc. and its wholly-owned subsidiaries (referred to as "ABI" or the "Company"), as well as entities over which it has voting control, including Congoleum Corporation, a publicly traded company in which ABI at December 31, 1998 has a 49% ownership interest and 64% of the voting shares. Intercompany accounts and transactions, including transactions with associated companies which result in intercompany profit, are eliminated.

BROWN-FORMAN CORPORATION (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of all majority-owned subsidiaries. Investments in affliates in which the company has the ability to exericse significant influence, but not control, are accounted for by the equity method. All other investments in affiliates are carried at cost. Intercompany transactions are eliminated.

DANA CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Principles of Consolidation: Dana's financial statements include all significant subsidiaries in which Dana has the ability to exercise significant influence over operating and financial policies. The accounts of certain non-U.S. subsidiaries are included for fiscal years ended November 30. Affiliated companies (20% to 50% ownership) are generally recorded in the statements using the equity method of accounting. Operations of affiliates outside North American accounted for on the equity method of accounting are generally included for periods ended within two months of Dana's year end. Less than 20%-owned companies are included in the financial statements at the cost of Dana's investment. Dividends, royalties and fees from these cost basis affiliates are recorded in Dana's financial statements when received.

DIMON INCORPORATED (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

The accounts of the Company and its consolidated subsidiaries are included in the consolidated financial statements after elimination of significant intercompany accounts and transactions. Certain foreign consolidated subsidiaries of the Company have fiscal year ends of March 31 and May 31 to facilitate reporting of consolidated accounts. The Company accounts for its investments in certain investee companies (ownership 20%-50%) under the equity method of accounting. Investments in certain other foreign investees and subsidiaries that are combined with other investments are stated at cost or less than cost because the Company does not exercise significant influence over financial or operating policies and because of restrictions imposed on the transfer of earnings and other economic uncertainties.

THE DOW CHEMICAL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

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

Principles of Consolidation and Basis of Presentation: The accompanying consolidated financial statements of The Dow Chemical Company and its subsidiaries (the Company) include the assets, liabilities, revenues and expenses of all majority-owned subsidiaries over which the Company exercises control, and for which control is other than temporary. Intercompany transactions and balances are eliminated in consolidation. Investments in nonconsolidated affiliates (20-50 percent owned companies and majority-owned subsidiaries over which the Company does not exercise control) are accounted for on the equity basis.

Certain reclassifications of prior years' amounts have been made to conform to the presentation adopted for 1998.

K. Limited Partnerships

In April 1993, three wholly owned subsidiaries of the Company contributed assets with an aggregate fair value of $977 to Chemtech Royalty Associates L.P. (Chemtech), a then newly formed Delaware limited partnership. In 1993, outside investors acquired limited partner interests in Chemtech totaling 20 percent in exchange for $200.

In early 1998, a subsidiary of the Company purchased the limited partner interests of the outside investors in Chemtech for a fair value of $210 in accordance with windup provisions in the partnership agreement. The limited partnership was renamed Chemtech II L.P. (Chemtech II). In June 1998, the Company contributed assets with an aggregate fair value of $783 (through a wholly owned subsidiary) to Chemtech II and an outside investor acquired a limited partner interest in Chemtech II totaling 20 percent in exchange for $200.

Chemtech II is a separate and distinct legal entity from the Company and its affiliates, and has separate assets, liabilities, business and operations. The partnership has a general partner, a wholly owned subsidiary of the Company, which directs business activities and has fiduciary responsibilities to the partnership and its other members.

The outside investor in Chemtech II receives a cumulative annual priority return of $13 on its investment and participates in residual earnings.

Chemtech II will not terminate unless a termination or liquidation event occurs. The outside investor may cause such an event to occur in the year 2003. In addition, the partnership agreement provides for various windup provisions wherein subsidiaries of the Company may purchase at any time the limited partner interest of the outside investor. Upon windup, liquidation or termination, the partners' capital accounts will be redeemed at current fair values.

In December 1991, three wholly owned subsidiaries of the Company contributed assets with an aggregate market value of $2 billion to DowBrands L.P., a then newly formed Delaware limited partnership. Outside investors made cash contributions of $45 in December 1991 and $855 in June 1992 in exchange for an aggregate 31 percent limited partner interest in DowBrands L.P. In July 1997, the outside investors' limited partnership interests in DowBrands L.P. were purchased by subsidiaries of the Company for $909.

For financial reporting purposes, the assets (other than intercompany loans, which are eliminated), liabilities, results of operations and cash flows of the partnerships and subsidiaries are included in the Company's consolidated financial statements, and the outside investors' limited partner interests are reflected as minority interests.

HERCULES INCORPORATED (DEC)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Hercules Incorporated and all majority-owned subsidiaries. Following the acquisition of BetzDearborn, the company continued BetzDearborn's pratice of using a November 30 fiscal year-end for all former BetzDearborn non-U.S. subsidiaries, excluding Canada, to expedite the year-end closing process. Invesments in affiliated companies with a 20% or greater ownership interest are accounted for on an equity basis and, accordingly, consolidated income includes Hercules' share of their income.

HEWLETT-PACKARD COMPANY (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Principles of Consolidation: The consolidation financial statements include the accounts of Hewlett-Packard Company and its wholly- and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

In July 1997, the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) reached a final consensus on Issue 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights." This consensus precludes investors from consolidating majority-owned investees when a minority shareholder or shareholders hold substantive participating rights, which, individually or in the aggregate, would allow such minority shareholders to participate in significant decisions made in the ordinary course of business. The company has followed the guidance in EITF 96-16 with respect to all investments made after July 24, 1997 and intends to adopt this guidance with respect to its previously existing majority-owned subsidiaries no later than the fourth quarter of fiscal year 1999. The company has not yet determined what, if any, impact this adoption will have on its financial statements.

INTERNATIONAL PAPER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Consolidation: The consolidated financial statements include the accounts of International Paper Company and its subsidiaries. Minority interest represents minority shareholders' proportionate share of the equity in several of the Company's consolidated subsidiaries, primarily Carter Holt Harvey Limited, Zanders Feinpapiere AG, Georgetown Equipment Leasing Associates, L.P. and Trout Creek Equipment Leasing, L. P. All significant intercompany balances and transactions are eliminated. Investments in affiliated companies owned 20% to 50%, and the Company's 13% investment in Scitex Corporation Ltd., where the Company has the ability to exercise significant influence, because the Company is party to a shareowners' agreement with two other entities which together with the Company own just over 39% of Scitex, are accounted for by the equity method. The Company's share of affiliates' earnings is included in the consolidated statement of earnings.

PENNZOIL-QUAKER STATE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Spin-off from Pennzoil Company and Principles of Consolidation

Spin-off from Pennzoil Company: On December 30, 1998, Pennzoil Company distributed (the "Spin-off") to its stockholders 47.8 million shares of common stock of its wholly owned subsidiary Pennzoil-Quaker State Company ("Pennzoil-Quaker State" or the "Company") representing all of the shares of the Company owned by Pennzoil Company. As a result of the distribution, Pennzoil Company, now renamed PennzEnergy Company ("PennzEnergy"), and Pennzoil-Quaker State are no longer affiliated entities.

Principles of Consolidation: Pennzoil-Quaker State is engaged primarily in the manufacturing and marketing of lubricants, car care products, base oils and specialty industrial products and in the franchising, ownership and operation of fast lube centers. The accompanying consolidated financial statements include all majority-owned subsidiaries of the Company, including Jiffy Lube International, Inc. ("Jiffy Lube"), Pennzoil Sales Company, certain assets and liabilities of Pennzoil Company's captive insurance company (that is now a subsidiary of the Company) and certain assets and liabilities previously reported in Pennzoil Company's corporate segment. These financial statements reflect the historical costs and results of operations of Pennzoil-Quaker State. All significant intercompany accounts and transactions within Pennzoil-Quaker State have been eliminated. Pennzoil-Quaker State follows the equity method of accounting for investments in 20% to 50% owned entities.

PRAB, INC. (OCT)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Nature of Business and Significant Accounting Policies

Basis of Consolidation: Effective November 1, 1988, the Company formed a wholly-owned subsidiary, Prab Limited, to conduct certain of its operations. The subsidiary is essentially inactive at the present time. The consolidated financial statements include the accounts of Prab, Inc. and its subsidiary, after elimination of all significant intercompany transactions and accounts.

BUSINESS COMBINATIONS

Paragraphs 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 1998 the survey companies reported 27 business combinations accounted for as a pooling of interests of which 4 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.

Example of business combination disclosures follow.

TABLE 1-10: BUSINESS COMBINATIONS

Poolings of interests	**1998**	**1997**	**1996**	**1995**
Prior year financial statements restated	23	20	17	19
Prior year financial statements not restated	4	18	15	13
Total	**27**	**38**	**32**	**32**
Purchase method	**317**	**278**	**256**	**244**

Pooling of Interests

DANA CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS
(In millions except share and per share amounts)

2. Business Combination

On July 9, 1998, Dana Corporation completed a merger with Echlin Inc. by exchanging 59.6 million shares of its common stock for all of the common stock of Echlin. Each share of Echlin was exchanged for .9293 of one share of Dana common stock. In addition, outstanding Echlin stock options were converted at the same exchange ratio into options to purchase approximately 1.8 million shares of Dana common stock.

The merger has been accounted for as a pooling of interests and accordingly all prior period consolidated financial statements have been restated to include the combined results of operations, financial position and cash flows of Echlin.

Prior to the merger Echlin's fiscal year ended on August 31. In recording the business combination, Echlin's prior period financial statements have been restated to conform with Dana's year end.

The following information presents certain income statement data of the separate companies for the periods preceding the merger:

	1998	1997	Six months ended June 30, 1998 (Unaudited)
Net sales			
Dana	$ 7,686.3	$ 8,290.8	$4,690.5
Echlin	3,292.5	3,620.2	1,778.9
	$10,978.8	$11,911.0	$6,469.4
Net income (loss)			
Dana	$ 306.0	$ 369.1	$ 223.6
Echlin	144.9	(49.0)	77.2
	$ 450.9	$ 320.1	$ 300.8

There were no material transactions between Dana and Echlin prior to the merger. The effects of conforming Echlin's accounting policies to those of Dana were not material.

Purchase Method

ARMSTRONG WORLD INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquisitions

On July 22, 1998, the company completed its acquisition of Triangle Pacific Corp. ("Triangle Pacific"), a Delaware corporation. Triangle Pacific is a leading U.S. manufacturer of hardwood flooring and other flooring and related products and a substantial manufacturer of kitchen and bathroom cabinets. The acquisition, recorded under the purchase method of accounting, included the purchase of outstanding shares of common stock of Triangle Pacific at $55.50 per share which, plus acquisition costs, resulted in a total purchase price of $911.5 million. A portion of the purchase price has been allocated to assets acquired and liabilities assumed based on estimated fair market value at the date of acquisition while the balance of $831.1 million was recorded as goodwill and is being amortized over forty years on a straight-line basis.

Effective August 31, 1998, the company acquired approximately 93% of the total share capital of DLW Aktiengesellschaft ("DLW"), a corporation organized under the laws of the Federal Republic of Germany. DLW is a leading flooring manufacturer in Germany. The acquisition, recorded under the purchase method of accounting, included the purchase of 93% of the total share capital of DLW which, plus acquisition costs, resulted in a total purchase price of $289.9 million. A portion of the purchase price has been allocated to assets acquired and liabilities assumed based on the estimated fair market value at the date of acquisition while the balance of $117.2 million was recorded as goodwill and is being amortized over forty years on a straight-line basis. In this purchase price allocation, $49.6 million was allocated to the estimable net realizable value of DLW's furniture business and a carpet manufacturing business in the Netherlands, which the company has identified as businesses held for sale.

The allocation of the purchase price to the businesses held for sale was determined as follows:

(millions)	1998
Estimated sales price	$54.3
Less: Estimated cash outflows through disposal date	(2.2)
Allocated interest through disposal date	(2.5)
Total	$49.6

The final sales price and cash flows pertaining to these businesses may differ from these amounts. Disposals of these businesses should occur in the first half of 1999.

The table below reflecfts the adjustment to the carrying value of the businesses held for sale relating to interest allocation, profits and cash flows in 1998.

(millions)	1998
Carrying value at August 31, 1998	$49.6
Interest allocated September 1-December 31, 1998	1.1
Effect of exchange rate change	2.8
Profits excluded from consolidated earnings	(0.4)
Cash flows funded by parent	2.8
Carrying value at December 31, 1998	$55.9

The purchase price allocation for these acquisitions is preliminary and further refinements are likely to be made based on the completion of final valuation studies. The operating results of these acquired businesses have been included in the Consolidated Statements of Earnings from the dates of acquisition. Triangle Pacific's fiscal year ends on the Saturday closest to December 31, which was January 2, 1999. The difference in Triangle Pacific's fiscal year from that of the parent company was due to the difficulty in changing its financial reporting systems to accommodate a calendar year end. No events occurred between December 31 and January 2 at Triangle Pacific materially affecting the company's financial position or results of operations.

The table below reflects unaudited pro forma combined results of the company, Triangle Pacific and DLW as if the acquisitions had taken place at the beginning of fiscal 1998 and 1997:

(millions)	1998	1997
Net sales	$3,479.8	$3,350.0
Net earnings	(14.2)	173.2
Net earnings per diluted share	(0.36)	4.22

In management's opinion, these unaudited pro forma amounts are not necessarily indicative of what the actual combined results of operations might have been if the acquisitions had been effective at the beginning of fiscal 1997 and 1998.

ATLANTIC RICHFIELD COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Acquisition of Union Texas Petroleum Holdings, Inc.

In June 1998, ARCO completed its tender offer for all outstanding common shares of Union Texas Petroleum Holdings, Inc. (UTP) for approximately $2.5 billion, or $29 per share in cash. ARCO also purchased in a tender offer 1,649,500 shares of UTP's 7.14% Series A Cumulative Preferred Stock for approximately $200 million, or $122 per share in cash. UTP was a U.S.-based, non-integrated oil and gas company with substantially all of its oil and gas producing operations conducted outside of the U.S. in the United Kingdom sector of the North Sea, Indonesia and Pakistan.

The acquisition is being accounted for as a purchase. The results of operations of UTP are included in the consolidated financial statements of ARCO as of July 1, 1998. The cost of the acquisition was allocated on the basis of the estimated fair value of the assets acquired and liabilities assumed and there are no contingencies or other matters that could affect the allocation of the purchase cost. The liabilities assumed included employee termination costs of $78 million and other costs, such as lease and other contract cancellation costs, totaling $18 million associated with the merging of UTP's businesses into ARCO's operations. At December 31, 1998, ARCO had terminated 279 of the 357 employees to be terminated and had paid out $52 million against the liability for severance payments. The remaining cash costs for severance, office lease and software maintenance contract buyouts totaling $37 million are expected to be paid out by the end of 2000. In addition, there were $7 million of non-cash charges. The group of employees terminated included U.S. citizens employed in exploration and production operations and corporate headquarters personnel.

The following unaudited pro forma summary presents information as if UTP had been acquired as of the beginning of ARCO's fiscal years 1998 and 1997. The pro forma amounts include certain adjustments, primarily to recognize depreciation, depletion and amortization based on the allocated purchase price of UTP assets, and do not reflect any benefits from economies which might be achieved from combining operations. The pro forma information does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations of the combined companies:

(millions, except per share amounts)	1998	1997
Sales and other operating revenues	$10,570	$15,061
Income (loss) from continuing operations before extraordinary item	$ (702)	$ 1,372
Income and gains on discontinued operations	1,107	590
Extraordinary loss	—	(118)
Net income	$ 405	$ 1,844
Earnings (loss) per share		
Basic		
Continuing operations	$ (2.19)	$ 4.27
Discontinued operations	3.45	1.84
Extraordinary loss	—	(3.7)
Net income	$ 1.26	$ 5.74
Diluted		
Continuing operations	$ (2.19)	$ 4.19
Discontinued operations	3.45	1.80
Extraordinary loss	—	(.36)
Net income	$ 1.26	$ 5.63

BECTON, DICKINSON AND COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars)

2 (In Part): Acquisitions

During fiscal year 1998, the Company acquired six businesses for an aggregate of $545,603 in cash and up to 595,520 shares of the Company's common stock, or 297,760 shares on a pre-split basis. At September 30, 1998, 74,440 of these shares, or 37,220 shares on a pre-split basis, remained in escrow, pending the resolution of certain post-closing matters. These acquisitions were recorded under the purchase method of accounting and, therefore, the purchase prices have been allocated to assets acquired and liabilities assumed based on estimated fair values. The results of operations of the acquired companies were included in the consolidated results of the Company from their respective aquisition dates.

Included in 1998 acquisitions is the purchase of the Medical Devices Division ("MDD") of The BOC Group, which was completed in April, for approximately $457,000 in cash, subject to certain post-closing adjustments. In connection with this acquisition, a charge of $30,000 for purchased in-process research and development was included in the Company's third quarter results. This charge represented the fair value of certain acquired research and development projects that were determined to have not reached technological feasibility. The estimated fair value of assets acquired and liabilities assumed relating to the MDD acquisition, which is subject to further refinement, is summarized below, after giving effect to the write-off of purchased in-process research and development:

Working capital	$ 24,996
Property, plant and equipment	50,907
Other intangibles	172,472
Goodwill	195,313
Other assets	1,190
Long-term liabilities	(18,173)

Goodwill and other intangibles related to MDD are being amortized on a straight-line basis over their useful lives, which range from 15 to 25 years. The Company expects to finalize its plans for combining the acquired MDD businesses with its existing operations by the middle of fiscal 1999. Any resultant severance and exit costs will be relfected as an adjustment to the allocation of the purchase price.

The following unaudited pro forma data summarize the results of operations for the periods indicated as if the MDD acquisition had been completed as of the beginning of the periods presented. The pro forma data give effect to actual operating results prior to the acquisition, adjusted to include the pro forma effect of interest expense, amortization of intangibles and income taxes. The 1998 pro forma data include the $30,000 for purchased in-process research and development. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred as of the beginning of the periods presented or that may be obtained in the future.

	Twelve months ended September 30, 1998	Twelve months ended September 30, 1997
Revenues	$3,206,837	$3,005,634
Net income	227,664	284,806
Earnings per share:		
Basic	.91	1.15
Diluted	.86	1.09

Unaudited pro forma consolidated results after giving effect to the other businesses acquired during fiscal 1998 would not have been materially different from the reported amounts for either year.

CURTISS-WRIGHT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisitions

The Corporation acquired three companies in 1998 and one company in 1996, as described below. All companies acquired have been accounted for as purchases with the excess of the purchase price over the estimated fair value of the net assets acquired recorded as goodwill. The results of each operation have been included in the consolidated financial results of the Corporation from the date of acquisition.

SIG-Antriebstechnik AG: On December 31, 1998, the Corporation completed the acquisition of the shares of SIG-Antriebstechnik AG, a unit of SIG Swiss Industrial Company Holding Ltd., for approximately $22.0 million in cash, subject to adjustments as provided in the agreement. The acquired company, to be renamed Curtiss-Wright Antriebstechnik GmbH (Curtiss-Wright Drive Technology, Ltd.), is a leading provider of high-technology drive solutions for three principal markets: military tracked and wheeled vehicles, high-speed railroad trains, and commercial marine propulsion. The Company's drive system solutions involve electromechanical and electrohydraulic actuation components and systems including electronic controls. Drive Technology's sales were approximately $17 million in 1998 with a year-end backlog of approximately $53 million. The excess of purchase price over the fair value of the net assets is approximately $17 million. The fair value of the net assets acquired was based on preliminary estimates and may be revised at a later date.

Enertech: On July 31, 1998, the Corporation purchased the assets of Enertech, LLC (Enertech) which distributes, represents and manufactures a number of products for sale into commercial nuclear power plants, both domestically and internationally, Enertech also provides a broad range of overhaul and maintenance services for such plants from its two principal locations in California and Georgia. The Corporation acquired the net assets of Enertech for approximately $15.2 million in cash of which $13.2 million was paid at closing and $2.0 million deferred to a specific future contract date subject to adjustment as provided in the agreement. The excess of purchase price over the fair value of the net assets is approximately $9.0 million and is being amortized over 30 years. The fair value of the net assets acquired was based on preliminary estimates and may be revised at a later date.

Alpha Heat Treaters: The Corporation purchased the assets of the Alpha Heat Treaters ("Alpha") division of Alpha-Beta Industries, Inc. on April 30, 1998. Alpha services a broad spectrum of customers from its York, Pennsylvania location and provides a number of metal treating processes including carburizing, surface hardening, stress relieving, induction hardening and black oxide surface treatment services. The Corporation acquired the net assets of Alpha for approximately $6.1 million in cash. The excess of purchase price over the fair value of the net assets is approximately $1.0 million, which is being amortized over 25 years. The fair value of the net assets acquired was based on preliminary estimates and may be revised at a later date.

EG&G, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisitions

On December 16, 1998, the Company acquired substantially all of the outstanding common stock and options of Lumen Technologies, Inc. (Lumen), a maker of high-technology specialty light sources. The purchase price of approximately $253 million, which included $75 million of assumed debt, was funded with existing cash and commercial paper borrowings. The acquisition was accounted for as a purchase under Accounting Principles Board Opinion No. 16 (APB No. 16). In accordance with APB No. 16, the Company allocated the purchase price of Lumen based on the fair value of the assets acquired and liabilities assumed. Portions of the purchase price, including intangible assets, were identified by independent appraisers utilizing proven valuation procedures and techniques. These intangible assets include approximately $2.3 million for acquired in-process research and development (in-process R&D) for projects that did not have future alternative uses. This allocation represents the estimated fair value based on risk-adjusted cash flows related to the in-process R&D projects. At the date of the acquisition, the development of these projects had not yet reached technological feasibility, and the R&D in progress had no alternative future uses. Accordingly, these costs were expensed in the fourth quarter of 1998. Acquired intangibles totaling $11.8 million included the fair value of trade names, trademarks and patents. These intangibles are being amortized over their estimated useful life of ten years. Goodwill resulting from the Lumen acquisition is being amortized over 30 years. Approximately $5 million has been recorded as accrued restructuring charges in connection with the acquisition. The restructuring plans include initiatives to integrate the operations of the Company and Lumen, and reduce overhead. The primary components of these plans relate to: (a) the transfer of certain manufacturing activities to lower-cost facilities, (b) integration of the sales and marketing organization and (c) the termination of certain contractual obligations. The Company expects that these actions will result in a reduction in workforce of approximately 200 individuals. Management is in the process of finalizing its restructuring plans related to Lumen, and, accordingly, the amounts recorded are based on management's current estimates of those costs. The Company will finalize these plans during 1999, and the majority of the restructuring actions are expected to occur by 1999-2000.

The components of the purchase price and preliminary allocation are as follows:

(in thousands)	
Consideration and acquisition costs:	
Cash paid to Lumen for stock and options	$162,050
Debt assumed	74,388
Fair value of options exchanged	6,500
Deferred purchase price for subsidiary minority interest	6,000
Acquisition costs	3,925
	$252,863
Preliminary allocation of purchase price:	
Current assets	$66,829
Property, plant and equipment	52,525
Acquired intangibles	11,800
In-process R&D	2,300
Goodwill	175,446
Liabilities assumed and other	(56,037)
	$252,863

As indicated earlier, some allocations are based on studies and valuations which are currently being finalized. Management does not believe that the final purchase price allocation will produce materially different results than those reflected herein.

In December 1998, the Company acquired Life Science Resources Limited (LSR), a U.K.-based developer and supplier of biotechnology, biomedical and clinical research instrumentation, for $11 million. In April 1998, in connection with the divestiture of the Sealol Industrial Seals division, the Company purchased Belfab, the advanced metal bellows division of John Crane, Inc. for $45 million in cash. In February 1998, the Company acquired Isolab, Inc., a supplier of systems for clinical diagnostic screening, for $10 million. These acquisitions were accounted for using the purchase method. While the Company has not yet finalized the Belfab purchase price allocation, the excess of the cost over the fair market value of the net assets acquired is estimated to be $33 million, which is being amortized over 20 years using a straight-line method. The Company does not expect that the final allocation of purchase price for Belfab will produce materially different results from those reflected herein. The results of operations of the acquisitions are included in the consolidated results of the Company from the date of each respective acquisition.

Unaudited pro forma operating results for the Company, assuming the acquisition of Lumen occurred on December 29, 1996, are as follows:

(in thousands except per share data)	1998	1997
Sales	$1,550,951	$1,564,451
Net income	82,476	19,103
Basic earnings per share	1.82	.42
Diluted earnings per share	1.80	.42

The pro forma amounts in the table above exclude the $2.3 million in-process R&D charge. Pro forma amounts for the other 1998 acquisitions are not included as their effect is not material to the Company's financial statements.

HARMON INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Acquisitions of Business

On January 29, 1998 the Company acquired the stock of CSS Inc. This acquisition was made with the issuance of 80,820 shares of unregistered common stock valued at $17.92 per share. This acquisition has been accounted for by the purchase method of accounting and accordingly, the operating results have been included in the Company's consolidated results of operations from the date of acquisition. The excess of the consideration given over the fair value of net assets acquired has been recorded as goodwill of $1,158,348.

On April 20, 1998 the Company established a new wholly owned subsidiary, Industrias Harmon de Mexico, S.A. de C.V. (Harmon de Mexico). The operating results have been included in the Company's consolidated results of operations from the date of incorporation.

On October 1, 1998 the Company established a new wholly owned subsidiary, Harmon Industries Australia PTY LTD (Harmon Australia), which was capitalized through a cash investment. On that same date, Harmon Australia (the newly formed subsidiary) acquired substantially all of the assets of Henkes & Harmon Industries PTY LTD (Henkes

Harmon) which consisted primarily of inventory and accounts receivable. Harmon Australia also assumed certain liabilities related to the purchased assets on the acquisition date. This acquisition has been accounted for by the purchase method of accounting and accordingly, the operating results have been included in the Company's consolidated results of operations from the date of acquisition. The excess of the consideration given over the fair value of net assets acquired has been recorded as goodwill of $373,000.

On October 1, 1998, the Company acquired the stock of Seaboard Systems CO., Inc. for an initial purchase price of $1,800,000 in cash. In addition to the initial purchase price, the purchase agreement provides for contingent payments. These payments are based on the average earnings before taxes for the calendar years 1998 through 2000. Any additional consideration paid will be recorded as goodwill. The acquisition has been accounted for by the purchase method of accounting and accordingly, the operating results have been included in the Company's consolidated results of operations from the date of acquisition. The excess of the cash paid over the fair value of net assets acquired has been recorded as goodwill of $277,166.

On October 1, 1998 the Company acquired the stock of SES CO, Inc. This acquisition was made with the issuance of 95,026 shares of unregistered common stock valued at $21.05 per share and $10,200,000 in cash. In addition to the initial purchase price, the purchase agreement provides for contingent payments. These payments are based on the average earnings before taxes for the calendar years 1998 through 2000. Any additional consideration paid will be recorded as goodwill. The acquisition has been accounted for by the purchase method of accounting and accordingly, the operating results have been included in the Company's consolidated results of operations from the date of acquisition. The excess of the cash paid over the fair value of net assets acquired has been recorded as goodwill of $7,601,076.

The following unaudited pro forma consolidated results of operations are presented as if the acquisition of SES CO, Inc. had been made at the beginning of the periods presented. The effects of the other 1998 acquisitions on the consolidated financial statements are not significant and have been excluded from the pro forma presentation.

Years Ended December 31, (in thousands of dollars)	1998	1997
Net sales	$276,812	$227,653
Net earnings	13,440	12,020
Basic earnings per common share	1.28	1.17
Diluted earnings per common share	1.26	1.16

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.

MEREDITH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Acquisitions and Dispositions

See Note 13 for information regarding an acquisition agreement entered into subsequent to June 30, 1998.

On July 1, 1997, the company purchased the net assets of three television stations affiliated with the FOX television network from First Media Television, L.P. (First Media). The three stations were: KPDX serving the Portland, Ore. market; WHNS serving the Greenville, S.C./Spartanburg, S.C./Asheville, N.C. market; and KFXO serving the Bend, Ore. market. The total purchase price of the three stations was $216 million.

Meredith had also agreed to acquire WCPX-TV, a CBS network-affiliated television station serving the Orlando, Fla. market, from First Media. However, the company already owned WOFL, a FOX network-affiliated television station serving the Orlando market. FCC regulations currently prohibit the ownership of more than one television station in a market. Therefore, Meredith reached an agreement with Post-Newsweek Stations, Inc. (Post-Newsweek), to exchange the net assets of WCPX for the net assets of WFSB, a CBS network-affiliated television station serving the Hartford/New Haven, Conn. market. Post-Newsweek is a wholly owned subsidiary of the Washington Post Company. The acquisition of WCPX and the subsequent exchange for WFSB were completed on September 4, 1997, at a net cost of $159 million.

These acquisitions have been accounted for as asset purchases, and accordingly, the operations of the acquired properties have been included in the company's consolidated operating results from their respective acquisition dates. The costs of the acquisitions have been allocated on the bases of the estimated fair market values of the assets acquired and liabilities assumed. These purchase price allocations included the following intangibles: FCC licenses of $212.4 million, network affiliation agreements of $90.7 million and goodwill of $40.1 million. FCC licenses and goodwill are being amortized over periods not exceeding 40 years. Network affiliation agreements are being amortized over periods ranging from 15 to 40 years. The acquisitions also included property, plant and equipment and broadcast program rights and the related payables. (See Note 6 for information on the debt incurred to finance these acquisitions.)

Pro forma results of operations as if the acquisitions had occurred at the beginning of each period presented are as follows:

Years Ended June 30, (in thousands except per share)	1998	1997
Total revenues	$1,016,083	$938,036
Earnings from continuing operations	$ 80,033	$ 67,489
Net earnings	$ 80,033	$ 95,182
Basic earnings per share:		
Earnings from continuing operations	$ 1.51	$ 1.26
Net earnings	$ 1.51	$ 1.78
Diluted earnings per share:		
Earnings from continuing operations	$ 1.46	$ 1.22
Net earnings	$ 1.46	$ 1.72

SPX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts and shares in millions, except per share amounts)

2. Merger of SPX and GSX

On October 6, 1998 (the "Merger Date"), GSX merged into a subsidiary of SPX Corporation (the "Merger"). On an aggregate basis, GSX shareholders received 0.4186 share of SPX common stock and $18.00 in cash for each share owned of GSX common stock. In total, approximately 18.236 million shares of SPX common stock and $784.2 in cash were exchanged for the outstanding common stock of GSX. Outstanding restricted stock and stock options of GSX were either redeemed through change of control payments or terminated.

The Merger was accounted for as a reverse acquisition whereby GSX was treated as the acquirer and SPX as the acquiree, because GSX shareholders owned a majority of the company as of the Merger Date and GSX was approximately twice the size of SPX. Purchase accounting was performed on SPX based upon its fair market value at the transaction date. The cash portion of the consideration was accounted for as a dividend by the company.

The fair market value of SPX was based on the average per share value of SPX's common stock near July 17, 1998—the date that the merger agreement was signed. Additionally, since the company assumed the stock options outstanding of SPX, the fair value of these options was included in determining the valuation of SPX.

The valuation of SPX, including transaction costs of $15.6, was $776.6. A summary of assets and liabilities acquired, at estimated fair market value was as follows:

Current assets	$ 357.2
PP&E	174.3
In-process technology	9.0
Goodwill	679.0
Intangibles	276.8
Other assets	13.0
Total assets	$1,509.3
Current liabilities	(240.0)
Long-term liabilities	(240.8)
Long-term debt	(251.9)
Fair market value of SPX	$ 776.6

The intangibles, including customer lists of $118.0 developed technologies of $85.8, trademarks and work force of $73.0, and goodwill will be amortized over 10 to 40 years. The valuation included in-process technology of $9.0, which was expensed in the fourth quarter of 1998. The valuations of identifiable intangibles and in-process technology were based upon independent external appraisals.

The company obtained a new $1,650.0 financing facility, including a $250.0 Revolving Loan. Three term loans aggregating $1,400.0 funded various payments due upon the Merger, including the cash consideration and the refinancing of certain debt (see Note 14).

The accompanying consolidated financial statements include the results of GSX for all periods and the results of SPX beginning on the Merger Date. The following unaudited 1998 and 1997 pro forma selected financial data reflect the Merger and related financing as if they had occurred at the beginning of the applicable year. The 1997 pro forma financial data also reflect SPX's 1997 disposition of its Sealed Power division, GSX's 1997 disposition of its General Signal Pump Group ("GSPG"), and GSX's 1997 contribution of its General Signal Electric Group ("GSEG") to EGS Electrical Group LLC ("EGS"), a venture with Emerson Electric Co., as if such transactions had occurred on January 1, 1997. The unaudited pro forma financial data does not purport to represent what the company's results from continuing operations would actually have been had the transactions in fact occurred as of an earlier date, or project the results for any future date or period.

Pro Forma (unaudited)	1998	1997
Revenues	$2,519.4	$2,500.3
Cost of sales	1,772.5	1,718.3
Selling, general and administrative	597.9	551.1
Goodwill/intangible amortization	41.9	41.3
Special charges	94.6	116.5
Operating income	12.5	73.1
Other (expense) income, net	1.0	11.3
Equity in earnings of EGS	40.2	38.8
Interest expense, net	(122.2)	(94.2)
Income taxes	10.5	(22.8)
Income (loss) from continuing operations	$ (58.0)	$ 6.2
Diluted income (loss) per share	$ (1.88)	$ 0.18
Weighted average number of shares	30,801	34,425

WITCO CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS
(In thousands)

18. Acquisitions and Dispositions

On May 29, 1998 the Company swapped its epoxy and adhesives business for Ciba Specialty Chemicals' PVC heat stabilizer business. The PVC heat stabilizer business had an appraised value of approximately $31,000. The acquisition was accounted for as a purchase and results of operations have been included in the consolidated financial statements from the date of the acquisition. A preliminary allocation of the purchase price (the appraised value of $31,000) resulted in no goodwill. The disposition of the Company's epoxy systems and adhesives business resulted in a gain of $362 ($221 after-tax; with no earnings per share effect). The pro forma net sales and results of operations for this acquisition, had the acquisition occurred at the beginning of 1998 and 1997, are not significant, and accordingly, have not been provided.

Formation of Jointly Owned Companies

ARVIN INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisitions, Divestitures and Discontinued Operations

In November 1998 Arvin formed a joint venture with Kayaba Industry Co., Ltd., of Tokyo, Japan to meet the ride control product demands of North American passenger car and light truck manufacturers. The joint venture, Arvin-Kayaba, LLC (A-K), includes Kayaba's operation in Franklin, Indiana and the Arvin Ride Control U.S. operation in Pulaski, Tennessee. Arvin contributed $50.1 million in net assets from its Pulaski operation to acquire 50.1 percent ownership in A-K. There was no gain or loss recorded as a result of this business combination. The results of A-K's operations have been included in the consolidated financial statements since the date of acquisition.

Also in November 1998, Arvin purchased the remaining 60 percent ownership interest of its Thailand-based joint venture, Able-Arvin Company Limited, for $3.9 million. Able-Arvin, renamed Arvin Exhaust Thailand, is located in Rayong, Thailand where it manufactures and sells exhaust assemblies. This acquisition was accounted for under the purchase method and the results of Arvin Exhaust Thailand have been included in the consolidated financial statements since the date of acquisition.

QUANTUM CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. MKE/Quantum Recording Heads Joint Venture

On May 16, 1997, the Company sold a controlling interest in its recording heads operations to MKE, thereby initiating a recording heads joint venture with MKE. The operations are involved in the research, development, and manufacture of MR recording heads used in the Company's disk drive products manufactured by MKE.

MKE-Quantum Components LLC ("MKQC") was formed by the Company to hold the operations, assets, and certain liabilities of the Company's recording heads operations. Quantum contributed recording heads assets and operations, and leased certain premises to MKQC. MKQC assumed $51 million of debt payable to Quantum, which matures in the year 2022 with periodic amortization based on certain available cash. MKE paid Quantum $94 million and contributed $110 million to MKQC in exchange for a 51% majority ownership interest in MKQC. Quantum retained a 49% minority ownership interest in MKQC.

The recording heads assets that Quantum contributed to MKQC consisted of inventory, equipment, accounts receivable, and intangibles, which aggregated $211 million. MKQC assumed $24 million of third-party liabilities. Quantum employees who were involved in the recording heads operations became employees of MKQC.

MKE and the Company share pro rata in MKQC's results of operations, and would share pro rata in any capital funding requirements. The Company and MKE plan to continue to utilize the recording heads manufactured by MKQC in the Company's disk drive products manufactured by MKE.

Subsequent to May 16, 1997, the Company accounted for its 49% interest in MKQC using the equity method of accounting. The results of the Company's involvement in recording heads through May 15, 1997, were consolidated.

The Company provided support services to MKQC. The support services were mainly finance, human resources, legal, and computer support. MKQC reimbursed the Company for the estimated cost of the services.

Summarized Financial Information: The following is summarized financial information for MKQC:

(in thousands)	Period from May 16, 1997 to March 31, 1998
Sales	$165,775
Gross margin (loss)	(43,677)
Loss from continuing operations	(131,693)
Net loss	(134,816)

	March 31, 1998
Current assets	$ 49,520
Noncurrent assets	213,230
Current liabilities	94,707
Note payable to Quantum	50,823
Other noncurrent liabilities	14,964

Unaudited Pro Forma Information: Giving effect to the above-noted sale transaction as if it had occurred on April 1, 1996, the pro forma effect on the Company's consolidated balance sheet at March 31, 1997, would not have been significant, and net income would have been approximately $174 million and $180 million for fiscal years 1998 and 1997, respectively, and diluted net income per share would have been $1.09 and $1.25, respectively. This unaudited pro forma information is intended for information purposes only and is not necessarily indicative of the future results of operations of MKQC or the results of the Company that would have occurred had the joint venture arrangement been in effect for the full fiscal year presented.

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 on pages 379-382.

TABLE 1-11: CONTINGENCIES

	Number of Companies			
	1998	1997	1996	1995
Loss Contingencies				
Litigation	452	433	431	422
Environmental	266	286	296	291
Insurance	56	67	68	64
Possible tax assessments	54	52	53	61
Government investigations	31	39	36	34
Other-described	56	57	54	69
Gain Contingencies				
Operating loss carryforward	293	307	277	282
Investment credit carryforward	34	42	32	43
Plaintiff litigation	39	44	40	47
Other-described	12	12	12	11

LOSS CONTINGENCIES

Litigation

AMERICAN HOME PRODUCTS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. See Note 5 for a discussion of environmental matters. 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. 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.

The Company is a defendant in numerous cases that have been consolidated in federal district court in Illinois as Brand Name Prescription Drugs Antitrust Litigation (MDL 997) relating to claims made by certain retail pharmacies against the Company and other pharmaceutical manufacturers. The Company and other pharmaceutical manufacturers also are defendants in similar litigation brought on behalf of consumers and in some cases on behalf of pharmacies in various state courts. The Company has settled the class action case in MDL 997 and certain other cases but remains as a defendant in other cases. The Company believes it has complied with the antitrust laws and other applicable laws and settled these cases in order to avoid the cost and risks of litigation. The settlement agreements are not admissions of any violation of law.

The Company is self-insured against ordinary product liability risks and has liability coverage in excess of certain limits from various insurance carriers.

In the opinion of the Company, although the outcome of any legal proceedings cannot be predicted with certainty, the ultimate liability of the Company in connection with its legal proceedings will not have a material adverse effect on the Company's financial position but could be material to the results of operations in any one accounting period.

BORG-WARNER SECURITY CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Contingent Liabilities

The Company's discontinued property and casualty insurance subsidiary ("Centaur") ceased writing insurance in 1984 and has been operating under rehabilitation since September 1987. Rehabilitation is a process supervised by the Illinois Director of Insurance to attempt to compromise claim liabilities at an aggregate level that is not in excess of Centaur's assets. In rehabilitation, Centaur's assets are being used to satisfy claim liabilities under direct insurance policies written by Centaur. Any remaining assets will be applied to Centaur's obligations to other insurance companies under reinsurance contracts. The foregoing has resulted in a pending lawsuit against the Company for recovery of alleged damages incurred in excess of $100 million as a result of the failure of Centaur to satisfy its reinsurance obligations. On August 10, 1998 the Company, the California Insurance Commissioner as trustee of the Mission Insurance Companies Trust ("Mission Trust") and the Illinois Director of Insurance as rehabilitator of Centaur agreed to settle such lawsuit, subject to court approval. As part of such settlement, the Company agreed to pay the Mission Trust $4 million and one-third of any dividend or other distribution that may be paid to the Company after rehabilitation of Centaur. The payments will not have an effect on Company earnings. Separately, the Mission Trust and Centaur agreed to an uncontested liquidated claim in the Centaur estate of $48 million, for which the Company is not liable. Additionally, the Illinois Director of Insurance, on behalf of the Centaur estate, and the Company agreed to exchange mutual releases of any remaining liability of the Company to the Centaur estate. The parties have finalized and executed the settlement and release agreements. The required court approvals of the settlement are being sought by the parties with final approval and dismissal of the lawsuit anticipated in the first half of 1999.

In November and December, 1998, Loomis, Fargo & Company made various claims against the Company for indemnification under the Contribution Agreement dated November 28, 1996 for certain cargo losses and environmental losses. The Company has objected to the claims. If the parties are unable to resolve their dispute, it will be referred to arbitration as provided for under the Contribution Agreement.

The Company believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

DELUXE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Legal Proceedings

During 1997, a judgment was entered against Deluxe Electronic Payment Systems, Inc. (DEPS), in the U.S. District Court for the Western District of Pennsylvania. The case was brought against DEPS by Mellon Bank in connection with a potential bid to provide electronic benefit transfer services for the Southern Alliance of States. In September 1997, the Company recorded a pretax charge of $40 million to reserve for this judgment and other related costs. This charge was reflected in other expense in the 1997 consolidated income statement. At December 31, 1997, the remaining liability for this obligation was $40 million and was classified as other long-term liabilities in the consolidated balance sheet.

In 1998, Mellon's motion for prejudgment interest was denied by the district court and the Company reversed $4.2 million of the $40 million liability. This reversal is reflected in other income in the 1998 consolidated statement of income. In January 1999, the United States Court of Appeals for the Third Circuit affirmed the judgment of the district court. At December 13, 1998, the remaining liability of $34.4 million was classified as other accrued liabilities in the consolidated balance sheet.

16. Subsequent Events (unaudited)

In February 1999, the Company acquired all of the outstanding shares of eFunds Corporation for $13 million. eFunds provides electronic check conversion solutions for financial services companies and retailers. This acquisition was accounted for under the purchase method of accounting. Accordingly, the consolidated financial statements of the Company will include the results of this business subsequent to its acquisition date. The purchase price was allocated to the assets acquired and liabilities assumed based on their fair values on the date of purchase. The estimated total cost in excess of net assets acquired of $15.7 million will be reflected as goodwill and will be amortized over 10 years. The effect of this acquisition was not material to the operations or financial position of the Company.

In January 1999, the Company's appeal of the judgment against its subsidiary, Deluxe Electronic Payment Systems, Inc., was denied by the Third Circuit Court of Appeals and the Company paid $32.2 million to Mellon Bank in February 1999. The Company is reviewing whether a further appeal is warranted (see Note 13).

FMC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Commitments and Contingent Liabilities

On April 14, 1998, a jury returned a verdict against the company in the amount of $125.0 million in conjunction with a federal False Claims Act action, in which Mr. Henry Boisvert filed and ultimately took to trial allegations that the company had filed false claims for payment in connection with its contract to provide Bradley Fighting Vehicles to the Army between 1981 and 1996. Under law, portions of the jury verdict were subject to doubling or trebling. On December 24, 1998, the U.S. District Court for the Northern District of California entered judgment for Mr. Boisvert in the amount of approximately $87 million. This was approximately $300 million less than the maximum judgment possible under the jury verdict. The reduction resulted from several rulings by the District Court in favor of the company in the post-trial motions. Cross-appeals to the U.S. Court of Appeals for the Ninth Circuit are now pending. Both sides are asserting arguments on appeal, and a number of those arguments, if successful, would alter or eliminate the amount of the existing judgment. Any legal proceeding is subject to inherent uncertainty, and it is not possible to predict how the appellate court will rule. Therefore, it is the position of the company's management based on a review, including a review by outside counsel, that it is not possible to estimate the amount of a probable loss, if any, to the company that might result from some adverse aspects of the judgment in this action ultimately standing against the company. Accordingly, no provision for this matter has been made in the company's consolidated financial statements.

The company also has certain other contingent liabilities resulting from litigation, claims, performance guarantees, and other commitments incident to the ordinary course of business. Management believes that the probable resolution of such contingencies will not materially affect the financial position, results of operations or cash flows of FMC.

FORT JAMES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Commitments and Contingent Liabilities

Litigation and Environmental Matters: The Company is party to various legal proceedings generally incidental to its business and is subject to a variety of environmental and pollution control laws and regulations. As is the case with other companies in similar industries, Fort James faces exposure from actual or potential claims and legal proceedings.

In May 1997, the Attorney General of the State of Florida filed a civil action against the Company and eight other manufacturers of sanitary paper products. The complaint alleges violations of federal and state antitrust and unfair competition laws and seeks civil penalty under Florida law of $1 million for each alleged violation against each defendant, an unspecified amount of treble damages and injunctive relief. Three other state attorney generals have brought similar suits which are expected to be consolidated in the Florida District Court. In addition, numerous other filings have been filed in federal courts on behalf of an alleged class of direct purchasers, all seeking similar damages for similar alleged violations. The class actions were consolidated in the Florida District Court, and in July 1998, the Court conditionally certified the class. State class actions also have been filed in certain states, on behalf of an alleged class of indirect purchasers, seeking similar damages for similar alleged violations under state law. The Company believes these cases are without merit and is vigorously defending both federal and state actions.

Although the ultimate disposition of legal proceedings cannot be predicted with certainty, it is the opinion of the Company's management that the outcome of any claim which is pending or threatened, either individually or on a combined basis, will not have a materially adverse effect on the consolidated financial condition of Fort James but could materially affect consolidated results of operations in a given year.

HILLENBRAND INDUSTRIES, INC. (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Contingencies

On August 16, 1995, Kinetic Concepts, Inc., and Medical Retro Design, Inc. (collectively, the "plaintiffs"), filed suit against Hillenbrand Industries, Inc., and its subsidiary Hill-Rom Company, Inc., in the United States District Court for the Western District of Texas, San Antonio Division. The plaintiffs allege violation of various antitrust laws, including illegal bundling of products, predatory pricing, refusal to deal and attempting to monopolize the hospital bed industry. They seek monetary damages totaling in excess of $269 million, trebling of any damages that may be allowed by the court, and injunctions to prevent further alleged unlawful activities. The Company believes that the claims are without merit and is aggressively defending itself against all allegations. Accordingly, it has not recorded any loss provision relative to damages sought by the plaintiffs. On November 20, 1996, the Company filed a Counterclaim to the above action against Kinetic Concepts, Inc. (KCI) in the U.S. District Court in San Antonio, Texas. The Counterclaim alleges, among other things, that KCI has attempted to monopolize the therapeutic bed market, interfere with the Company's and Hill-Rom's business relationships by conducting a campaign of anticompetitive conduct, and abused the legal process for its own advantage.

MALLINCKRODT INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21 (In Part): 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.

On October 6, 1994, Augustine Medical, Inc. (Augustine) commenced a patent infringement litigation against Mallinckrodt Inc. and its wholly owned subsidiary, Mallinckrodt Medical, Inc. (collectively, the Company) in the U.S. District Court for the District of Minnesota. Specifically, Augustine alleged that the Company's sale of all five models of its convective warming blankets infringes certain claims of one or more of its patents. The Company filed counterclaims against Augustine in connection with the above actions alleging unfair competition, antitrust violations, and invalidity of the asserted patents, among other things.

The liability phase of the case was tried to a jury in August 1997 and the verdict was that the Company's blankets infringe certain Augustine patents under the doctrine of equivalents, but do not literally infringe the patents. There was also a finding of no willful infringement. On September 22, 1997, the jury awarded damages in the amount of $16.8 million for the period ended September 30, 1997 and the judge put in place an injunction which stopped the Company from manufacturing and selling blankets in the United States. The Company appealed the jury verdicts of liability and damages to the Court of Appeals for the Federal Circuit (a special court for patent appeals that does not involve a jury). The Court of Appeals has stayed the injunction pending the outcome of the Company's appeal, and the Company continues to sell and manufacture blankets in the United States. With the advice of outside counsel, the Company believes there was insufficient evidence of equivalents presented and, consequently, for this and other reasons the verdicts were in error. The Company is working vigorously in the Appeals Court to overturn the verdicts and believes that it has strong arguments that its blankets do not infringe Augustine's patents.

Based on all the facts available to management, the Company believes that it is probable that the jury verdict and the trial court injunction will be overturned on appeal. If damages were assessed in the same manner as determined by the jury for sales subsequent to September 30, 1997 plus interest on the estimated total, the total liability would approximate $22.4 million at June 30, 1998. The Company has not recorded an accrual for payment of the damages, because an unfavorable outcome in this litigation is, in management's opinion, reasonably possible but not probable.

THE McGRAW-HILL COMPANIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Legal Proceedings

In June 1996, a complaint was filed against the company in the United States Bankruptcy Court, Central District of California, in an action captioned *County of Orange v. McGraw-Hill Companies, Inc., d/b/a Standard & Poor's.* The complaint alleged that Standard & Poor's breached its rating contracts with Orange County ("the County"), was professionally negligent and aided and abetted the County's officers in breaching their fiduciary duty. The lawsuit was transferred to the United States District Court for the Central District of California in December 1996 following dismissal by the Bankruptcy Court of the aiding and abetting claim. In April 1997, the County filed an amended complaint against the company alleging breach of contract and "professional malpractice" and adding a claim for unspecified punitive damages. In December 1998, the County filed a motion seeking reconsideration of the previous dismissal of the aiding and abetting claim and requesting leave to file an amended complaint adding the aiding and abetting claim. The trial, previously scheduled to commence on March 2, 1999, was adjourned by the District Court pending a decision by the California Supreme Court whether to review an appeal in another litigation concerning the scope of aiding and abetting breach of fiduciary duty claims under California law.

In response to the company's interrogatories, the County has claimed (inconsistently with damages claims made by the County in other litigation documents) compensatory damages of approximately $2.1 billion, subject to certain offsets.

While the ultimate outcome of the above-mentioned litigation cannot be ascertained at this time, based on current knowledge of the applicable law and facts and taking into consideration the opinion of the company's general counsel that the allegations by the County and the damages claims lack merit and that the company should prevail ultimately in this litigation, management believes that this lawsuit should not have a material adverse effect on the company's financial statements or its business operations.

PFIZER INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 (In Part): Litigation

In June 1993, the Ministry of Justice of the State of São Paulo, Brazil, commenced a civil public action against the Company's Brazilian subsidiary, Laboratorios Pfizer Ltda. ("Pfizer Brazil") asserting that during a period in 1991, Pfizer Brazil withheld sale of the pharmaceutical product Diabinese in violation of antitrust and consumer protection laws. The action seeks the award of moral, economic and personal damages to individuals and the payment to a public reserve fund. On February 8, 1996, the trial court issued a decision holding Pfizer Brazil liable. The award of damages to individuals and the payment into the public reserve fund will be determined in a subsequent phase of the proceedings. The trial court's opinion sets out a formula for calculating the payment into the public reserve fund which could result in a sum of approximately $88 million. The total amount of damages payable to eligible individuals under the decision would depend on the number of persons eventually making claims. Pfizer Brazil is appealing this decision. The Company believes that this action is without merit and should not have a material adverse effect on the financial position or the results of operations of the Company.

WESTERN DIGITAL CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Commitments and Contingent Liabilities

Legal Proceedings: The Company was sued by Amstrad PLC ("Amstrad") in December 1992 in Orange County Superior Court. The complaint alleges that hard drives supplied by the Company in calendar 1988 and 1989 were defective and caused damages to Amstrad of $186.0 million in out-of-pocket expenses, lost profits, injury to Amstrad's reputation and loss of goodwill. The Company filed a counterclaim for $3.0 million in actual damages in addition to exemplary damages in an unspecified amount. The Company believes that it has meritorious defenses to Amstrad's claims and intends to vigorously defend itself against the Amstrad claims and to press its claims against Amstrad in this action. The case is scheduled for trial in September 1998. Although the Company believes that the final disposition of this matter will not have an adverse effect on the Company's financial condition or operating results, if Amstrad were to prevail on its claims, a judgment for a material amount could be awarded against the Company.

Between December 12, 1997 and February 24, 1998, eight class action suits were filed against the Company and certain of its officers and directors. The plaintiffs in the actions purport to represent purchasers of the Company's common stock during various periods ranging from July 25, 1996 through December 2, 1997 (collectively, the "Class Periods"). The complaints allege that the Company issued false and misleading statements during the respective Class Periods concerning the outlook for the Company's operations and earnings and that the Company issued false and misleading financial statements in fiscal years 1996 and 1997 by improperly deferring the write-down of obsolete inventory. The complaints seek compensatory damages for the purported class members in an unspecified amount. The Court ordered the cases consolidated and designated the plaintiffs in the first case filed as the lead plaintiffs and the law firm representing such plaintiffs as lead counsel. The Company filed a motion to dismiss the amended consolidated complaint which was granted by the Court with prejudice.

The Company is also subject to other legal proceedings and claims which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters will not have a material adverse effect on its financial position, results of operations or liquidity.

Environmental Matters

THE COASTAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 (In Part): Litigation, Environmental and Regulatory Matters

Environmental Matters: The Company's operations are subject to extensive and evolving federal, state and local environmental laws and regulations. Compliance with such laws and regulations can be costly. Additionally, governmental authorities may enforce the laws and regulations with a variety of civil and criminal enforcement measures, including monetary penalties and remediation requirements.

The Company spent approximately $13 million in 1998 on environmental capital projects and anticipates capital expenditures of approximately $44 million in 1999 in order to comply with such laws and regulations. The majority of the 1999 expenditures is attributable to projects at the Company's refining, chemical and terminal facilities. The Company currently anticipates capital expenditures for environmental compliance for the years 2000 through 2002 of $20 to $40 million per year.

The Comprehensive Environmental Response, Compensation and Liability Act, also known as "Superfund," imposes liability for the release of a "hazardous substance" into the environment. Superfund liability is imposed without regard to fault and even if the waste disposal was in compliance with the then current laws and regulations. With the joint and several liability imposed under Superfund, a potentially responsible party ("PRP") may be required to pay more than its proportional share of such costs. Certain subsidiaries of the Company and a company in which Coastal owns a 50% interest have been named as a PRP in several "Superfund" waste disposal sites. At the 11 sites for which there is sufficient information, total cleanup costs are estimated to be approximately $620 million, and the Company estimates its pro-rata exposure, to be paid over a period of several years, is approximately $7.5 million and has made appropriate provisions. At nine other sites, the Environmental Protection Agency ("EPA") is currently unable to provide the Company with an estimate of total cleanup costs and, accordingly, the Company is unable to calculate its share of those costs. Additionally, certain subsidiaries of the Company have been named as PRPs in two state sites. At one site, the North Carolina Department of Health, Environmental and Natural Resources has estimated the total cleanup costs to be approximately $50 million, but the Company believes the subsidiary's activities at this site were de minimis. At the second state site, the Florida Department of Environmental Protection has demanded reimbursement of its costs, which total $100,000, and suitable remediation. There is not sufficient information to estimate the remedial costs or the Company's pro-rata exposure at this site.

Future information and developments, including legislative and enforcement developments, will require the Company to continually reassess the expected impact of these environmental matters. However, the Company has evaluated its total environmental exposure based on currently available data, including its potential joint and several liability, and believes that compliance with all applicable laws and regulations will not have a material adverse impact on the Company's financial position or results of operations.

COMMERCIAL METALS COMPANY (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Commitments and Contingencies

In the ordinary course of conducting its business, the Company becomes involved in litigation, administrative proceedings and governmental investigations, including environmental matters.

The Company has received notices from the U.S. Environmental Protection Agency (EPA) or equivalent state agency that it is considered a potentially responsible party (PRP) at thirteen sites, none owned by the Company, and may be obligated under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) or similar state statute to conduct remedial investigations, feasibility studies, remediation and/or removal of alleged releases of hazardous substances or to reimburse the EPA for such activities. The Company is involved in litigation or administrative proceedings with regard to several of these sites in which the Company is contesting, or at the appropriate time may contest, its PRP designation. In addition, the Company has received information requests with regard to other sites which may be under consideration by the EPA as potential CERCLA sites.

Some of these environmental matters or other proceedings may result in fines, penalties or judgments being assessed against the Company, which, from time to time, may have a material impact on earnings for a particular quarter. While the Company is unable to estimate precisely the ultimate dollar amount of exposure to loss in connection with the above-referenced matters, it makes accruals as warranted. Due to evolving remediation technology, changing regulations, possible third-party contributions, the inherent shortcomings of the estimation process and other factors, amounts accrued could vary significantly from amounts paid. Accordingly, it is not possible to estimate a meaningful range of possible exposure. It is the opinion of the Company's management that the outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on the business or consolidated financial position of the Company.

ENGELHARD CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Environmental Costs: In the ordinary course of business, like most other industrial companies, the Company is subject to extensive and changing federal, state, local and foreign environmental laws and regulations, and has made provisions for the estimated financial impact of environmental cleanup related costs. The Company's policy is to accrue environmental cleanup related costs of a noncapital nature when those costs are believed to be probable and can be reasonably estimated. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, advancements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. For certain matters, the Company expects to share costs with other parties. The Company does not include anticipated recoveries from insurance carriers or other third parties in its accruals for environmental liabilities.

17. Environmental Costs

With the oversight of environmental agencies, the Company is currently preparing, has under review, or is implementing, environmental investigations and cleanup plans at several currently or formerly owned and/or operated sites, including Plainville, MA, Salt Lake City, UT and Attapulgus, GA. The Company is continuing to investigate contamination at Plainville under a 1993 agreement with the United States Environmental Protection Agency (EPA) and is awaiting approval of a decommissioning plan by the State of Massachusetts under authority delegated by the Nuclear Regulatory Commission. Investigation of the environmental status at the Salt Lake City site continues under a 1993 agreement with the Utah Solid and Hazardous Waste Control Board. An approved reclamation program at the Attapulgus site, under a 1994 consent order with the Georgia Department of Natural Resources, Environmental Protection Division, is complete pending final Department approval.

In addition, seven sites have been identified at which the Company believes liability as a potentially responsible party (PRP) is probable under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, or similar state laws (collectively referred to as Superfund) for the cleanup of contamination resulting from the historic disposal of hazardous substances allegedly generated by the Company, among others. Superfund imposes strict, joint and several liability under certain circumstances. In many cases, the dollar amount of the claim is unspecified and claims have been asserted against a number of other entities for the same relief sought from the Company. Based on existing information, the Company believes that it is a de minimis contributor of hazardous substances at a number of the sites referenced above. Subject to the reopening of existing settlement agreements for extraordinary circumstances or natural resource damages, the Company has settled a number of other cleanup proceedings. The Company has also responded to information requests from EPA and state regulatory authorities in connection with other Superfund sites.

The liabilities for environmental cleanup related costs recorded in the consolidated balance sheets at December 31, 1998 and 1997 were $39.5 million and $43.6 million, respectively, including $1.2 million and $3.8 million, respectively, for Superfund sites. These amounts represent those costs which the Company believes are probable and reasonably estimable. Based on currently available information and analysis, the Company's accrual represents approximately 55% of what it believes are the reasonably possible environmental cleanup related costs of a noncapital nature. The estimate of reasonably possible costs is less certain than the probable estimate upon which the accrual is based.

During the past three-year period, cash payments for environmental cleanup related matters were $4.1 million, $6.0 million and $7.0 million for 1998, 1997 and 1996, respectively. The amounts accrued in connection with environmental cleanup related matters were not significant over this time period.

For the past three-year period, environmental related capital projects have averaged less than 10 percent of the Company's total capital expenditure programs, and the expense of environmental compliance (e.g., environmental testing, permits, consultants and in-house staff) was not material.

There can be no assurances that environmental laws and regulations will not become more stringent in the future or that the Company will not incur significant costs in the future to comply with such laws and regulations. Based on existing information and currently enacted environmental laws and regulations, cash payments for environmental cleanup related matters are projected to be $8.0 million for 1999, all of which has already been accrued. Further, the Company anticipates that the amounts of capitalized environmental projects and the expense of environmental compliance will approximate current levels. While it is not possible to predict with certainty, management believes that environmental cleanup related reserves at December 31, 1998 are reasonable and adequate and that environmental matters are 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 operating results or cash flows.

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

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 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 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 20.

20 (In Part): Commitments and Contingent Liabilities

At December 31, 1998, the Company had recorded liabilities aggregating $71.7 million for anticipated costs, including legal and consulting fees, site studies, the design and implementation of remediation plans, post-remediation monitoring and related activities, related to various environmental matters, primarily the remediation of numerous waste disposal sites and certain properties sold by the Company. The amount of the Company's ultimate liability in respect of these matters may be affected by several uncertainties, primarily the ultimate cost of required remediation and the extent to which other responsible parties contribute, and is expected to be paid over several years. Refer to Environmental Cleanup Matters at Note 1.

PITNEY BOWES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Commitments, Contingencies and Regulatory Matters

The company is subject to federal, state and local laws and regulations concerning the environment, and is currently participating in administrative or court proceedings as a participant in various groups of potentially responsible parties. As previously announced by the company, in 1996 the Environmental Protection Agency (EPA) issued an administrative order directing the company to be part of a soil cleanup program at the Sarney Farm site in Amenia, New York. The site was operated as a landfill between the years 1968 and 1970 by parties unrelated to the company, and wastes from a number of industrial sources were disposed there. The company does not concede liability for the condition of the site, but is working with the EPA to identify and then seek reimbursement from other potentially responsible parties. The company estimates that the cost of this remediation effort will range between $3 million and $5 million for the soil remediation program. All of these proceedings are at various stages of activity, and it is impossible to estimate with any certainty the total cost of remediating, the timing and extent of remedial actions which may be required by governmental authorities, or the amount of liability, if any, of the company. If and when it is possible to make a reasonable estimate of the company's liability in any of these matters, the company will make a financial provision as appropriate. Based on facts presently known, the company does not believe that the outcome of these proceedings will have a material adverse effect on its financial condition.

RALSTON PURINA COMPANY (SEP)

NOTES TO FINANCIAL STATEMENTS

Commitments and Contingencies (In Part)

Legal and Environmental Matters: The Company is a party to a number of legal proceedings in various state, federal and foreign jurisdictions. These proceedings are in varying stages and many may proceed for protracted periods of time. Some proceedings involve highly complex questions of fact and law.

The operations of the Company, like those of other companies engaged in similar businesses, are subject to various federal, state, and local laws and regulations intended to protect the public health and the environment. These regulations primarily relate to, among other things, air and water quality, underground fuel storage tanks and waste handling and disposal. The Company has received notices from the U.S. Environmental Protection Agency, state agencies, and/or private parties seeking contribution, that it has been identified as a "potentially responsible party" (PRP), under the Comprehensive Environmental Response, Compensation and Liability Act or similar state statutes, and may be required to share in the cost of cleanup with respect to 13 "Superfund" sites. The Company's ultimate liability in connection with those sites may depend on many factors, including the volume of material contributed to the site, the number of other PRP's and their financial viability, and the remediation methods and technology to be used.

In the opinion of management, based on the information presently known, the ultimate liability for all such matters, together with the liability for all other pending legal proceedings, asserted legal claims and known potential legal claims which are likely to be asserted, taking into account established accruals of $12.6 for estimated liabilities, should not be material to the financial position of the Company, but could be material to results of operations or cash flows for a particular quarter or annual period. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

REPUBLIC GROUP INCORPORATED (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Environmental Remediation and Compliance: Environmental expenditures are expensed or capitalized, as appropriate. Liabilities are recorded when assessments and/or remedial efforts are probable and the cost can be reasonably estimated.

6. Other Commitments and Contingent Liabilities

In connection with the Company's preparation for a warehouse addition to its paperboard mill located in Commerce City, Colorado, a suburb of Denver, the Company discovered and has been investigating the presence of subsurface petroleum hydrocarbons. The Company retained an environmental consultant who concluded that fuel oil, jet fuel and gasoline additives had migrated in the subsurface of the Company's property from an adjacent property. The Company has conducted its own investigations, and the adjacent property owner has conducted its own investigations. Additionally, the Company and the adjacent owner have jointly sponsored investigations. Discussions between the parties continue. The Company has completed the construction of the warehouse addition under approval of the Colorado Department of Health.

On October 17, 1997, the West Virginia Division of Environmental Protection ("DEP") filed a complaint against Republic Paperboard Company of West Virginia (the "West Virginia Subsidiary") in the Circuit Court of Jefferson County, West Virginia. The complaint alleges that the West Virginia Subsidiary has violated and continues to violate a previous order entered into between the West Virginia Subsidiary and DEP on January 17, 1995 and further alleges that the West Virginia Subsidiary has violated and continues to violate certain provisions of its wastewater discharge permit. The West Virginia Subsidiary has responded in a timely manner to the allegations of the complaint.

At this time, the Company has not ascertained the future liability, if any, of the above matters. Environmental expenditures directly related to these matters were $12,000 in fiscal 1998, $11,000 in fiscal 1997, and $3,000 in fiscal 1996. These costs were included in selling and administrative expenses.

ROCK-TENN COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Commitments and Contingencies

Environmental and Other Matters: The Company is subject to many federal, state, local and foreign environmental laws and regulations. The Company is currently involved in the assessment of various sites, two of which the Company has an ownership interest in and all others of which are owned by third parties. Environmental expenditures which relate to an existing condition caused by past operations and which have no significant future economic benefit to the Company are expensed. Future environmental-related expenditures cannot be reliably determined in many circumstances due to the early stages of investigations, the uncertainty of specific remediation methods, changing environmental laws and interpretations and other matters. Such costs are accrued at the time the expenditure becomes probable and the costs can be reasonably estimated. Costs are accrued based upon estimates determined by management.

The Company has been named as a potentially responsible party at nine sites. At such sites, a variety of potentially responsible parties are involved. Management believes that it is probable that the parties associated with these sites will fulfill their obligations.

Expenses associated with and amounts accrued for environmental assessment and remediation have not been material for the three years ended September 30, 1998. It is possible that costs in excess of amounts accrued may be incurred; however, management believes that such additional amounts will not have a material effect on the Company's financial position and results of operations.

On December 1, 1995, a suit was filed by a private party against, among others, the Company in the United States District Court for the Western District of Michigan alleging that the Company is jointly and severally liable under federal and state law for the release of certain hazardous materials at the Allied Paper, Inc./Portage Creek/Kalamazoo River Superfund Site. The Company has entered into a settlement agreement pursuant to which the Company paid $325,000 and received releases from certain past, present and future environmental claims and actions involving this site.

TWIN DISC, INCORPORATED (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

N. Contingencies

The Company is involved in various stages of investigation relative to hazardous waste sites, two of which are on the United States EPA National Priorities List (Superfund sites). The Company's assigned responsibility at each of the Superfund sites is less than 2%. The Company has also been requested to provide administrative information related to two other potential Superfund sites but has not yet been identified as a potentially responsible party. Additionally, the Company is subject to certain product liability matters.

At June 30, 1998, the Company has accrued approximately $1,350,000, which represents management's best estimate available for possible losses related to these contingencies. This amount has been provided over the past several years. Based on the information available, the Company does not expect that any unrecorded liability related to these matters would materially affect the consolidated financial position, results of operations or cash flows.

WHITMAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Environmental and Other Contingencies

The Company is subject to certain indemnification obligations under agreements with previously sold subsidiaries for potential environmental liabilities. There is significant uncertainty in assessing the Company's share of the potential liability for such claims. The assessment and determination for cleanup at the various sites involved is inherently speculative during the early stages, and the Company's share of related costs is subject to various factors, including possible insurance recoveries and the allocation of liabilities among many other potentially responsible and financially viable parties.

The Company's largest environmental exposure has been and continues to be the remedial action required at a facility in Portsmouth, Virginia for which the Company has an indemnity obligation. This is a superfund site which the U.S. Environmental Protection Agency required be remediated. Through 1998, the Company had spent an estimated $16.3 million (net of $3.1 million of recoveries from other responsible parties) for remediation of the Portsmouth site (consisting principally of soil treatment and removal) and has accrued and expects to incur an estimated $9 million to complete the remediation over the next one to two years.

Although the Company has indemnification obligations for environmental liabilities at a number of other sites, including several superfund sites, it is not anticipated that the expense involved at any specific site would have a material effect on the Company. In the case of the other superfund sites, the volumetric contribution for which the Company has an obligation has been estimated and other large, financially viable parties are responsible for all or most of the remainder.

At January 2, 1999, the Company had $24.3 million accrued to cover potential environmental liabilities, including $8.0 million classified as current liabilities, which excludes possible insurance recoveries and is determined on an undiscounted cash flow basis. Based on the latest evaluations from outside advisors and consultants, the Company believes the upper end of the range for its potential future environmental liabilities is approximately $15 million higher than the current accrued balance. Whitman has determined that there is a range of possible liabilities. Whitman has determined that there is no amount within the range that appears to be a better estimate than any other amount within the range and the minimum amount within the range has been accrued. The Company expects a significant portion of the accrual will be disbursed during the next four years. During 1998, the Company recorded recoveries of $11.3 million from insurance companies and other responsible parties related to these environmental liabilities, a portion of which will be received in future periods. Receivables from such recoveries were included as assets on the Company's balance sheets.

These estimated liabilities include expenses for the remediation of identified sites, payments to third parties for claims and expenses, and the expense of on-going evaluations and litigation. The estimates are based upon the judgments of outside consultants and experts and their evaluations of the characteristics and parameters of the sites, including results from field inspections, test borings and water flows. Their estimates are based upon the use of current technology and remediation techniques, and do not take into consideration any inflationary trends upon such claims or expenses, nor do they reflect the possible benefits of continuing improvements in remediation methods. The accruals also do not provide for any claims for environmental liabilities or other potential issues which may be filed against the Company in the future.

The Company also has other contingent liabilities from various pending claims and litigation on a number of matters, including indemnification claims under agreements with previously sold subsidiaries for products liability and toxic torts. The ultimate liability for these claims, if any, cannot be determined. In the opinion of management, and based upon information currently available, the ultimate resolution of these claims and litigation, including potential environmental exposures, and considering amounts already accrued, will not have a material effect on the Company's financial condition or the results of operations. While additional claims and liabilities may develop and may result in additional charges to income, principally through discontinued operations, the Company does not believe that such charges, if any, would have a material effect upon the Company's financial condition or the results of operations.

Existing environmental liabilities associated with the Company's continuing operations are not material.

Insurance Coverage/Self-Insurance

STEELCASE INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Self-Insurance: The Company is self-insured for certain losses relating to workers' compensation claims, employee medical benefits and product liability claims. The Company has purchased stop-loss coverage in order to limit its exposure to any significant levels of workers' compensation and product liability claims. Self-insured losses are accrued based upon the Company's estimates of the aggregate liability for uninsured claims incurred using certain actuarial assumptions followed in the insurance industry and the Company's historical experience.

The accrued liabilities for self-insured losses included in other accrued expenses in the accompanying consolidated balance sheets are as follows:

(in millions)	Feb. 27, 1998	Feb. 28, 1997
Workers' compensation claims	$16.8	$16.1
Product liability claims	11.5	9.6
	$28.3	$25.7

The Company maintains a Voluntary Employees' Beneficiary Association (VEBA) to fund employee medical claims covered under self-insurance. The estimates for incurred but not reported medical claims have been fully funded by the Company as of February 27, 1998 and February 28, 1997.

WINNEBAGO INDUSTRIES, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Contingent Liabilities and Commitments

The Company self-insures for a portion of product liability claims. Self-insurance retention liability varies annually based on market conditions and for the past three fiscal years was at $2,500,000 per occurrence and ranged from $6,000,000 (fiscal 1998) to $8,500,000 in aggregate per policy year. Liabilities in excess of these amounts are the responsibility of the insurer.

The Company is involved in various legal proceedings which are ordinary routine litigation incident to its business, many of which are covered in whole or in part by insurance. While it is impossible to estimate with certainty the ultimate legal and financial liability with respect to this litigation, management is of the opinion that while the final resolution of any such litigation may have an impact on the Company's consolidated results for a particular reporting period, the ultimate disposition of such litigation will not have any material adverse effect on the Company's financial position, results of operations or liquidity.

Possible Tax Assessments

EG&G, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19 (In Part): Contingencies

The Company has received notices from the Internal Revenue Service (IRS) asserting deficiencies in federal corporate income taxes for the Company's 1985 to 1994 tax years. The total additional tax proposed by the IRS amounts to $74 million plus interest. The Company has filed petitions in the United States Tax Court to challenge most of the deficiencies asserted by the IRS. The Company believes that it has meritorious legal defenses to those deficiencies and believes that the ultimate outcome of the case will not result in a material impact on the Company's consolidated results of operations or financial position.

PENNZENERGY COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Income Taxes

In September 1998, PennzEnergy received a letter and examination report from the District Director of the Internal Revenue Service that proposed a tax deficiency based on the audits of PennzEnergy's 1993, 1994 and 1995 federal income tax returns. The examination report proposed one principal adjustment with which PennzEnergy disagrees.

That adjustment challenged PennzEnergy's position under Section 172(f) of the Internal Revenue code that (i) interest of $294.3 million that was determined and paid in 1994 with respect to a 1988 federal tax deficiency, and (ii) legal expenses of $1.4 million that were incurred in 1994 in resolving the 1988 tax deficiency, were specified liability losses that could be carried back 10 years. The proposed tax deficiency relating to this proposed adjustment is $111.1 million. PennzEnergy estimates that the additional after-tax interest on this proposed deficiency was $29.1 million at December 31, 1998.

If the Internal Revenue Service's position is sustained, the $294.3 million of interest and $1.4 million of legal fees will be carried forward. If not used, these carryovers will expire in the year 2009. The proposed adjustment is currently being reviewed by the Appellate Division of the Internal Revenue Service. PennzEnergy intends to defend its position vigorously and does not believe that the final outcome will have a material adverse effect on its financial condition or results of operations.

RUDDICK CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments and Contingencies (In Part)

As a result of federal legislation which will phase out interest deductions on certain policy loans and thereby significantly diminish the favorable tax attributes of Company owned life insurance ("COLI") as of January 1, 1999, the Company expects that its effective income tax rates will be only slightly below statutory rates domestically. The Company recorded income tax reductions of approximately $24 million cumulatively as the result of COLI interest deductions from October 1993 through fiscal year ending September 27, 1998. The Internal Revenue Service, on a comprehensive national level, is evaluating its position regarding the deductibility of COLI policy loan interest for years prior to January 1, 1999. In March 1998, the IRS issued a Technical Advice Memorandum regarding the COLI deductibility of a taxpayer unrelated to the Company. Management understands that the adverse position taken by the IRS will be subjected to extensive challenges in the courts. In the event that the IRS prevails, this outcome could result in a material impact upon the Company's future income taxes and results of operations.

Governmental Investigations

COLUMBIA/HCA HEALTHCARE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Investigations

The Company is currently the subject of several Federal investigations into its business practices, as well as governmental investigations by various states. The Company is cooperating in these investigations and understands, through written notice and other means, that it is a target in these investigations. Given the breadth of the ongoing investigations, the Company expects additional subpoenas and other investigative and prosecutorial activity to occur in these and other jurisdictions in the future. Columbia/HCA is a defendant in several *qui tam* actions brought by private parties on behalf of the United States of America, which have been unsealed and served on Columbia/HCA. The actions allege, in general, that Columbia/HCA and certain subsidiaries and/or affiliated partnerships violated the False Claims Act for improper claims submitted to the government for reimbursement. The lawsuits seek damages of three times the amount of all Medicare or Medicaid claims (involving false claims) presented by the defendants to the Federal government, civil penalties of not less than $5,000 nor more than $10,000 for each such Medicare or Medicaid claim, attorney's fees and costs. The government has intervened in two *qui tam* actions. Columbia/HCA is aware of additional *qui tam* actions that remain under seal and believes that there are other sealed *qui tam* cases of which it is unaware.

The Company is the subject of a formal order of investigation by the Securities and Exchange Commission. The Company understands that the investigation includes the anti-fraud, periodic reporting and internal accounting control provisions of the Federal securities laws.

Management believes the ongoing investigations and related media coverage are having a negative effect on the Company's results of operations. It is too early to predict the outcome or effect of the ongoing investigations or *qui tam* and other actions or whether any additional investigations or litigations will be commenced. If Columbia/HCA is found to have violated Federal or state laws relating to Medicare, Medicaid or similar programs, the Company could be subject to substantial monetary fines, civil and criminal penalties and exclusion from participation in the Medicare and Medicaid programs. Similarly, the amounts claimed in the *qui tam* and other actions may be substantial, and Columbia/HCA could be subject to substantial costs resulting from an adverse outcome of one or more such actions. Any such sanctions or losses could have a material adverse effect on the Company's financial position and results of operations.

NINE WEST GROUP INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23 (In Part): Commitments and Contingencies

The Federal Trade Commission is currently conducting an inquiry with respect to the Company's resale pricing policies to determine whether the Company violated the federal antitrust laws by agreeing with others to restrain the prices at which retailers sell footwear and other products marketed by the Company. In addition, Attorneys General from the States of Florida, New York, Ohio and Texas are conducting similar inquiries.

On May 1, 1997, the Company learned that on April 10, 1997, the United States Securities and Exchange Commission (the "SEC") entered a formal order of investigation of the Company. Based on conversations with the staff of the SEC, the Company believes that this investigation was primarily focused on the revenue recognition policies and practices of certain of the Company's divisions that were acquired from U.S. Shoe in 1995. On October 29, 1997, the Company received a subpoena issued by the SEC in connection with its investigation requesting the Company to produce certain documents relating to the purchase by the Company of products manufactured in Brazil from 1994 to date, including documents concerning the prices paid for such products and the customs duties paid in connection with their importation into the United States. On February 1, 1999, the SEC informed the Company that its investigation had been terminated with no enforcement action being recommended against the Company.

In addition, on October 29, 1997, the Company learned that the United States Customs Service had commenced an investigation of the Company relating to the Company's importation of Brazilian footwear from 1995 to date. On April 14, 1998, the United States Customs Service informed the Company that such investigation had been terminated with no action taken against the Company.

Year 2000 Conversion

ANALOGIC CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Year 2000:

The Year 2000 Issue is the result of computer programs being written using two digits rather than four digits to define the applicable year. Computer programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. If the Company's internal systems do not correctly recognize date information when the year changes to 2000, there could be an adverse impact on the Company's operations.

The Company has undertaken considerable effort to assess the actions and resources that will be required to make its systems Year 2000 compliant. Currently, the Company is utilizing both internal and external resources to upgrade its computer hardware and software systems. The Company is also identifying and implementing changes to other information systems which are not being replaced in order to make them Year 2000 compliant.

The Company is also assessing the possible effects of Year 2000 issues on its significant vendors and customers, which could in turn affect the Company's operations. The Company has not yet been able to determine, however, whether any of its suppliers or service providers will need to make any such software modifications or replacements or whether the failure to make such software corrections will have an adverse effect on the Company's operations or financial condition.

The Company currently estimates that Year 2000 costs over the next two fiscal years will range from $4.0 million to $6.0 million. The estimated costs are based on management's best projections, yet there can be no guarantee that those forecasts will be achieved and actual results could differ materially from those anticipated. The cost of the project will be funded through operating cash flows.

ADOLPH COORS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Commitments and Contingencies

Year 2000 (unaudited): Some computers, software and other equipment include programming code in which calendar year data are abbreviated to only two digits. As a result of this design decision, some of these systems could fail to operate or fail to produce correct results if "00" is interpreted to mean 1900 rather than 2000. These problems are widely expected to increase in frequency and severity as the Year 2000 approaches.

ACC recognizes the need to ensure that 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 the Year 2000 problem. This project has two major elements—Application Remediation and Extended Enterprise (third-party suppliers, customers and others).

As of December 27, 1998, the Application Remediation element is on schedule, with 85% of the analysis completed, 74% of the remediation completed and 41% of the testing completed. Remediation of systems considered critical to ACC's business is expected to be completed by June 1999, and remediation of non-critical systems is planned to be completed by September 1999.

The Extended Enterprise element consists of the evaluation of third-party suppliers, customers, joint venture partners, transportation carriers and others. Detailed evaluations of the most critical third parties have been initiated.

The Company has made and will continue to make certain investments in its information systems and applications to ensure that they are Year 2000 compliant. These investments also include hardware and operating systems software, which are generally on schedule and are expected to be completed by June 1999. The financial impact to ACC is anticipated to be in the range of approximately $12 million to $15 million for 1999. The anticipated expenditures in 2000 are minimal. The total amount expended on the Year 2000 project through December 27, 1998, was approximately $23 million.

The failure to correct a material Year 2000 problem could result in an interruption in, or a failure of, certain normal business activities or operations. Such failures could materially and adversely affect the Company's results of operations, liquidity and financial condition. Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness of third-party suppliers, customers and others, the Company is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on its results of operations, liquidity or financial condition. The Year 2000 project is expected to significantly reduce ACC's level of uncertainty about the Year 2000 problem and, in particular, about the Year 2000 readiness of its Extended Enterprise.

Contingency planning for the Application Remediation and the Extended Enterprise elements began in October 1998 with initial plans completed in March 1999. The Company will monitor third-party distributors for Year 2000 readiness and will develop a contingency plan if a distributor is deemed critical to the Company's operations.

MICHAEL FOODS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Risks and Uncertainties

The Year 2000 issue relates to limitations in computer systems and applications that may prevent proper recognition of the Year 2000. The potential effect of the Year 2000 issue on the Company and its business partners will not be fully determinable until the year 2000 and thereafter. If Year 2000 modifications are not properly completed either by the Company or entities with whom the Company conducts business, the Company's revenues and financial condition could be adversely impacted.

NATIONAL PRESTO INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Risks and Uncertainties

Year 2000: The Year 2000 (Y2K) issue relates to limitations in computer systems and applications that may prevent proper recognition of the Year 2000. The potential effect of the Year 2000 issue on the Company and its business partners will not be fully determinable until the Year 2000 and thereafter. If Year 2000 modifications are not properly completed either by the Company or entities with whom the Company conducts business, the Company's revenues and financial condition could be adversely impacted.

O'SULLIVAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Commitments and Contingencies

Year 2000 Readiness: The Corporation is heavily dependent on computer processing in the conduct of its business activities. Failure of these systems could have a significant impact on the Corporation's operations.

In 1997, the Corporation began an assessment of its potential exposure to business interruption due to Year 2000 computer software and hardware failures. The Corporation's MIS department has made substantial progress in identifying areas of concern. Throughout 1998, the department identified, tested and began modifying those systems determined to be susceptible to Year 2000 operating failures. They have made significant progress and expect to have all systems tested and modified well before the end of 1999. Other personnel of the Corporation have been charged with the responsibility of reviewing software and hardware utilized in the operation of the Corporation's manufacturing equipment. Their review of this software and hardware internally and with the representatives of the creators of this software and hardware have revealed no material deficiencies which could jeopardize the operation of the Corporation's direct manufacturing equipment.

The Corporation has also initiated communications with suppliers and major customers to determine if any problems exist in connection with electronic interfaces. Since there are no guarantees that O'Sullivan will be able to rely on others to have their systems converted in a timely manner for Year 2000 compliance, the Corporation has been developing a strategy to continue business transactions with customers and suppliers in the event of interface disruptions.

The Corporation's cost of identifying and modifying programs is expected to have an immaterial effect on future operating results since, for several years, it has had a plan to regularly upgrade the software and hardware for the Corporation's primary operating systems. This plan has caused the systems to be continually reviewed and modified as business conditions warrant. Incremental costs to resolve Year 2000 issues are expected to be less than $500,000.

Insurable Loss

INTERNATIONAL MULTIFOODS CORPORATION (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Commitments and Contingencies

In fiscal 1998, the Company was notified that approximately $6 million in Company-owned inventory was stolen from a ship in the port of St. Petersburg, Russia. The ship had been chartered by the major customer of the Company's former food exporting business. The Company believes, based on the facts known to date, that the loss is covered by insurance. If the loss from the theft of product is not covered by insurance, the Company would likely recognize a material charge to its results of operations.

Contract Renewal

HUMANA INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Commitments and Contingencies

The Company's Medicare contracts with the federal government are renewed for a one-year term each December 31 unless terminated 90 days prior thereto. Legislative proposals are being considered which may revise the Medicare program's current support of the use of managed health care for Medicare beneficiaries and the future reimbursement rates thereunder. Management is unable to predict the outcome of these proposals or the impact they may have on the Company's financial position, results of operations or cash flows. The Company's Medicaid contracts are generally annual contracts with various states except for the two-year contract with the Commonwealth of Puerto Rico. The Puerto Rico contract, previously scheduled to expire March 31, 1999, has been extended one month to April 30, 1999. The Company does not expect to be able to renew the contract in Puerto Rico under favorable terms and, therefore, has announced its intention to close this market when the contract expires. Additionally, the Company's TRICARE contract is a one-year contract renewable annually for up to two additional years. The loss of these contracts (other than the contract in Puerto Rico) or significant changes in these programs as a result of legislative action, including reductions in payments or increases in benefits without corresponding increases in payments, would have a material adverse effect on the revenues, profitability and business prospects of the Company. In addition, the Company continually contracts and seeks to renew contracts with providers at rates designed to ensure adequate profitability. To the extent the Company is unable to obtain such rates, its financial position, results of operations and cash flows could be adversely impacted. Currently, the Company is in renegotiations with a major provider and is unable to predict the impact of these negotiations on future contract rates.

GAIN CONTINGENCIES

Plaintiff Litigation

SPX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 (In Part): Commitments and Contingent Liabilities

General: On April 11, 1996, the Company was named as a defendant in an action filed in Federal Court for the Northern District of Illinois. *Snap-on Incorporated, Snap-on Tools Company and Snap-on Technologies, Inc. v. Ronald J. Ortiz and SPX Corporation,* No. 96C2138, U.S. District Court for the Northern District of Illinois. The Complaint contained seventeen counts, fifteen of which were directed to the Company. Of the fifteen counts directed to the Company, seven were related to the hiring in 1992 of a former officer of Sun Electric Corporation, five contained allegations of patent infringement and three sought a declaration of invalidity of patents held by the company. On June 28, 1996, the Company filed an eight count counterclaim, containing three counts of patent infringement and five counts for declaration of invalidity of patents held by the Plaintiffs. These patents pertain to certain features related to performance test equipment manufactured by Sun, Snap-on and the Company. At that time, the Company also filed a motion to dismiss five of the counts of the Complaint related to the hiring of the former Sun executive. On October 23, 1996, four of those counts of the Complaint were dismissed, three with prejudice and one with leave to amend. Since that time, a further motion to dismiss one of those counts was filed and granted. Document discovery has proceeded and depositions have been conducted. In 1995 and 1997, the Plaintiffs initiated reexamination of the three Company patents. The U.S. patent office has upheld the validity of the three company patents by issuing reexamination certificates on one of the patents in late 1998 and on the other two in early 1999. Neither the Complaint nor the counterclaim contain specific allegations of damages, however, the products affected by the patents at issue are significant for Sun, Snap-on and the Company. Management expects that the claims against the Company are without merit. Based on management's understanding of Sun and Snap-on products sold during the alleged infringement period, management believes that a reasonable value of the Company's claims brought against Sun and Snap-on could be material to the future results of operations, cash flows and financial position of the Company. Management intends to vigorously prosecute its claims. The Company believes it should ultimately prevail on this litigation. However, since the amount of the damages cannot be fully quantified until the legal discovery process proceeds further and no assurances can be made as to the final timing and outcome of any litigation, no gain has been recorded. Refer to "Factors That May Affect Future Results" and "Safe Harbor for Forward Looking Statements" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

STEWART & STEVENSON SERVICES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Special Items and Events

On December 17, 1998, following an extensive period of negotiations with the U.S. Army seeking to amicably resolve certain requests for equitable adjustments for additional costs incurred by the Company due to delays and changes caused by the government during the initial truck contract, the Company filed a certified claim with the U.S. Army seeking recovery of the additional costs. Management believes that the FMTV contract provides a legal basis for the claim, however, due to the inherent uncertainties in the claims resolution process, the Company has fully reserved all recoveries relating to the claim. The Company will continue to pursue recovery of all amounts claimed. Any compensation received from the U.S. Army related to this matter will be recorded in the period in which the additional compensation is awarded.

WASTE MANAGEMENT, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Environmental Liabilities

The Company has filed suit against numerous insurance carriers seeking reimbursement for past and future remedial, defense and tort claim costs at a number of sites. Carriers involved in these matters have typically denied coverage and are defending against the Company's claims. While the Company is vigorously pursuing such claims, it regularly considers settlement opportunities when appropriate terms are offered. Settlements to date

($46,600,000 in 1998, $94,300,000 in 1997, and $60,300,000 in 1996) have been included in operating costs and expenses as an offset to environmental expenses.

Contingent Receivables

CORNING INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18 (In Part): Discontinued Operations

On April 1, 1998, Corning completed the recapitalization and sale of a controlling interest in its consumer housewares business to an affiliate of Borden, Inc. Corning received cash proceeds of $593 million and continues to retain an eight percent interest in the Corning Consumer Products Company. In addition, Corning could receive an additional payment of up to $15 million if certain financial targets are met by Corning Consumer Products Company for the three year period 1998-2000.

THE FAIRCHILD CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

2 (In Part): Business Combinations

On June 30, 1997, the Company sold all the patents of Fairchild Scandinavian Bellyloading Company ("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 additional proceeds of up to $7,000 based on future net sales of SBC's patented products and services.

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. 598 survey companies disclosed the use of estimates in preparing financial statements. Of these disclosures, 583 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

ARCHER DANIELS MIDLAND COMPANY (JUN)

SUMMARY OF ACCOUNTING POLICIES

Nature of Business

The Company is in one business segment—procuring, transporting, storing, processing, and merchandising agricultural commodities and products. The availability and price of agricultural commodities are subject to wide fluctuations due to unpredictable factors such as weather, plantings, government (domestic and foreign) farm programs and policies, changes in global demand created by population growth and higher standards of living, and global production of similar and competitive crops.

CMI CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Description of Business and Summary of Significant Accounting Policies

Description of Business: Since 1964, CMI Corporation and its subsidiaries (the Company) have manufactured and marketed equipment for the road and heavy construction industry. The Company's construction equipment has a wide variety of uses in the maintenance, construction, paving, and resurfacing of highways, city streets, parking lots, airport runways, tunnels, and bridges. With the acquisition discussed in note 2, the Company entered the landfill compaction industry and significantly expanded their product line offering for industrial grinders which are utilized in numerous industries, including the road and heavy construction industry. The Company's raw materials are readily available, and the Company is not dependent on a single supplier or only a few suppliers.

Business and Credit Concentrations: The Company's customers are not concentrated in any specific geographic region, but are concentrated in the road and heavy construction business. No single customer accounted for a significant amount of the Company's sales, and there were no significant accounts receivable from a single customer. The Company reviews a customer's credit history before extending credit. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information. To reduce credit risk, the Company generally requires a down payment on large equipment orders, and international sales are generally secured by letters of credit.

The company had short-term notes receivable and sales-type lease payments due from customers included in accounts receivable of approximately $1,771,000 and $5,874,000 at December 31, 1998 and 1997, respectively.

HON INDUSTRIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nature of Operations

HON INDUSTRIES Inc., with its subsidiaries (the Company), is a national manufacturer and marketer of office furniture and hearth products. Both industries are reportable segments; however, the Company's office furniture business is its principal line of business. Refer to the "Operating Segment Information" note for further information. Office furniture products are sold through a national system of dealers, wholesalers, mass merchandisers, warehouse clubs, retail superstores, end-user customers, and to federal and state governments. Dealer, wholesaler, and retail superstores are the major channels based on sales. Hearth products include wood-, pellet-, and gas-burning factory-built fireplaces, fireplace inserts, stoves, and gas logs. These products are sold through a national system of dealers, wholesalers, and large regional contractors. The Company's products are marketed predominantly in the United States and Canada. The Company exports select products to a limited number of markets outside North America, principally Latin America and the Caribbean, through its export subsidiary; however, based on sales, it is not significant.

MERCK & CO., INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

Merck is a global research-driven pharmaceutical company that discovers, develops, manufactures and markets a broad range of human and animal health products, directly and through its joint ventures, and provides pharmaceutical benefit services through Merck-Medco Managed Care (Merck-Medco). Human health products include therapeutic and preventive agents, generally sold by prescription, for the treatment of human disorders. Pharmaceutical benefit services primarily include managed prescription drug programs and programs to manage health and drug utilization.

Merck sells its human health products and provides pharmaceutical benefit services to drug wholesalers and retailers, hospitals, clinics, government agencies, corporations, labor unions, retirement systems, insurance carriers, managed health care providers such as health maintenance organizations and other institutions.

THE NEW YORK TIMES COMPANY (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Nature of Operations: The New York Times Company (the "Company") is engaged in diversified activities in the communications field. The Company's principal businesses are newspapers, magazines and broadcasting. The Company also has equity interests in a Canadian newsprint mill and a supercalendered paper mill. The Company's major source of revenue is advertising from its newspaper business. The newspapers operate in the Northeast, Southeast and California markets.

PARKER HANNIFIN CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Nature of Operations: The Company is a leading worldwide producer of motion control products, including fluid power systems, electromechanical controls and related components.

The Company operates in two principal business segments: Industrial and Aerospace. The Industrial Segment produces motion-control and fluid power system components for builders and users of various types of manufacturing, packaging, processing, transportation, agricultural, construction, and military machinery, vehicles and equipment. Industrial Segment products are marketed primarily through field sales employees and more than 7,500 independent distributors. The North American Industrial business represents the largest portion of the Company's manufacturing plants and distribution networks and primarily services North America. The International Industrial operations bring Parker products and services to countries throughout Europe, Asia Pacific and Latin America.

The Aerospace Segment produces hydraulic, pneumatic and fuel systems and components which are utilized on virtually every domestic commercial, military and general aviation aircraft. Its components also perform a vital role in naval vessels, land-based weapons systems, satellites and space vehicles. This Segment serves original equipment and maintenance, repair and overhaul customers worldwide. Its products are marketed by field sales employees and are sold directly to the manufacturer and to the end user.

There are no individual customers to whom sales are 6 percent or more of the Company's consolidated sales. Due to the diverse group of customers throughout the world the Company does not consider itself exposed to any concentration of credit risks.

The Company manufactures and markets its products throughout the world. Although certain risks and uncertainties exist, the diversity and breadth of the Company's products and geographic operations mitigate significantly the risk that adverse changes in any event would materially affect the Company's operating results.

OWENS-ILLINOIS, INC. (DEC)

SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company is a leading manufacturer of glass container and plastic packaging products operating in two product segments. The Company's principal product lines in the Glass Containers product segment are glass containers for the food and beverage industries. Sales of the Glass Containers product segment were 72% of the Company's 1998 consolidated sales. The Company has glass container operations located in 20 countries, while the plastics packaging products operations are located in 11 countries. The principal markets and operations for the Company's glass products are in the United States, Europe, Latin America, and Australia. The Company's principal product lines in the Plastics Packaging product segment include plastic containers, plastic closures, and plastic prescription containers. Major markets for the Company's plastics packaging products include the United States household products, personal care products, health care products, and food and beverage industries.

WTD INDUSTRIES, INC. (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

The Company operates in one industry segment, the manufacture and sale of softwood and hardwood lumber products, wood chips and other by-products. Most lumber products are sold to distributors, wholesalers or directly to large retailers. The Company's products are used in many applications, including residential and commercial construction, packaging and industrial uses.

Lumber market conditions deteriorated during the second quarter of fiscal year 1998 and remained weak through the fourth quarter, after approximately 16 months of good conditions. The Company responded to certain lumber price adjustments by altering product mix and reducing log costs when possible. During much of the year, there was an oversupply of lumber in the U.S. market. This was the result of traditional export producers manufacturing for the U.S. lumber market as exports weakened. Additionally, demand from California, a major segment of the Company's market, was lower than usual due to the extraordinarily wet weather which delayed construction projects. In response to the generally weak market conditions, the Company curtailed production at selected mills and reduced the level of operations at various times during the year.

The fiscal year 1998 results were such that management initiated amendments to its primary debt agreement. This debt agreement was amended as of October 1, 1997, January 1, 1998 and April 1, 1998 with respect to certain financial performance covenants. These amendments follow similar earlier amendments, the most recent as of May 1, 1996. Improved operating conditions from those in existence during fiscal year 1998 will be necessary for the Company to remain in compliance with its primary debt agreement. See Note 5 to Consolidated Financial Statements.

The Company's sales are predominantly in the United States; export sales are not material. During the year ended April 30, 1998, the Company had no customers that accounted for 10% or more of net sales. The loss of any one customer would not, in the opinion of management, have a material adverse impact on the financial results of the Company.

Temporary cash investments and trade receivables potentially subject the Company to concentrations of credit risk. 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 institution. The Company reviews a customer's credit history before extending credit and continuously evaluates its accounts receivable for collectability. Concentrations of credit risk on trade receivables are limited due to the Company's large number of customers and their widely varying locations. Generally, the Company does not require collateral or other security to support its trade receivables.

Use of Estimates

CISCO SYSTEMS, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

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 the reported amounts of revenue and expenses during the reporting period. Estimates are used for, but not limited to, the accounting for doubtful accounts, depreciation and amortization, sales returns, warranty costs, taxes, and contingencies. Actual results could differ from these estimates.

SEAGATE TECHNOLOGY, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Part): Summary of Significant Accounting Policies

Accounting 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 financial statements and accompanying notes. Actual results could differ materially from those estimates.

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.

The actual results with regard to restructuring charges could have a material unfavorable impact on the Company if the actual expenditures to implement the restructuring plan are greater than what the Company estimated when establishing the restructuring accrual.

Given the volatility of the markets in which the Company participates, the Company makes adjustments to the value of inventory based on estimates of potentially excess and obsolete inventory after considering forecasted demand and forecasted average selling prices. However, forecasts are subject to revisions, cancellations and rescheduling. Actual demand will inevitably differ from such anticipated demand, and such differences may have a material effect on the financial statements.

TIME WARNER INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

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 financial statements and footnotes thereto. Actual results could differ from those estimates.

Significant estimates inherent in the preparation of the accompanying consolidated financial statements include management's forecast of anticipated revenues from the sale of future and existing music and publishing-related products, as well as from the distribution of theatrical and television product, in order to evaluate the ultimate recoverability of accounts receivables, film inventory and artist and author advances recorded as assets in the consolidated balance sheet. Accounts receivables and sales in the music and publishing industries, as well as sales of home video product in the filmed entertainment industry, are subject to customers' rights to return unsold items. Management periodically reviews such estimates and it is reasonably possible that management's assessment of recoverability of accounts receivables, individual films and television product and individual artist and author advances may change based on actual results and other factors.

USX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Principal Accounting Policies

Use of Estimates: Generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the year. Significant items subject to such estimates and assumptions include the carrying value of long-lived assets; valuation allowances for receivables, inventories and deferred income tax assets; environmental liabilities; liabilities for potential tax deficiencies and potential litigation claims and settlements; and assets and obligations related to employee benefits. Additionally, certain estimated liabilities are recorded when management commits to a plan to close an operating facility or to exit a business activity. Actual results could differ from the estimates and assumptions used.

Significant Estimates

ARMCO INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

3 (In Part): Income Taxes

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (b) operating loss and tax credit carryforwards. At December 31, 1998 and 1997, the net deferred tax asset, included on the Consolidated Balance Sheets, was as follows:

	1998	1997
Other current assets	$ 9.2	$ 9.2
Deferred tax asset	315.8	319.3
Net deferred tax asset	$325.0	$328.5

Major components of Armco's year-end net deferred tax asset are as follows:

	1998	1997
Tax effects of		
Operating loss and tax credit carryforwards	$ 478.4	$ 522.2
Employee benefits	433.0	556.4
Other assets (including contingencies and accruals)	123.8	133.5
Gross deferred tax asset	1,035.2	1,212.1
Valuation allowance	(448.6)	(593.0)
Deferred tax asset	586.6	619.1
Property, plant and equipment	(155.1)	(148.8)
Other liabilities	(106.5)	(141.8)
Deferred tax liability	(261.6)	(290.6)
Net deferred tax asset	$ 325.0	$ 328.5

Management believes it is more likely than not that Armco will generate future taxable income sufficient to realize that portion of the tax benefit associated with future deductible temporary differences and NOL carryforwards, represented by the $325.0 net deferred tax asset. Armco prepares a calculation annually in which it estimates future income and schedules the future effects of temporary differences and NOL carryforwards. Because any forecast has inherent uncertainties and because of the structural changes Armco has undergone over the last nine years, Armco uses what it believes to be conservative estimates and assumptions. Considering all available evidence, both positive and negative, Armco periodically determines if there has been a significant change in the net deferred tax asset. During the last several years, based on forecasts and consideration of available evidence, Armco believes that there has been no significant change in the amount of its net deferred tax asset.

Armco's belief that realization of its net deferred tax asset is more likely than not based on, among other factors, changes in operations that have occurred during the 1990s, as well as consideration of available tax planning strategies. Specifically, cost savings resulting from new capital investments are being realized and are expected to continue to improve operating results. Armco has operated in a highly cyclical industry and, consequently, has had a history of generating and then utilizing significant amounts of NOL carryforwards. In 1997 and 1998, in addition to using its temporary differences, principally related to employee benefit obligations, to reduce taxable income, Armco utilized approximately $70.0 of its NOL carryforwards. These were the first two years of taxable income for Armco after seven years of tax losses. However, if Armco is unable to generate sufficient taxable income in the future through operating results, increases in the valuation allowance may be required through a charge to income. On the other hand, if Armco achieves sufficient profitability to utilize a greater portion of the deferred tax asset, the valuation allowance will be reduced through a credit to income.

United States income tax returns of Armco for 1994 and prior years have been subject to examination by the Internal Revenue Service and are closed to assessments. However, the NOL carryforwards from some of these years remain open to adjustment. Armco has been in a cumulative NOL carryforward position since 1983 and believes that it has sufficient loss carryforwards in excess of any potential audit adjustments that might be made by the Internal Revenue Service for any open years.

9 (In Part): Litigation and Environmental Matters

Armco is a defendant, or identified as a potentially responsible party, in proceedings alleging liability for remediation, property damage or personal injury related to certain waste disposal sites. Armco has also received claims for indemnification for some properties it has previously owned or leased. In most cases involving waste disposal sites, Armco is one of many potentially responsible parties. In these cases, joint and several liability could be imposed on Armco or other parties; thus, theoretically, one party could be held liable for all costs related to a site. However, based on its experience and a review of current claims, Armco believes that any ultimate liability will be apportioned among Armco and other financially viable parties. Armco accrues its estimate of remediation and other costs for sites where it is probable that a liability has been incurred and the amount can be reasonably estimated.

In establishing liabilities, Armco assesses the range of reasonably estimated outcomes and determines the most likely outcome for its liabilities within the range. Costs are estimated based on experience with site remediation, an understanding of current environmental laws and regulations, environmental assessments, the existence of other financially viable parties, expected remediation methods and the years in which Armco is expected to make payments toward each remediation (which range from the current year to 30 years or more in the future). These liabilities are not discounted. The cost estimates are reviewed regularly to assess changed conditions, including current interpretations of environmental laws and regulations and changes in remediation technology and methods. Adjustments are made if changed conditions have a significant effect on cost estimates. Liabilities have not been adjusted for expected recoveries from insurers or other parties.

The recorded amounts are currently believed by management to be sufficient. However, such estimates could significantly change in future periods to reflect new laws or regulations, advances in technologies, additional sites requiring remediation, new requirements at existing sites and Armco's share of liability at multi-party sites. It is not possible to determine whether additional loss, due to such changed circumstances, will occur or to reasonably estimate the amount or range of any potential additional loss.

ARVIN INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

9 (In Part): Income Taxes

Deferred tax assets (liabilities) are comprised of the following at fiscal year-end:

	1998	1997
Gross deferred tax assets:		
Accrued employee benefits	$ 28.0	$ 25.0
Inventory, receivables and other	28.9	19.3
Environmental and legal	9.9	8.7
Other	13.1	12.3
Net losses and tax credit carryforwards	25.3	28.3
Valuation allowance for deferred tax assets	(10.3)	(13.0)
Deferred tax assets, net of valuation allowance	94.9	80.6
Gross deferred tax liabilities:		
Depreciation	(44.0)	(34.5)
Pension	(.4)	(.6)
Gross deferred tax liabilities	(44.4)	(35.1)
Net deferred tax assets	$ 50.5	$ 45.5

Net operating loss, capital loss, and tax credit carryforwards available in various tax jurisdictions at January 3, 1999 expire in the tax-effected amounts of $3.1, $6.3, $4.7, $1.4, $4.8 and $4.8 million for the years 1999 through 2003 and beyond, respectively.

Realization of deferred tax assets is dependent upon taxable income within the carryback and carryforward periods available under the tax laws. Although realization of deferred tax assets in excess of deferred tax liabilities is not certain, management has concluded that it is more likely than not that Arvin will realize the full benefit of U.S. deferred tax assets, except for approximately $2.4 million of capital loss carryforward. While in the aggregate, Arvin's non-U.S. subsidiaries have generated cumulative taxable income over the last three years, certain non-U.S. subsidiaries are in net operating loss carryforward positions. There is currently insufficient evidence to substantiate recognition of net deferred tax assets in the financial statements for certain of those non-U.S. subsidiaries in a net operating loss carryforward position. Accordingly, a valuation allowance of $7.9 million has been recorded. It is reasonably possible that sufficient positive evidence could be generated in the near term at one or more of these non-U.S. subsidiaries to support a reduction in the valuation allowance. Increases in the valuation allowance at the Company's non-U.S. subsidiaries were $1.2, $5.8, and $2.0 million and reductions of valuation allowances were $3.1, $4.3, and $4.0 million for 1998, 1997, and 1996, respectively.

COOPER INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Accrued Liabilities

At December 31, 1998, Cooper had accruals of $26.2 million with respect to potential product liability claims and $75.2 million with respect to potential environmental liabilities, including $39.6 million classified as a long-term liability, based on Cooper's current estimate of the most likely amount of losses that it believes will be incurred.

The product liability accrual consists of $5.8 million of known claims with respect to ongoing operations, $15.1 million of known claims for previously divested operations and $5.3 million which represents an estimate of claims that have been incurred but not yet reported. While Cooper is generally self-insured with respect to product liability claims, Cooper has insurance coverage for individual 1998 claims above $3.0 million. Insurance levels have varied from year to year.

Environmental remediation costs are accrued based on estimates of known environmental remediation exposures. Such accruals are adjusted as information develops or circumstances change. The environmental liability accrual includes $23.1 million related to sites owned by Cooper and $52.1 million for retained environmental liabilities related to sites previously owned by Cooper and third-party sites where Cooper was a contributor. Third-party sites usually involve multiple contributors where Cooper's liability will be determined based on an estimate of Cooper's proportionate responsibility for the total cleanup. The amount actually accrued for such sites is based on these estimates as well as an assessment of the financial capacity of the other potentially responsible parties.

It has been Cooper's consistent practice to include the entire product liability accrual and a significant portion of the environmental liability accrual as current liabilities, although only approximately 10-20% of the balance classified as current will be spent on an annual basis. The annual effect on earnings for product liability is essentially equal to the amounts disbursed. In the case of environmental liability, the annual expense is considerably smaller than the disbursements, since the vast majority of Cooper's environmental liability has been recorded in connection with acquired companies. The change in the accrual balances from year to year reflects the effect of acquisitions and divestitures as well as normal expensing and funding.

Cooper has not utilized any form of discounting in establishing its product or environmental liability accruals. While both product liability and environmental liability accruals involve estimates that can have wide ranges of potential liability, Cooper has taken a proactive approach and has managed the costs in both of these areas over the years. Cooper does not believe that the nature of its products, its production processes, or the materials or other factors involved in the manufacturing process subject Cooper to unusual risks or exposures for product or environmental liability. Cooper's greatest exposure to inaccuracy in its estimates is with respect to the constantly changing definitions of what constitutes an environmental liability or an acceptable level of cleanup.

CROWN CORK & SEAL COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In millions)

K (In Part): Commitments and Contingent Liabilities

The Company is one of a number of defendants in a substantial number of lawsuits filed by persons alleging bodily injury as a result of exposure to asbestos. This litigation arose from the insulation operations in the United States of a company in which the Company acquired a majority interest in 1963. That company sold this insulation business less than three months later.

Prior to 1998, the amounts paid to asbestos litigation claimants were covered by a fund of $80 made available to the Company under a 1985 settlement with carriers insuring the Company through 1976, when the Company became self-insured. From 1985 through 1997, the Company disposed of approximately 70,000 cases for amounts which aggregated approximately one-half of the original fund.

Until the fourth quarter of 1998 the Company considered that the fund was adequate and that the likelihood of exposure for this litigation in excess of the amount of the fund was remote. This view was based on the Company's analysis of its potential exposure, the balance available under the 1985 settlement, historical trends and actual settlement ranges.

A change in Texas law, which limits out-of-state plaintiff filings in that state, and which will therefore be favorable in the long-term, caused, along with other factors, an unexpected increase in claims activity. This, along with several larger group settlements, caused the Company to reevaluate its position.

As a consequence, the Company has provided a charge of $78 after taxes (or $.59 per share) to supplement the remaining fund and cover estimated liability claims pending or to be filed through 2003.

The liability recorded for asbestos claims constitutes management's best estimate of such costs for pending and future claims. Because of the uncertainties related to this kind of litigation, the Company believes it is not possible to estimate the number of personal injury claims that may be filed after 2003. The Company believes, however, that the number of claims against it will slow significantly in the future as time elapses since 1963. The Company cautions, however, that inherent in its estimate of liabilities are expected trends in claim severity, frequency and other factors which may vary as claims are filed and settled or otherwise disposed of. Accordingly, these matters, if resolved in a manner different from the estimate, could have a material effect on the operating results or cash flows in future periods. While it is not possible to predict with certainty the ultimate outcome of these lawsuits and contingencies, the Company believes, after consultation with counsel, that resolution of these matters is not expected to have a material adverse effect on the Company's financial position or liquidity.

The Company is also subject to various other lawsuits and claims with respect to matters such as governmental and environmental regulations and other actions arising out of the normal course of business. While the impact on future financial results is not subject to reasonable estimation because considerable uncertainty exists, management believes, after consulting with counsel, that the ultimate liabilities resulting from such lawsuits and claims will not materially affect the consolidated results, liquidity or financial position of the Company.

LACLEDE STEEL COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Income Taxes

At December 31, 1997, the Company had net deferred tax assets of $45.4 million. FASB Statement No. 109, *Accounting for Income Taxes*, requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. In evaluating deferred tax assets as of December 31, 1997, management believed that Company-wide cost reductions and productivity improvements previously implemented would return the Company to profitability during 1998, as discussed further below. While the Company operated at approximately break-even before non-cash charges during the first quarter of 1998, significant operating losses were incurred during the second quarter. In view of the significant operating losses for the last six months of fiscal 1998, management no longer believes that operating income will be sufficient to realize the Company's tax benefits. Consequently, a valuation allowance of $72.5 million has been recorded, of which $48.3 million is reflected in the provision for income taxes and the remaining amount is reflected as an adjustment to the minimum pension liability, reported as a reduction of stockholders' equity (deficit).

As of December 31, 1997, management believed that it was more likely than not that all of the net operating loss ("NOL") carryforwards would be utilized prior to their expiration. The NOL carryforwards, as well as the existing deductible temporary differences, with the exception of differences relating to the minimum pension liability adjustment and the postretirement medical benefits, were largely offset by the existing taxable temporary differences relating to accelerated depreciation which were scheduled to reverse within the carryforward period.

Furthermore, any recorded deferred tax assets associated with these future tax benefits which would not be offset by the reversal of the accelerated depreciation were expected to be realized by the achievement of future profitable operations. The Company experienced profitable operations in 1993, 1994 and 1995, exclusive of nonrecurring/unusual charges in connection with restructuring and modifying the operations of the Company. While the Company experienced significant operating losses in 1996, management believed 1997 would have been a profitable year were it not for the unanticipated losses associated with the union contract negotiations, the related decrease in productivity in the periods surrounding the termination of the contract and the year-end inventory write-offs. The Company has had a history of generating NOL carryforwards and then utilizing such NOL carryforwards to reduce regular income taxes in future periods. Therefore, management believed that no valuation allowance was necessary for the deferred tax assets at December 31, 1997.

SEQUA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Environmental Remediation and Compliance: It is Sequa's policy to accrue environmental remediation costs for identified sites when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Accrued environmental remediation and compliance costs include remedial investigation and feasibility studies, outside legal, consulting and remediation project management fees, projected cost of remediation activities, site closure and post-remediation monitoring costs. At December 31, 1998, the potential exposure for such costs is estimated to range from $17,000,000 to $33,000,000, and Sequa's balance sheet includes accruals for remediation costs of $25,404,000. These accruals are at undiscounted amounts and are included in accrued expenses and other noncurrent liabilities. Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures.

5. Net Assets of Discontinued Operations

During 1991, Sequa adopted a formal plan to divest Sequa Capital's investment portfolio and classified it as a discontinued operation. As of December 31, 1998, approximately $363,000,000 of Sequa Capital's investment portfolio had been sold, written down or otherwise disposed of since 1991. During the same period, Sequa repaid approximately $367,000,000 of Sequa Capital's debt. Sequa Capital's investment in leveraged leases will be liquidated over the next 16 years as rentals are received and residual values are realized. Debt of discontinued operations at December 31, 1998 represents the accreted principal amount of the $25,000,000 in proceeds received from the non-recourse securitization of Sequa Capital's leveraged lease portfolio in 1994. The leveraged lease cash flow stream will service the payment of principal and interest until the load is paid off. To the extent that the leveraged lease cash flow stream during the next several years is less than the amount necessary to service the debt, the loan will increase.

Net assets of discontinued operations approximate net realizable value and have been classified as noncurrent. The amounts Sequa Capital will ultimately realize from the leveraged lease portfolio and other investments could differ materially from management's best estimates of their realizable value. A summary of the net assets of discontinued operations follows:

(Amounts in thousands) At December 31,	1998	1997
Investment in leveraged leases and other investments	$142,433	$144,292
Other assets, net	970	445
Debt	(38,251)	(35,014)
Net assets of discontinued operations	$105,152	$109,723

8 (In Part): Income Taxes

Although Sequa experienced book and tax domestic losses prior to 1997, Sequa was profitable domestically during 1998 and 1997, and management believes that its domestic net operating loss carryforwards will be utilized before their expiration through future reversals of existing taxable temporary differences and future earnings. The domestic losses prior to 1997 were largely attributable to loss provisions recorded during 1991 and 1992 for Sequa Capital, a discontinued leasing unit, and operating losses incurred by Gas Turbine from 1993 through 1995. Sequa has divested itself of a significant portion of Sequa Capital's assets and has decreased interest expense by significantly reducing debt levels. In addition, Gas Turbine has been profitable during the past three years due to decreased litigation costs, rising demand from the commercial airline market for jet engine component repair and increased demand from the manufacturers of jet engines.

Sequa's ability to generate the expected amounts of domestic taxable income from future operations is dependent upon general economic conditions, the state of the airline industry and other major markets, competitive pressures on sales and margins, and other factors beyond management's control. There can be no assurance that Sequa will meet its expectations for future domestic taxable income in the carryforward period; however, management has considered the above factors in reaching the conclusion that it is more likely than not that future domestic taxable income will be sufficient to fully realize the net domestic deferred tax assets at December 31, 1998. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future domestic taxable income during the carryforward period are reduced.

Vulnerability Due to Certain Concentrations

ATMEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Certain Risks and Concentrations: The Company sells its products primarily to OEMs and distributors in North America, Europe and Asia, generally without requiring any collateral. The Company maintains adequate allowances for potential credit losses and performs ongoing credit evaluations.

The Company's products are concentrated in the semiconductor industry, which is highly competitive and rapidly changing. Significant technological changes in the industry could affect operating results adversely. The Company's inventories include high-technology parts and components that may be specialized in nature or subject to rapid technological obsolescence. While the Company has programs to minimize the required inventories on hand and considers technological obsolescence in estimating required allowances to reduce recorded amounts to market values, such estimates could change in the future.

BADGER METER, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Commitments and Contingencies

B. Contingencies: The company has evaluated its worldwide operations to determine if any risks and uncertainties exist that could severely impact its operations in the near term. The company does not believe that there are any significant risks. However, the company does rely on single suppliers for certain castings and components in several of its product lines. Although alternate sources of supply exist for these items, loss of certain suppliers could temporarily disrupt operations. The company attempts to mitigate these risks by working closely with key suppliers and by purchasing business interruption insurance where appropriate.

BALL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contingencies (In Part)

The Company is subject to various risks and uncertainties in the ordinary course of business due, in part, to the competitive nature of the industries in which Ball participates, its operations in developing markets outside the U.S., changing commodity prices for the materials used in the manufacture of its products, and changing capital markets. Where practicable, the Company attempts to reduce these risks and uncertainties through the establishment of risk management policies and procedures, including, at times, the use of certain derivative financial instruments.

BOSTON SCIENTIFIC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B (In Part): Other Balance Sheet Information

Components of other selected captions in the Consolidated Balance Sheets at December 31 consisted of:

(in thousands)	1998	1997
Inventories		
Finished goods	$248,925	$209,506
Work-in-process	82,861	45,683
Raw materials	130,195	136,391
	$461,981	$391,580

Inventories as of December 31, 1998 include approximately $123 million of NIR® coronary stents which are supplied by Medinol. Delays, stoppages, or interruptions in the supply and/or mix of the NIR® stent could adversely affect the operating results of the Company. During 1998, worldwide NIR® coronary stent sales were approximately 13% of worldwide sales.

CLEVELAND-CLIFFS INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (In Part)

Business Risk: The North American steel industry had been experiencing high operating rates and generally positive financial results in recent years. However, strong steel production through the first half of 1998 has declined significantly due to record levels of unfairly traded steel imports in the second half of 1998.

The major business risk faced by the Company is the potential financial failure and shutdown of one or more of its significant customers and partners, with the resulting loss of ore sales and/or royalty and management fee income. If any such shutdown were to occur without mitigation through replacement sales or cost reduction, it would represent a significant adverse financial development to the Company. The iron mining business has a high level of fixed costs. Therefore, unmitigated loss of sales and/or royalty and management fee income due to failure of a customer or partner would have a greater impact on earnings than revenue.

Labor contracts at the five Company-managed mines, in which all bargaining unit employees are represented by the United Steelworkers of America, will expire in 1999. The Wabush three year contract in Canada expires March 1, 1999. Six year agreements at the Empire, Hibbing and Tilden mines and a five year agreement at LTV Steel Mining Company will expire on August 1, 1999.

ADOLPH COORS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Concentration of Transportation: The Company relies heavily upon rail transportation to ship approximately 35% of its products to satellite redistribution centers and to distributors throughout the country. A major disruption in the railroad industry would impact CBC significantly. However, the risk of such a disruption at the current time appears to be low.

EG&G, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Risks and Uncertainties

During 1998, demand for certain products was adversely affected by problems in Asia. In addition, the Asian economic problems have weakened the currencies of some Asian countries, making products of competitors located in Asia more price competitive.

Optoelectronics' future results are dependent on integration of the Lumen acquisition and completion of the development of amorphous silicon technology and successful market introduction of products based on this technology. In the IC Sensors business, new product development and shifting production to lower-cost locations will be required in order to compete more effectively.

In 1998, 37% of the Company's sales 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. In August 1998 the Company announced that its joint venture with Johnson Controls was unsuccessful in its bid to provide support services to NASA and the Air Force at Florida's Kennedy Space Center, Cape Canaveral Air Station and Patrick Air Force Base. The Company recorded a charge of $2.3 million in 1998 in connection with the closeout of this contract. The NASA contract at the Kennedy Space Center contributed sales of $134 million in 1998.

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 established reserves.

GATEWAY 2000, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

1 (In Notes): Summary of Significant Accounting Policies

(b) Use of Estimates and Certain Concentrations: 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 components used by the Company in manufacturing of PC systems are purchased from a limited number of suppliers. An industry shortage or other constraints of any key component could result in delayed shipments and a possible loss of sales, which could affect operating results adversely.

HEWLETT-PACKARD COMPANY (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contingencies and Factors That Could Affect Future Results (In Part)

Factors That Could Affect Future Results: A substantial portion of the company's revenues each year are generated from the development, manufacture and rapid release to market of high technology products newly introduced during the year. In the extremely competitive industry environment in which the company operates, such product generation, manufacturing and marketing processes are uncertain and complex, requiring accurate prediction of market trends and demand as well as successful management of various manufacturing risks inherent in such products. Additionally, the company's production strategy relies on certain key suppliers' ability to deliver quality components, subassemblies and completed products in time to meet critical manufacturing and distribution schedules, and its sales strategy relies on the ability of certain third-party resellers to support sales channels to the mass market effectively. In light of these dependencies, it is reasonably possible that failure to successfully manage a significant product introduction, failure of certain key suppliers to deliver as needed, or failure of certain resellers to remain customers and channel partners could have a severe near-term impact on the company's order growth, revenue growth, or results of operations.

The Company expects to implement successfully the changes necessary to address its Year 2000 (Y2K) internal readiness, product compliance, and material third-party relationship issues. Based on current estimates, the Company does not believe that the incremental costs associated with such actions will have a material effect on the Company's results of operations or financial condition. There can be no assurance, however, that there will not be a delay in, increased costs associated with, or legal claims related to the implementation of such changes. In addition, failure to achieve Y2K readiness could result in delays in the Company's ability to manufacture and ship products and deliver services, disrupt its customer service and technical support facilities, and interrupt customer access to its online products and services. The Company's inability to perform these functions could have an adverse effect on future results of operations or financial condition.

NAVISTAR INTERNATIONAL CORPORATION (OCT)

NOTES TO FINANCIAL STATEMENTS

11 (In Part): Commitments, Contingencies, Restricted Assets, Concentrations and Leases

Concentrations: At October 31, 1998, the company employed 12,212 hourly workers and 4,960 salaried workers in the United States and Canada. Approximately 89% of the hourly employees and 28% of the salaried employees are represented by unions. Of these represented employees, 92% of the hourly workers and 100% of the salaried workers are represented by the United Automobile, Aerospace, and Agricultural Implement Workers of America (UAW) or the National Automobile, Aerospace, and Agricultural Implement Workers of Canada (CAW). During August 1997, the company's current master contract with the UAW was extended from October 1, 1998 to October 1, 2002. The collective bargaining agreement with the CAW expires on October 24, 1999. Additionally, of the company's 309 employees in Mexico, approximately 48% are also represented by a union.

Reflecting higher consumer demand for light trucks and vans, sales of mid-range diesel engines to Ford Motor Company were 14% of consolidated sales and revenues in 1998, 1997 and 1996. During 1997, the company entered into a 10-year agreement, effective with model year 2003, to continue supplying Ford Motor Company with diesel engines for use in its diesel-powered light trucks and vans.

LAM RESEARCH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

C (In Part): Company and Industry Information

Lam Research Corporation is a leading supplier of technically complex thin film processing equipment used in the primary stages of semiconductor manufacturing. The Company's product offerings include single wafer plasma etch systems with a wide range of applications, and CMP systems. The Company sells its products primarily to large companies involved in the production of semiconductors in the United States, Europe, Japan and Asia Pacific. Credit evaluations are performed on all customers, and the Company usually does not require collateral on sales.

The semiconductor industry has historically been cyclical and has experienced periodic downturns, which have had a material adverse effect on the semiconductor industry's demand for semiconductor processing equipment, including equipment manufactured and marketed by the Company. Certain of the components and subassemblies included in the Company's products are obtained from a single supplier or a limited group of suppliers. The Company believes that alternative sources could be obtained and qualified to supply these products. Nevertheless, a prolonged inability to obtain certain components could have a severe near-term effect on the Company's operating results and could result in damage to customer relationships.

During fiscal 1998, a single customer accounted for 12% of total sales. During 1997 and 1996, no individual customer accounted for greater than 10% of total sales.

OCCIDENTAL PETROLEUM CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 approximately $9.9 billion as of December 31, 1998. 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 $1.0 billion as of December 31, 1998, 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 $2.2 billion as of December 31, 1998 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 mitigate its exposure 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.

STEWART & STEVENSON SERVICES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): 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. 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.

16. Vulnerability Due to Certain Concentrations

Sources of Supply: 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. Any interruption in the supply of materials from the original manufacturers or a termination of a distributor agreement could have a material adverse effect on the performance of the Power Products segment.

Additionally, the FMTV incorporates components specified by the U.S. Army which are produced by specified sources. Interruption of the supply of any of these components could affect the Company's ability to deliver vehicles.

Customers: The U.S. Government is the predominant customer of the Tactical Vehicle Systems segment, accounting for practically all of the sales of this segment. The loss of this customer would have a material adverse effect on the Company's consolidated financial condition and results of operations.

SPARTON CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Market Risk Exposure: The Company manufactures its products in the United States and Canada. Sales of the Company's products are to the U.S. and Canada, as well as other foreign markets. The Company is potentially subject to foreign currency exchange rate risk relating to receipts from customers and payments to suppliers in foreign currencies. As a result, the Company's financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which the Company operates. However, minimal receivables and payables are designated in foreign currency. The Company does not consider the market risk exposure relating to currency exchange to be material.

The Company has financial instrumetns that are subject to interest rate risk, principally short-term investments. Historically, the Company has not experienced material gains or losses due to such interest rate changes. Based on the current holdings of short-term investments, the interest rate risk is not considered to be material.

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			
	1998	1997	1996	1995
Dividend restrictions	329	331	332	356
Purchase agreements	132	122	98	99
Capital expenditures	82	89	91	93
Employment contracts	36	33	31	37
Additional payments in connection with an acquisition	28	36	21	33
Licensing agreements	20	21	17	20
Sales agreements	14	18	23	13
Other-described	48	48	49	50

Obligations to Maintain Working Capital or Restrict Dividends

ALBERTO-CULVER COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The $200 million revolving credit facility, the term note due September, 2000 and the receivables agreement impose restrictions on such items as total debt, working capital, dividend payments, treasury stock purchases and interest expense. At September 30, 1998, the company was in compliance with these arrangements and $220 million of consolidated retained earnings was not restricted as to the payment of dividends.

BROWN GROUP, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Company's debt agreements contain various covenants which, among other things, require the maintenance of certain financial ratios related to fixed charge coverage and total debt to capital, establish minimum levels of net worth, establish limitations on indebtedness, certain types of payments, including dividends, liens and investments, and limit the use of proceeds of asset sales. The 9.5% Senior Notes, the revolving bank Credit Agreement, and the 7.36% unsecured Senior Notes are guaranteed by certain wholly-owned domestic subsidiaries of the Company. In fiscal 1998, the Company amended its revolving bank Credit Agreement and 7.36% Senior Notes which increased the maximum levels of capital expenditures and extended the revolving bank Credit Agreement by one year.

SPS TECHNOLOGIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Thousands of dollars)

9 (In Part): Long-Term Debt

The Company is subject to a number of restrictive covenants under these various debt agreements. Covenants associated with the Note Purchase Agreement are generally more restrictive than those of the Bank Credit Agreement. Effective April 1, 1998, the Note Purchase Agreement was amended and some modifications were made to the restrictive covenants. The following significant covenants are currently in place under the Note Purchase Agreement: maintenance of a consolidated debt-to-total capitalization (net worth plus total debt) ratio of not more than 50%; maintenance of a minimum consolidated net worth of at least $183,385 as of December 31, 1998; and maintenance of a current ratio of at least 1.75 to 1. Under these covenants, dividends paid by the Company may not exceed $31,447 as of December 31, 1998 plus 50% of consolidated net income (or minus 100% of the consolidated net loss) from January 1, 1999 to the date of the dividend. Certain of the Company's debt agreements contain cross default and cross acceleration provisions. The Company is currently in compliance with all financial covenants. At year end 1998, the Company (as restricted by loan covenants) would have been allowed to borrow an additional $94,607.

Purchase Agreements

ALBERTSON'S, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Business Combinations (In Part)

On August 2, 1998, the Company entered into a definitive merger agreement with American Stores Company (ASC) which was approved by the stockholders of Albertson's and ASC on November 12, 1998. The agreement provides for a business combination between the Company and ASC in which ASC will become a wholly owned subsidiary of the Company. Under the terms of the agreement, the holders of ASC common stock will be issued 0.63 shares of Albertson's, Inc., common stock in exchange for each share of ASC common stock, with cash being paid in lieu of fractional shares, in a transaction intended to qualify as a pooling of interests for accounting purposes and as a tax-free reorganization for federal income tax purposes. Based on the number of common shares outstanding as of Albertson's and ASC's respective 1998 fiscal year ends, consummation of the merger would result in former stockholders of ASC holding approximately 42% of the outstanding Albertson's common stock (assuming no conversion of outstanding options). The transaction is subject to certain regulatory clearance and is expected to close during the latter part of the Company's first fiscal quarter or early in the second fiscal quarter of 1999.

BMC INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

8 (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, 1998, the approximate future purchase commitments under this Supply Agreement were as follows:

1999	$8,000
2000	8,900

THE CLOROX COMPANY (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Debt

In 1998 and 1997, the Company entered into agreements for the issuance of redeemable subsidiary preference shares to private investors. These shares have no voting rights and have a preference as to distributions. Simultaneous with the issuance of the shares, the Company and the private investors entered into a series of agreements that effectively enforce redemption of the shares and provide the private investors with no risk of ownership. The agreements are sterling-denominated and the Company has entered into swap agreements that cover both foreign currency and interest rate exposures. Dividend payments on the preference shares are classified as interest expense. The Company plans to redeem the preference shares issued in 1997 and 1998. The carrying value of these shares at June 30, 1998 was $195,540,000 and $192,000,000, respectively. The Company plans to redeem the preference shares in 1999; accordingly, such amounts have been classified as other short-term debt in 1998.

THE BFGOODRICH COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

C. Pending Merger (Unaudited)

On November 22, 1998, the Company and Coltec Industries, Inc. ("Coltec"), a Pennsylvania company, entered into an Agreement and Plan of Merger ("Merger Agreement"). Under the terms of the Merger Agreement, upon consummation of the Merger, each share of Coltec common stock issued and outstanding immediately prior to the effective time of the Merger shall be converted into the right to receive 0.56 of a share of BFGoodrich common stock. The Merger will be accounted for as a pooling of interests, and as such, future consolidated financial statements will include Coltec's financial data as if Coltec had always been a part of BFGoodrich. The Merger is expected to close in early April of 1999.

The unaudited pro forma combined financial data is presented for informational purposes only. They are not necessarily indicative of the results of operations or of the financial position which would have occurred had the Merger been completed during the periods or as of the date for which the pro forma data are presented. They are also not necessarily indicative of the Company's future results of operations or financial position. In particular, the Company expects to realize significant operating cost savings as a result of the Merger. No adjustment has been included in the pro forma combined financial data for these anticipated operating cost savings nor for the one-time merger and consolidation costs expected to be incurred upon consummation of the Merger.

Pro forma per share amounts for the combined company are based on the Exchange Ratio of 0.56 of a share of BFGoodrich common stock for each share of Coltec common stock.

UNAUDITED SELECTED PRO FORMA COMBINED FINANCIAL DATA

(Dollars in millions, except per share amounts)	Year ended December 31, 1998	1997	1996
Pro Forma Combined Statement of Income Data:			
Sales	$5,454.9	$4,687.9	$4,005.5
Income from continuing operations	350.4	208.1	170.1
Income from continuing operations per diluted common share	3.08	1.86	1.57
Weighted average number of common shares and assumed conversions (on a fully diluted basis) (millions)	113.9	112.1	109.8

	December 31, 1998
Pro Forma Combined Balance Sheet Data:	
Total assets	$5,293.5
Total shareholders' equity	1,299.3
Book value per common share	11.84

MONSANTO COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Principal Acquisitions and Divestitures (In Part)

In 1998, Monsanto announced that it had entered into a definitive agreement with Delta and Pine Land Company (D&PL) to merge it with Monsanto. Under terms of the agreement, D&PL shareowners would be entitled to receive 0.8625 shares of Monsanto's common stock in exchange for each share of D&PL they hold. Approximately 33 million shares of Monsanto common stock would be issued to D&PL shareowners. Based on Monsanto's closing stock price of $53½ per common share on May 8, 1998, the date of the merger agreement, this would result in a purchase price of approximately $1.8 billion. The merger, already approved by D&PL shareowners, is subject to regulatory approvals and other customary conditions. This transaction would be accounted for as a purchase.

RAYCHEM CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Part): Commitments

In June 1998, the Company signed a letter of intent to acquire the telecommunications business of a company in Spain for approximately $40 million in cash. The acquisition is expected to be completed in the first half of fiscal 1999 and will be accounted for using the purchase method.

REYNOLDS METALS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Contingent Liabilities and Commitments

Unconditional Purchase Obligations: The Company has committed to pay its proportionate share of annual primary aluminum production charges (including debt service) relating to its interest in an unincorporated joint venture. This arrangement includes a minimum commitment of $37 million in 1999. The present value of this commitment at December 31, 1998 was $36 million, after excluding interest of $1 million. The Company purchased approximately $90 million of primary aluminum in each of the last three years under this arrangement.

SAFEWAY INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B (In Part): Acquisitions

In August 1998, Safeway and Carrs signed a definitive merger agreement in which Safeway will acquire all of the outstanding shares of Carrs for $12.50 cash per share, or a total of approximately $110 million. In addition, Carrs has approximately $220 million of debt. The acquisition will be accounted for as a purchase and will be funded initially through the issuance of commercial paper.

The acquisition of Carrs is subject to a number of conditions, including the approval of the holders of a majority of Carrs' outstanding shares, court approval of a consent decree with the state of Alaska requiring the sale of six Safeway stores and one Carrs store, and other customary closing conditions. Carrs expects to schedule a shareholder meeting to vote on the transaction in April 1999. Assuming satisfaction of all conditions, Safeway and Carrs expect to close the transaction shortly after receiving shareholder approval and final court approval of the consent decree.

THE SCOTTS COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Commitments

The Company has entered into the following purchase commitments:

Seed: The Company is obligated to make future purchases based on estimated yields. At September 30, 1998, estimated annual seed purchase commitments were as follows:

(in millions)	
1999	$15.0
2000	18.3
2001	7.2
2002	1.8
2003	1.1

Urea: The Company is obligated to purchase 90,000 tons of urea annually. The value to the Company based on current market prices of urea is approximately $13.0 million. The purchase contract expires December 31, 2000.

Glufosinate Ammonium: The Company is obligated to purchase product valued at $12.6 million through September 2001. If the Company does not purchase product with a value of $12.6 million, the Company is required to provide cash settlement in an amount equal to 50% of the shortfall.

Peat: The Company is obligated to purchase 470,000 cubic meters annually (approximately $6.8 million based on average prices) for ten years. The contract can be extended another ten years at the Company's option. No penalties are applicable to the first year of the contract; however, if the Company does not purchase required amounts after year one, the Company will be required to provide cash settlement equal to 50% of the quantity shortfall multiplied by the average product price.

SERVICE CORPORATION INTERNATIONAL (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

11 (In Part): Commitments

Effective January 1, 1999, the Company has a minimum purchase agreement with a major casket manufacturer for its North American operations. The agreement contains provisions to increase the minimum annual purchases for normal price increases and for the maintenance of product quality. In addition, the contract provides for a one-year extension period in which the Company is required to purchase any remaining commitment that exists at the end of the original term. The agreement contains a total purchase commitment of $750,000 over the next six years (1999-$90,000; 2000-$105,000; 2001-$115,000; 2002-$130,000; 2003-$145,000; 2004-$165,000).

Capital Expenditures

R.R. DONNELLEY & SONS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Part): Commitments and Contingencies

As of December 31, 1998, authorized expenditures on incomplete projects for the purchase of property, plant and equipment totaled $233 million. Of this total, $93 million has been contractually committed. The Company has a variety of commitments with suppliers for the purchase of paper, ink and other materials for delivery in future years at prevailing market prices.

ETHYL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

14 (In Part): Contractual Commitments & Contingencies

Contractual obligations for plant construction and purchases of real property and equipment amounted to approximately $1,500,000 at December 31, 1998.

FEDERAL SCREW WORKS (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Leases and Other Commitments

Costs to complete the expansion of plant facilities and the purchase of machinery and equipment approximated $660,000 at June 30, 1998.

Subsequent to June 30, 1998, the Company entered into a $1.4 million contract for the construction of a new manufacturing plant.

MURPHY OIL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

M. Commitments

The Company leases land, service stations and other facilities under operating leases. Future minimum rental commitments under noncancellable operating leases are not material. Commitments for capital expenditures were approximately $209,000,000 at December 31, 1998, including $90,000,000 related to one third of a multiyear contract for a semisubmersible drilling rig capable of drilling in 6,000 feet of water. Delivery of the rig is scheduled for 1999.

Employment Contracts

ARDEN GROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Commitments and Contingent Liabilities

The Company has an employment agreement with a key executive officer which expires on January 1, 2004. In addition to a base salary, the agreement provides for a bonus based on pre-tax earnings. No maximum compensation limit exists. The compensation expensed in 1998, 1997 and 1996 was approximately $1,122,000, $1,020,000 and $673,000, respectively.

GARAN, INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Employment Agreements

The Company maintains employment agreements with four directors, three of whom are also officers of the Company. The employment agreements contain change in control provisions that would entitle each of the four directors to receive up to 2.99 times his five year average annual compensation plus continuation of certain benefits if there is a change in control in the Company (as defined) and his employment terminates. The maximum contingent liability under these agreements in such event is approximately $9,134,000. The employment agreements also provide for severance benefits, disability and death benefits and, as to one officer-director, consulting services under certain circumstances.

LANCE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Commitments and Contingencies

The Company has entered into contractual agreements providing severance benefits to certain key employees in the event of a potential change of Company ownership. Commitments under these agreements totaled $8,554,000 at December 26, 1998.

EQUIFAX INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Commitments and Contingencies

Change in Control Agreements: The Company has agreements with eleven of its officers which provide certain severance pay and benefits in the event of a termination of the officer's employment under certain circumstances following a "change in control" of the Company. "Change in control" is defined as the accumulation by any person, entity or group of 20% or more of the combined voting power of the Company's voting stock or the occurrence of certain other specified events. In the event of a "change in control," the Company's performance share and restricted stock plans provide that all shares designated for future distribution will become fully vested and payable, subject to the achievement of certain levels of growth in earnings per share and certain other criteria. At December 31, 1998, the maximum contingent liability under the agreements and plans was approximately $23,645,000.

Additional Payments Related to Acquisitions

AMERICA ONLINE, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Business Combinations

Acquisition of Mirabilis, Ltd.: In June 1998, the Company purchased the assets, including the developmental ICQ instant communications and chat technology, and assumed certain liabilities of Mirabilis Ltd. ("Mirabilis") for $287 million in cash. Mirabilis was a development stage enterprise that had generated no revenues. In addition, contingent purchase payments, based on future performance levels, of up to $120 million may be made over three years beginning in the Company's fiscal year 2001. Prior to finalizing the accounting for this acquisition, the Company consulted with the Securities and Exchange Commission ("SEC"). The Company has concluded these discussions and believes that the accounting for this acquisition is in accordance with the SEC's position. The acquisition was accounted for under the purchase method of accounting and, accordingly, the results of operations are included in the financial statements as of the date of acquisition, and the assets and liabilities were recorded based upon their fair values at the date of acquisition.

JONES APPAREL GROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisition of Sun Apparel

On October 2, 1998, the Company acquired Sun Apparel, Inc. ("Sun"), a designer, manufacturer and distributor of jeanswear, sportswear and related apparel for men, women and children. Sun markets its products under various licensed private label and owned brands, the most prominent of which is the Polo Jeans Company licensed from Polo Ralph Lauren. The purchase price was $215.7 million (subject to additional contingent purchase price adjustments as described below), with payments through December 31, 1998 amounting to $127.5 million in cash and 4.4 million shares of common stock, valued for financial reporting purposes at $18.00 per share as of September 10, 1998, the date the definitive Acquisition and Merger Agreement was signed. The Company also assumed Sun debt of $241.5 million (including accrued interest and prepayment penalties), of which $237.8 million was refinanced in conjunction with the closing of the transaction.

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The terms of the Acquisition and Merger Agreement provide for additional consideration of $2.00 to be paid for each $1.00 that Sun's earnings before interest and taxes (as defined in the merger agreement) for each of the years 1998 through 2001 exceed certain targeted levels. Such additional consideration will be paid 59% in cash and 41% in the Company's common stock, the value of which will be determined by the prices at which the common stock trades in a defined period preceding delivery in each year. Any additional consideration paid will be recorded as goodwill when payment is made.

LEGGETT & PLATT, INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in millions)

C (In Part): Acquisitions

The terms of certain of the Company's acquisition agreements provide for additional consideration to be paid if the acquired Company's results of operations exceed certain targeted levels. Such additional consideration may be paid in cash or shares of the Company's common stock, and is recorded when earned as additional purchase price. The maximum amount of additional consideration remaining at December 31, 1998 is approximately $50 and will be payable, if earned, through 2002.

Licensing Agreements

GATEWAY 2000, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

3 (In Part): Commitments

The Company has entered into licensing and royalty agreements which allow it to use certain hardware and software intellectual properties in its products. Minimum royalty payments due under these agreements for the period 1999 through 2002 total approximately $350,000,000. Total royalty expense is expected to be greater than this minimum amount for these periods.

Sale Agreements

HERSHEY FOODS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisition and Divestitures

In December 1998, the Corporation announced that it had signed a definitive agreement providing for the sale of a 94% majority interest of its U.S. pasta business to New World Pasta, LLC. The transaction was completed in January 1999, and included the *American Beauty, Ideal by San Giorgio, Light 'n Fluffy, Mrs. Weiss, P&R, Ronzoni, San Giorgio* and *Skinner* pasta brands, along with six manufacturing plants. In the first quarter of 1999, the Corporation received cash proceeds of $450.0 million, retained a 6% minority interest and recorded an after-tax gain of approximately $165.0 million or $1.13 per share—diluted as a result of the transaction. Net sales for the pasta business were $373.1 million, $386.2 million and $407.4 million for 1998, 1997 and 1996, respectively. Net income for the pasta business was $25.9 million, $25.2 million and $18.7 million for 1998, 1997 and 1996, respectively.

OCCIDENTAL PETROLEUM CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Advance Sale of Crude Oil and Natural Gas Delivery Commitment

In December 1995, Occidental entered into a transaction with Clark USA, Inc. (Clark) under which Occidental agreed to deliver approximately 17.7 million barrels of West Texas Intermediate (WTI)-equivalent oil over a six-year period. In exchange, Occidental received $100 million in cash and approximately 5.5 million shares of Clark common stock. Occidental has accounted for the consideration received in the transaction as deferred revenue, which is being amortized into revenue as WTI-equivalent oil is produced and delivered during the term of the agreement. Reserves dedicated to the transaction are excluded from the estimate of proved oil and gas reserves (see Supplemental Oil and Gas Information). At December 31, 1998, 8.8 million barrels remain to be delivered.

In November 1998, Occidental entered into a natural gas delivery commitment for proceeds of $500 million which obligates Occidental to deliver 263 billion cubic feet of natural gas over a four-year period beginning in 2000. The imputed interest rate in the transaction is approximately 6 percent. In connection with this transaction, Occidental simultaneously entered into a natural gas price swap based on identical volumes of natural gas and a delivery schedule that corresponds to the natural gas delivery commitment. Under the terms of the swap, Occidental will pay an average fixed price of $2.27 per thousand cubic feet of gas and will receive a floating price that will approximate market which mitigates Occidental's price exposure. Occidental has the ability to satisfy the delivery commitment with open market purchases and has not reduced its natural gas reserves for the commitment. At December 31, 1998, the future minimum delivery commitment under the contract expressed in dollars and in volumes is as follows (dollars in millions, volumes in billions of cubic feet):

	Value	Volumes
2000	$150	66
2001	150	66
2002	150	66
2003	147	65
Total	597	263
Less:		
Imputed interest	(94)	
Current portion	—	
Present value of natural gas delivery commitment, net of current portion	$503	

Credit Card Rebates

GENERAL MOTORS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Commitments and Contingent Matters

GM sponsors a credit card program, entitled the GM Card program, that offers rebates that can be applied against the purchase or lease of GM vehicles. The amount of rebates available to qualified cardholders at December 31, 1998 and 1997 was $3.7 billion and $3.5 billion, respectively. Provisions for GM Card rebates are recorded as reductions in revenues at the time of vehicle sale.

Funding Of Foundation

MEDTRONIC, INC. (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars)

12 (In Part): Commitments and Contingencies

The Medtronic Foundation (Foundation), funded entirely by the Company, was established to maintain good corporate citizenship in its communities. During fiscal 1997, the Company donated equity securities with a fair value of $13,400 to fund commitments to the Foundation. In fiscal 1998, the Company made a commitment to contribute $36,000. This commitment is expected to fund the Foundation through the end of fiscal 2001. In April 1998, the Company funded the initial portion of this commitment through the donation of equity securities with a fair value of $10,500. Commitments to the Foundation are expensed when authorized and approved by the Company's Board of Directors.

Joint Venture Formation

OCCIDENTAL PETROLEUM CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Business Combinations, Asset Acquisitions and Dispositions, and Discontinued Operations

To further strengthen its polyvinyl chloride (PVC) and vinyl chloride (VCM) position, Occidental, in December 1998, signed a definitive agreement with Geon providing, among other things, for the formation of two partnerships. Occidental will have a 76 percent controlling interest in a

PVC partnership which is the larger of the partnerships and a 10 percent interest in a compound partnership. Its interest represents an increase in its chlorovinyls capacity compared to its existing contributed PVC/VCM assets. The PVC partnership will also enter into long-term agreements to supply PVC and VCM to Geon's compounding operations. The transaction is expected to close in the second quarter of 1999, following satisfaction of closing conditions, including approval from Occidental's Board of Directors and Geon shareholders. Occidental does not expect to record a gain or loss on the transaction.

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, 2000, 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			
	1998	1997	1996	1995
Foreign currency contracts	279	289	285	294
Interest rate contracts	244	231	225	231
Commodity contracts	77	72	81	74
Guarantees:				
Debt	88	101	104	112
Lease payments	29	28	27	36
Contract performance	24	24	21	18
Support agreements	17	13	13	13
Other	22	25	34	23
Letters of credit	165	177	183	170
Sale of receivables with recourse	28	33	61	78

DERIVATIVE FINANCIAL INSTRUMENTS

ALLIANT TECHSYSTEMS INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Basis of Presentation and Significant Accounting Policies

Financial Instruments and Hedging: The Company uses interest rate swap and forward rate lock agreements to manage interest costs and the risk associated with changing interest rates. As interest rates change, the differential paid or received is recognized in interest expense of the period.

7 (In Part): Long-Term Debt

During fiscal 1998, the Company entered into treasury rate-lock agreements to hedge against increases in market interest rates on the anticipated refinancing of its senior subordinated notes, which are callable on March 1, 1999. These agreements provide rate locks between 6.04 and 6.25 percent on the most recently issued U.S. 10-year treasury note through March 1, 1999, on a notional amount totaling $100 million. The Company's actual refinancing rate will depend on its credit rating and respective borrowing margin over the treasury rate at that time. The fair market value of the treasury rate-lock agreements at March 31, 1998, is $(3.1) million.

In January, 1998, the Company entered into a swap agreement relating to $50 million face amount (approximately $48.7 million of accreted value) of its 11.75 percent senior subordinated notes. The agreement locks in the price at which the Company can pre-pay $50 million of its senior subordinated notes, which the Company currently anticipates doing in March 1999. The agreement provides for the Company to receive 11.75 percent interest on a notional amount of $50 million and to pay interest at one month LIBOR plus 1 percent (approximately 6.7 percent at March 31, 1998) on a notional amount of $55 million. Additionally, the agreement provides that during the term of the swap, which expires in February 1999, any increases (decreases) in the market value of the notes will be received (paid), respectively, by the Company. The Company has provided a cash deposit of $2.4 million to the financial intermediary to collateralize the swap agreement. The fair market value of the swap agreement at March 31, 1998, is $1.3 million. The Company simultaneously entered into an additional swap agreement to hedge against increases in the one-month LIBOR interest rate relating to the above swap. Under the agreement, the Company pays a fixed rate of 5.54 percent, and receives interest at a rate of one-month LIBOR (approximately 5.7 percent at March 31, 1998) on a notional amount of $55 million. The fair market value of the additional swap agreement at March 31, 1998, is $.1 million. Both swap agreements expire February 1, 1999, and have certain cancellation options.

Counter parties to the interest rate swap and rate lock agreements are major financial institutions who also participate in the Company's bank credit facilities. Credit loss from counterparty non-performance is not anticipated. The estimated fair market value amounts have been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value; therefore, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. The effect of using different market assumptions and/or estimation methodologies may be material to the estimated fair value amounts.

CABOT CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Financial Instruments: Derivative financial instruments are used by the Company to manage its interest rate and foreign currency exposures, and to a lesser extent, commodity prices. Interest rate swaps are employed to achieve the Company's interest rate objectives. The interest differential to be paid or received under the related interest rate swap agreements is recognized over the life of the related debt and is included in interest expense or income. Realized gains and losses on foreign currency instruments, that are effective as hedges of net cash flows in foreign operations, are recognized in income as the instruments mature. Realized and unrealized gains and losses on forward currency contracts, that are effective as hedges of assets and liabilities, are recognized in income. Realized gains and losses on foreign currency instruments, that are hedges of committed transactions, are recognized at the time the underlying transaction is completed. Commodity futures and forward contracts are used by the Company, on occasion, to hedge the procurement of raw materials, primarily feedstock, and to hedge the sale of liquefied natural gas. Realized gains and losses on commodity futures and forward contracts on qualifying hedges are included as a component of raw materials or sales revenues, as appropriate, and are recognized when the related materials are purchased or sold. (Note O)

O (In Part): Risk Management

Cabot Corporation is a global company divided into two distinct segments, the Specialty Chemicals and Materials Group and Energy Group. Cabot manufactures, markets, and distributes specialty chemicals and materials through seven businesses: carbon black, fumed silica, plastics, performance materials (principally tantalum), microelectronics materials, inkjet colorants and specialty fluids. These products span several markets including automotive, electronics, transportation, aerospace, defense, pharmaceuticals, silicone rubber, packaging, agriculture, construction, inkjet printing and oil and gas drilling services. In addition, the Company's Energy Group operates a liquefied natural gas importing, storing and distribution company serving markets which include gas and electric utilities and independent power producers. In total, Cabot operates 45 plants in 23 countries.

Market Risk: The Company uses derivative financial instruments primarily to reduce exposure to fluctuations in interest rates and foreign exchange rates, and to a lesser extent, to reduce exposure to fluctuations in commodity prices and other market risks. When entered into, these financial instruments are generally designated as hedges of underlying exposures associated with specific assets, liabilities or firm commitments, and are monitored to determine if they remain effective hedges. The notional amounts of derivatives do not represent actual amounts exchanged by the parties and thus, are not a measure of the exposure of the Company through its use of derivatives. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates, exchange rates, or other financial indices.

The Company is exposed to credit loss in the event of non-performance by counterparties to the swap agreements. However, the Company has established strict counter-party credit guidelines and only enters into transactions with financial institutions of investment grade or better. The Company considers the risk of counter-party default to be minimal.

Because of the correlation between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the instruments are generally offset by changes in the value of the underlying exposures.

Interest Rate: The Company maintains a percentage of fixed and variable rate debt within defined parameters. The Company uses interest rate swaps to hedge its exposure on fixed and variable rate debt positions. Variable rates are predominantly linked to the London Interbank Offered Rate ("LIBOR") as determined at either three or six month intervals. The interest rate provided by the swap on variable rate debt is 7.4%.

At September 30, 1998 and 1997, the notional principal amounts of the interest rate swap agreements were $150.0 million, expiring in 2004 and 2007. The notional amount is the amount used for the calculation of interest payments which are exchanged over the life of the swap transaction and equal to the amount of principal exchanged at maturity. For 1998, 1997 and 1996, the gains or losses in interest income or expense associated with these agreements were immaterial. The fair value of the swaps were $(17.7) million and $(6.3) million as of September 30, 1998 and 1997, respectively.

Foreign Currency: The Company's international operations are subject to certain opportunities and risks, including currency fluctuations and government actions. The Company closely monitors its operations in each country so that it can respond to changing economic and political environments and to fluctuations in foreign currencies. Accordingly, the Company utilizes foreign currency option contracts and forward contracts to hedge its exposure on anticipated transactions and firm commitments, primarily for receivables and payables denominated in currencies other than the entities' functional currencies. The Company also monitors its foreign exchange exposures to ensure the overall effectiveness of its foreign currency hedge positions. Foreign currency instruments generally have maturities that do not exceed twelve months.

The Company has foreign currency instruments, primarily denominated in the German deutschemark, Japanese yen, British pound sterling, Swedish krona, Canadian dollar, and Australian dollar. At September 30, 1998 and 1997, the Company had $20.0 million and $63.4 million in foreign currency instruments outstanding, respectively. For 1998, 1997 and 1996, the net realized gains or (losses) associated with these types of instruments were $1.6 million, $4.6 million and $(0.5) million, respectively. The net unrealized gain as of September 30, 1998 and net unrealized loss as of September 30, 1997, based on the fair market value of the instruments, were not material to each respective period.

Commodities: The Company has price risk exposure, due to changes, in its natural gas sales revenue and supply costs. The Company has entered into commodity futures contracts and commodity price swaps to hedge its gross margin exposure. The Company utilizes commodity futures contracts and commodity price swaps for hedging firmly committed sales transactions and monitors its exposure daily to ensure overall effectiveness of its hedge positions.

At September 30, 1998, the notional principal amounts of the futures contracts were $6.3 million, maturing through February, 1999. As the contracts were executed on September 30, 1998, no gain or loss, realized or unrealized, has been recorded. The Company committed to a commodity price swap at September 30, 1997 for natural gas volumes during the winter season with a notional principal amount of $2.3 million, maturing through February, 1998. For 1998, the realized gain associated with this swap was $0.4 million.

EASTMAN KODAK COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Foreign Currency: For most subsidiaries and branches outside the U.S., the local currency is the functional currency and translation adjustments are accumulated in a separate component of shareholders' equity. Translation adjustments are not tax-effected since they relate to investments which are permanent in nature.

For subsidiaries and branches that operate in U.S. dollars or whose economic environment is highly inflationary, the U.S. dollar is the functional currency and gains and losses that result from translation are included in earnings. The effect from foreign currency translation was a gain of $6 million in 1998, a loss of $7 million in 1997 and a loss of $4 million in 1996.

The Company hedges certain foreign currency transactions and firm commitments by entering into forward exchange contracts. Gains and losses associated with currency rate changes on forward contracts hedging foreign currency transactions are recorded currently in earnings. The effects from foreign currency transactions, including related hedging activities, were losses of $26 million in 1998, $66 million in 1997, and $37 million in 1996. Gains and losses related to hedges of firm commitments are deferred and recognized in earnings or as adjustments of carrying amounts when the transactions occur.

9. Financial Instruments

The following table presents the carrying amounts and the estimated fair values of financial instruments at December 31, 1998 and 1997; ( ) denotes liabilities:

(in millions)	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Marketable securities:				
Current	$ 43	$ 43	$ 24	$ 24
Long-term	89	89	26	26
Other investments	23	25	49	48
Long-term borrowings	(504)	(540)	(585)	(627)
Foreign currency forwards	9	9	12	(1)
Silver options	—	—	1	17
Silver forwards	—	7	—	15

Marketable securities and other investments are valued at quoted market prices, except for $3 million and $25 million of equity investments included in other investments at December 31, 1998 and 1997, respectively, which are reflected at their carrying value because quoted market prices do not exist. The fair values of long-term borrowings were determined by reference to quoted market prices or by obtaining quotes from dealers. The fair values for the remaining financial instruments in the above table are based on dealer quotes and reflect the estimated amounts the Company would pay or receive to terminate the contracts. The carrying values of cash and cash equivalents, receivables, short-term borrowings and payables approximate their fair values.

The Company, as a result of its global operating and financing activities, is exposed to changes in foreign currency exchange rates, commodity prices, and interest rates which may adversely affect its results of operations and financial position. In seeking to minimize the risks and/or costs associated with such activities, the Company manages exposures to changes in commodity prices, interest rates and foreign currency exchange rates.

Foreign currency forward contracts are used to hedge certain firm commitments and the currency risk inherent in the deposit-taking and lending activities of the Company's International Treasury Center. Option and forward contracts are used to mitigate the Company's risk to fluctuating commodity prices. The Company's exposure to changes in interest rates results from its investing and borrowing activities used to meet its liquidity needs. Long-term debt is generally used to finance long-term investments, while short-term debt is used to meet working capital requirements. Derivative instruments are not presently used to adjust the Company's interest rate risk profile. The Company does not utilize financial instruments for trading or other speculative purposes, nor does it utilize leveraged financial instruments.

The table below summarizes by major currency the notional amounts of foreign currency forward contracts in U.S. dollars. The counter-currency for the majority of the contracts is the U.S. dollar, although some contracts are cross-currency with one foreign currency traded for another. Foreign currency amounts are translated at rates current at the reporting date. The "buy" amounts represent the U.S. dollar equivalent of commitments to purchase foreign currencies, and the "sell" amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies. Substantially all of the Company's foreign currency forward agreements will mature during 1999. The market risk related to foreign currency forward contracts is substantially offset by changes in the valuation and cash flows of the underlying positions hedged.

(in millions)	1998		1997	
	Buy	Sell	Buy	Sell
Australian dollar	$ —	$ 65	$ —	$ 69
British pound	—	385	—	477
French franc	288	—	105	—
German mark	79	—	54	—
Irish punt	—	83	—	84
Spanish peseta	—	31	—	36
Others	65	31	75	121
Total	$432	$595	$234	$787

The Company has used silver option and forward contracts to minimize almost all of its exposure to increases in silver prices in 1998 and will continue to do so in 1999. As of December 31, 1998, the Company had open forward contracts hedging the majority of its planned silver requirements for 1999. Silver forwards outstanding at December 31, 1998 have notional amounts of $241 million. All silver hedging contracts are settled in cash. Gains and losses related to silver hedges are recorded as adjustments to the carrying amount of silver inventory when purchased, and recognized in results of operations as silver-containing products are sold. The market risk related to silver options and forward contracts is substantially offset by changes in the cost of silver purchased.

The Company's financial instrument counterparties are high quality investment or commercial banks with significant experience with such instruments. The Company manages exposure to counterparty credit risk through specific minimum credit standards and diversification of counterparties. The Company has procedures to monitor the credit exposure amounts. The maximum credit exposure at December 31, 1998 was not significant to the Company.

FORTUNE BRANDS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Derivative Financial Instruments: Derivative financial instruments are utilized by the Company to reduce foreign currency exchange and interest rate risks. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not enter into financial instruments for trading or speculative purposes.

Gains and losses on forward foreign exchange contracts used to hedge the currency fluctuations on transactions denominated in foreign currencies and the offsetting losses and gains on hedged transactions are recorded in the "Other (income) expenses, net" caption in the income statement.

Gains and losses on forward foreign exchange contracts used to hedge a portion of the Company's investment in foreign subsidiaries and the offsetting losses and gains on the portion of the investment being hedged are recorded in the "Accumulated other comprehensive income" caption in stockholders' equity.

Payments or receipts on interest rate swap agreements are recorded in the "Interest and related expenses" caption in the income statement.

13 (In Part): Financial Instruments

The Company does not enter into financial instruments for trading or speculative purposes. Financial instruments are used to reduce the impact of changes in foreign currency exchange rates and interest rates. The principal financial instruments used are forward foreign exchange contracts and interest rate swaps. The counterparties are major financial institutions. Although the Company's theoretical risk is the replacement cost at the then estimated fair value of these instruments, management believes that the risk of incurring losses is remote and that such losses, if any, would be immaterial.

The Company enters into forward foreign exchange contracts principally to hedge currency fluctuations in transactions denominated in foreign currencies, thereby limiting the Company's risk that would otherwise result from changes in exchange rates. The periods of the forward foreign exchange contracts correspond to the periods of the hedged transactions. The Company periodically enters into forward foreign exchange contracts to hedge a portion of its net investments in U.K. operating companies.

At December 31, 1998, the Company had outstanding forward foreign exchange contracts to purchase $35 million and sell $201 million of various foreign currencies (principally pound sterling), with maturities ranging from January 4, 1999 to January 28, 2000, with a weighted average maturity of 110 days. At December 31, 1997, the Company also had outstanding forward foreign exchange contracts to purchase $72 million and sell $164 million of various foreign currencies (principally pound sterling), with maturities ranging from January 5, 1998 to November 30, 1998, 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, 1998 and 1997, the difference between the contract amounts and fair values was immaterial.

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.

At December 31, 1998 and 1997, the Company had outstanding interest rate swap agreements denominated in dollars, maturing at various dates in 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, or a weighted average rate of 5.2% and 5.8% at December 31, 1998 and 1997, respectively, and pays weighted average fixed interest rates of 7.8% at December 31, 1998 and 1997.

The fair value of these interest rate swap agreements represents the estimated receipts or payments that would be made to terminate the agreements. At December 31, 1998 and 1997, the Company would have paid $4.2 million and $6.6 million, respectively, to terminate the agreements.

The fair value is based on dealer quotes, considering current interest rates.

ITT INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

1 (In Part): Accounting Policies

Derivative Financial Instruments: The Company has used a variety of derivative financial instruments, including interest rate swaps and foreign currency forward contracts and/or swaps as a means of hedging exposure to interest rate and foreign currency risks. The Company and its subsidiaries are end-users and do not utilize these instruments for speculative purposes. The Company has rigorous standards regarding the financial stability and credit standing of its major counterparties.

Interest rate swaps involve the periodic exchange of payments without the exchange of underlying principal or notional amounts. Net payments are recognized as an adjustment to interest. Should the swap be terminated, unrealized gains or losses are deferred and amortized over the shorter of the remaining original term of the hedging instrument or the remaining life of the underlying debt instrument.

16. Financial Instruments

The Company uses a variety of derivative financial instruments, including interest rate swaps, foreign currency forward contracts and/or swaps, and on a limited basis, commodity collar contracts, as a means of hedging exposure to interest rates, foreign currency, and commodity price risks.

The Company's credit risk associated with these derivative contracts is generally limited to the unrealized gain on those contracts with a positive fair market value, reduced by the effects of master netting agreements, should any counterparty fail to perform as contracted. The counterparties to the Company's derivative contracts consist of a number of major international financial institutions. The Company continually monitors the credit quality of these financial institutions and does not expect non-performance by any counterparty.

Financing Strategies and Interest Rate Risk Management: The Company maintains a global debt portfolio to fund its operations. The Company and its subsidiaries at times use interest rate and cross currency interest rate swaps to manage the Company's debt portfolio, the related financing costs, and interest rate structure.

At December 31, 1998 and 1997, the Company had interest rate swaps outstanding with notional values totaling DM 150 million. These swaps were designed to manage the interest exposure of the Company's short-term debt. During 1997, the Company effectively terminated interest rate swaps with notional values totaling DM 260 million and original maturities ranging from 1998 to 2000 by entering into offsetting swaps with identical terms and maturities. These swaps and related counterswaps were accounted for at fair market value at the time of termination. Related gains and losses were recorded in income because such swaps no longer were deemed effective as hedges of the Company's underlying Deutsche Mark debt. The outstanding DM 150 million interest rate swap agreements maturing in the year 2000 require the Company to pay interest at fixed rates averaging 6.96% and receive interest at floating rates based on the Frankfurt Interbank Offered Rate which averaged 3.25% on December 31, 1998.

At December 31, 1997, the Company held cross currency interest rate swap agreements, with notional values totaling approximately $212. These swaps were terminated on August 17, 1998.

Foreign Currency Risk Management: The Company and its subsidiaries have significant foreign operations and conduct business in various foreign currencies. The Company and its subsidiaries may periodically hedge transactions in currencies other than their own functional currency and non-functional currency cash flows and obligations, including intercompany financings. Changes in the spot rate of debt instruments designated as hedges of the net investment in a foreign subsidiary are reflected in the cumulative translation adjustment component of shareholders' equity. The Company regularly monitors its foreign currency exposures and ensures that hedge contract amounts do not exceed the amounts of the underlying exposures.

At December 31, 1998, the Company held foreign currency forward and swap contracts with notional amounts totaling approximately $460 to hedge foreign currency exposures. The Company's most significant foreign currency exposures are in the Deutsche Mark, Belgian Franc, and Swedish Krona. The majority of these contracts mature as of March 31, 1999.

Commodity Price Risk Management: The Company has utilized commodity derivatives, on a limited basis, to hedge its anticipated purchases of non-ferrous metals used in the production of certain pump products. As of December 31, 1997, the Company held two zero cost collars with a total notional amount of $3.5, with a weighted average ceiling of $2,500 (in whole dollars) per metric ton and with a weighted average floor of $2,034 (in whole dollars) per metric ton. These contracts matured in 1998. At December 31, 1998, the Company did not have any commodity derivatives.

Fair Value of Derivative Financial Instruments: The fair values of the Company's derivative financial instruments are as follows:

	Dec. 31, 1998		Dec. 31, 1997	
(Payable)/Receivable	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Interest rate swaps	$(3.7)	$(8.5)	$ (6.1)	$ (11.5)
Cross currency interest rate swaps	$ —	$ —	$38.7	$ 44.1
Currency forwards/ swaps	$(1.9)	$(2.1)	$ 4.8	$ (0.3)
Commodity collars	$ —	$ –	$ —	$ (0.3)

The following method and assumptions were used to estimate the fair value of these derivative financial instruments:

Currency and Commodity Contracts and Interest Rate Swap Agreements: The fair value of commodity contracts and currency and interest rate swap agreements is estimated based on quotes from the market makers of these instruments and represents the estimated amounts that the Company would expect to receive or pay to terminate the agreements at the reporting date.

Foreign Currency Exchange Contracts: The fair values associated with the foreign currency contracts has been estimated by valuing the net position of the contracts using the applicable spot rates and forward rates as of the reporting date.

PACCAR INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Currencies in millions)

A (In Part): Summary of Accounting Policies

Derivative Financial Instruments: The Company does not engage in derivatives trading, market-making or other speculative activities. The Company enters into agreements to manage certain exposures to fluctuations in interest rates and foreign exchange. It uses interest-rate contracts to match the interest rate characteristics of the Company's finance receivables with the borrowings used to fund those receivables. Interest-rate contracts generally involve the exchange of fixed and floating rate interest payments without the exchange of the underlying principal. Net amounts paid or received are reflected as adjustments to interest expense.

To mitigate the effect of changes in currency exchange rates, PACCAR regularly enters into currency exchange contracts to hedge its net foreign currency exposure. Gains and losses on these contracts are deferred and included in the measurement of the related foreign currency transaction when completed.

PACCAR has currency exchange exposure for the U.S. dollar compared to the Canadian dollar. With respect to Europe, PACCAR has currency exposure for the Dutch guilder compared to the British pound. When the U.S. dollar or the Dutch guilder strengthens relative to the Canadian dollar or the British pound, the translated value of sales in the other currencies decreases. When the U.S. dollar or the Dutch guilder weakens, the translated value of sales in the other currencies increases. Overall, PACCAR is a net receiver of Canadian dollars and British pounds and benefits from a weaker U.S. dollar or Dutch guilder.

L. Derivative Financial Instruments

Interest-Rate Contracts: The Company enters into various interest-rate contracts, including interest-rate and currency swap, cap and forward-rate agreements. These contracts are used to manage exposures to fluctuations in interest rates. At December 31, 1998, the Company had 138 interest-rate contracts outstanding with other financial institutions. The notional amount of these contracts totaled $1,246, with amounts expiring annually over the next five years. The notional amount is used to measure the volume of these contracts and does not represent exposure to credit loss. In the event of default by a counterparty, the risk in these transactions is the cost of replacing the interest-rate contract at current market rates. The Company monitors its positions and the credit ratings of its counterparties. Management believes the risk of incurring losses is remote, and that if incurred, such losses would be immaterial.

Floating to fixed rate swaps effectively convert an equivalent amount of commercial paper and other variable rate debt to fixed rates. Notional maturities for the five years beginning January 1, 1999, are $604.0, $408.8, $151.5, $64.3, $12.9 and $4.0 thereafter. The weighted average pay rate of 5.7% approximates the Company's net cost of funds. The weighted average receive rate of 5.4% offsets rates on associated debt obligations.

Foreign Currency Exchange Contracts: PACCAR enters into foreign currency exchange contracts to hedge certain firm commitments denominated in foreign currencies. As a matter of policy, the Company does not engage in currency speculation. Foreign exchange contracts generally mature within six months. At December 31, 1998 and 1997, PACCAR had net foreign exchange purchase contracts outstanding amounting to $188 and $143 U.S. dollars, respectively. Approximately 90% of the 1998 amount represented contracts related to the U.S. and Canadian dollars. The remaining balance in 1998 represented contracts related to Dutch guilders and the British pound.

Q (In Part): Fair Values of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments are as follows:

1998	Carrying amount	Fair value
Truck and other:		
Cash and equivalents	$ 410.3	$ 410.3
Marketable securities	404.8	404.8
Long-term debt	243.1	247.5
Financial services:		
Cash and equivalents	22.1	22.1
Net receivables	2,694.5	2,697.4
Commercial paper and bank loans	1,617.8	1,617.8
Long-term debt	1,106.9	1,120.8

The Company's off-balance-sheet financial instruments consisted of interest-rate agreements and foreign currency exchange contracts. The interest-rate agreements represented an additional liability of $7.4, and the foreign currency exchange contracts represented an additional liability of $.1 if recorded at fair value at December 31, 1998.

1997	Carrying amount	Fair value
Truck and other:		
Cash and equivalents	$ 318.6	$ 318.6
Marketable securities	357.0	357.0
Long-term debt	246.9	247.7
Financial services:		
Cash and equivalents	19.3	19.3
Net receivables	2,162.6	2,168.4
Commercial paper and bank loans	1,086.7	1,086.7
Long-term debt	1,097.7	1,098.4

The Company's off-balance-sheet financial instruments consisted of interest-rate agreements and foreign currency exchange contracts. The interest-rate agreements represented an additional liability of $2.6 and the foreign currency exchange contracts represented an additional asset of $2.7 if recorded at fair value at December 31, 1997.

ROHM AND HAAS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Financial Instruments

The Company uses derivative financial instruments to reduce the impact of changes in foreign exchange rates, interest rates and commodity raw material prices on its earnings, cash flows and fair values of assets and liabilities. The Company enters into derivative financial contracts based on analysis of specific and known economic exposures and by policy prohibits holding or issuing derivative financial instruments for trading purposes.

Credit risk associated with non-performance by counterparties is mitigated by using major financial institutions with high credit ratings. The Company also limits the amount of derivative contracts it enters into with each counterparty.

The Company uses primarily purchased foreign exchange option contracts to hedge anticipated sales in foreign currencies by foreign subsidiaries. The option premiums paid are recorded as assets and amortized over the life of the option. Gains and losses on purchased option contracts are deferred and recorded in the period in which the underlying sales transactions are recognized, except for the contracts to hedge anticipated sales by subsidiaries that use local currency as their functional currency. These contracts, which amounted to approximately 5% and 32% of the total notional amount outstanding at December 31, 1998 and 1997, respectively, are marked to market at each balance sheet date.

The notional amounts of foreign exchange option contracts totaled $326 and $118 million at December 31, 1998, and 1997, respectively. The table below summarizes by currency the notional value of foreign exchange option contracts in U.S. dollars:

(Millions of dollars)	1998	1997
German mark	$97	$40
Italian lira	49	23
British pound	38	—
Swedish krona	36	2
Canadian dollar	33	—
Australian dollar	31	10
Japanese yen	16	38
Spanish peseta	15	—
New Zealand dollar	11	5

The contracts outstanding at each balance sheet date have maturities of less than eighteen months. At December 31, 1998 and 1997, net deferred unrealized gains were $2 million and $4 million, respectively.

The Company also uses forward exchange contracts to reduce the exchange rate risk of specific foreign currency transactions. These contracts require the exchange of a foreign currency for U.S. dollars at a fixed rate at a future date. The maturities are generally less than fifteen months. The carrying amounts of these contracts are adjusted to their market value at each balance sheet date and recorded in other income and expenses. At December 31, 1998, the open foreign exchange forward contracts totaled $70 million in notional amounts, of which $55 million is to hedge the intercompany loans denominated in German marks of $14 million and Italian lira of $41 million.

Fifteen million dollars are to reduce operating exposures in Japanese yen. At December 31, 1997, one Japanese yen forward contract, which matured in February 1998, was outstanding with a notional value of $5 million. Net unrealized losses at December 31, 1998 were $1 million and gains at December 31, 1997 were not material.

Currency swap agreements are used to manage short-term exposure positions with various foreign currencies. Maturities generally do not exceed thirty days. The carrying amounts of these swap agreements are adjusted to their market value at each balance sheet date and recorded in other income and expense. At December 31, 1998, the open swap agreements totaled $26 million in notional amounts, of which $20 million is to exchange the U.S. dollar for British pounds while $6 million is to exchange the U.S. dollar for German marks. The unrealized losses on the currency swap agreements were not material at December 31, 1998.

At both December 31, 1998 and 1997, the Company was party to a written interest rate option contract with a notional amount of $25 million to monetize the call provision on the Company's 9.375% debentures due 2019. The counterparty paid the Company a premium of $5 million for the right to receive 9.375% fixed rate payments beginning 1999 through 2002. In return, the counterparty will pay the Company variable interest payments based on the six-month LIBOR. The written option has been marked to market at each balance sheet date.

At December 31, 1997, the Company held an interest rate floor expiring in 1999 to hedge $50 million of its fixed-rate debt. The floor rate under this contract was 6%. The premium paid for the option was amortized to interest expense over the life of the option. This contract was closed out during 1998 at an immaterial gain.

The Company uses commodity swap agreements for hedging purposes to reduce the effects of changing raw material prices. Gains and losses on the swap agreements are deferred until settlement and recorded as a component of underlying inventory costs when settled. The notional value of commodity swap agreements totaled $5 million and $9 million at December 31, 1998 and 1997, respectively. The Company recorded immaterial net losses in 1998 and net gains of $1 million in 1997.

The fair value of financial instruments was estimated based on the following methods and assumptions:

Cash and cash equivalents, accounts receivable, accounts payable and notes payable: the carrying amount approximates fair value due to the short maturity of these instruments.

Long-term debt: the fair value is estimated based on quoted market prices for the same or similar issues or the current rates offered to the Company or its subsidiaries for debt with the same or similar remaining maturities and terms.

Interest rate option contracts: the fair value is estimated based on quoted market prices of the same or similar issues available.

Foreign currency option contracts: the fair value is estimated based on the amount the Company would receive or pay to terminate the contracts.

Foreign currency forward and swap agreements: the carrying value approximates fair value because these contracts are adjusted to their market value at the balance sheet date.

Commodity swap agreements: the fair value is estimated based on the amount the Company would receive or pay to terminate the contracts.

The carrying amounts and fair values of material financial instruments at December 31, 1998 and 1997, are as follows:

	1998		1997	
(Millions of dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Asset (Liability)			
Long-term debt	$(409)	$(464)	$(509)	$(578)
Written interest rate options	(10)	(10)	(8)	(8)
Foreign currency options	4	7	5	8
Foreign exchange forward contracts	(1)	(1)	—	—

TIME WARNER INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Financial Instruments: Effective July 1, 1998, Time Warner adopted FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). FAS 133 requires that all derivative financial instruments, such as interest rate swap contracts and foreign exchange contracts, be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in the fair market value of derivative financial instruments are either recognized periodically in income or shareholders' equity (as a component of comprehensive income), depending on whether the derivative is being used to hedge changes in fair value or cash flows. The adoption of FAS 133 did not have a material effect on Time Warner's primary financial statements, but did reduce comprehensive income by $18 million in the accompanying consolidated statement of shareholders' equity.

The carrying value of Time Warner's financial instruments approximates fair value, except for differences with respect to long-term, fixed-rate debt and certain differences relating to cost method investments and other financial instruments that are not significant. The fair value of financial instruments is generally determined by reference to market values resulting from trading on a national securities exchange or in an over-the-counter market. In cases where quoted market prices are not available, such as for derivative financial instruments, fair value is based on estimates using present value or other valuation techniques.

15. Derivative Financial Instruments

Time Warner uses derivative financial instruments principally to manage the risk that changes in interest rates will affect either the fair value of its debt obligations or the amount of its future interest payments and, with regard to foreign currency exchange rates, to manage the risk that changes in exchange rates will affect the amount of unremitted or future royalties and license fees to be received from the sale of U.S. copyrighted products abroad. The following is a summary of Time Warner's risk management strategies and the effect of these strategies on Time Warner's consolidated financial statements.

Interest Rate Risk Management

Interest Rate Swap Contracts: Interest rate swap contracts are used to adjust the proportion of total debt that is subject to variable and fixed interest rates. Under an interest rate swap contract, Time Warner either agrees to pay an amount equal to a specified variable-rate of interest times a notional principal amount and to receive in return an amount equal to a specified fixed-rate of interest times the same notional principal amount, or, vice versa, to receive a variable-rate amount and to pay a fixed-rate amount. The notional amounts of the contract are not exchanged. No other cash payments are made unless the contract is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination, and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contract. Interest rate swap contracts are entered into with a number of major financial institutions in order to minimize counterparty credit risk.

Time Warner accounts for its interest rate swap contracts differently based on whether it has agreed to pay an amount based on a variable-rate or fixed-rate of interest. For interest rate swap contracts under which Time Warner agrees to pay variable-rates of interest, these contracts are considered to be a hedge against changes in the fair value of Time Warner's fixed-rate debt obligations. Accordingly, the interest rate swap contracts are reflected at fair value in Time Warner's consolidated balance sheet and the related portion of fixed-rate debt being hedged is reflected at an amount equal to the sum of its carrying value plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. In addition, changes during any accounting period in the fair value of these interest rate swap contracts, as well as offsetting changes in the adjusted carrying value of the related portion of fixed-rate debt being hedged, are recognized as adjustments to interest expense in Time Warner's consolidated statement of operations. The net effect of this accounting on Time Warner's operating results is that interest expense on the portion of fixed-rate debt being hedged is generally recorded based on variable interest rates.

For interest rate swap contracts under which Time Warner agrees to pay fixed-rates of interest, these contracts are considered to be a hedge against changes in the amount of future cash flows associated with Time Warner's interest payments of Time Warner's variable-rate debt obligations. Accordingly, the interest rate swap contracts are reflected at fair value in Time Warner's consolidated balance sheet and the related gains or losses on these contracts are deferred in shareholders' equity (as a component of comprehensive income). These deferred gains and losses are then amortized as an adjustment to interest expense over the same period in which the related interest payments being hedged are recognized in income. However, to the extent that any of these contracts are not considered to be perfectly effective in offsetting the change in the value of the interest payments being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in income. The net effect of this accounting on Time Warner's operating results is that interest expense on the portion of variable-rate debt being hedged is generally recorded based on fixed interest rates.

At December 31, 1998, Time Warner had interest rate swap contracts to pay variable-rates of interest (average six-month LIBOR rate of 5.5%) and receive fixed-rates of interest (average rate of 5.5%) on $1.6 billion notional amount of indebtedness, which resulted in approximately 37% of Time Warner's underlying debt, and 39% of the debt of Time Warner and the Entertainment Group combined, being subject to variable interest rates. The notional amount of outstanding contracts by year of maturity at December 31, 1998 is as follows: 1999—$1.2 billion; and 2000—$400 million. At December 31, 1997, Time Warner had interest rate swap contracts on $2.3 billion notional amount of indebtedness. The net gain or loss on the ineffective portion of these interest rate swap contracts was not material in any period.

Interest Rate Lock Agreements: In the past, Time Warner sometimes has used interest rate lock agreements to hedge the risk that the cost of a future issuance of fixed-rate debt may be adversely affected by changes in interest rates. Under an interest rate lock agreement, Time Warner agrees to pay or receive an amount equal to the difference between the net present value of the cash flows for a notional principal amount of indebtedness based on the existing yield of a U.S. treasury bond at the date when the agreement is established and at the date when the agreement is settled, typically when Time Warner issues new debt. The notional amounts of the agreement are not exchanged. Interest rate lock agreements are entered into with a number of major financial institutions in order to minimize counterparty credit risk.

Interest rate lock agreements are reflected at fair value in Time Warner's consolidated balance sheet and the related gains or losses on these agreements are deferred in shareholders' equity (as a component of comprehensive income). These deferred gains and losses are then amortized as an adjustment to interest expense over the same period in which the related interest costs on the new debt issuances are recognized in income.

At December 31, 1998, Time Warner had outstanding interest rate lock agreements for an aggregate $650 million notional principal amount of indebtedness, which were settled in January 1999. Time Warner no longer intends to use interest rate lock agreements to hedge the cost of future issuances of fixed-rate debt. At December 31, 1998, Time Warner had deferred approximately $32 million of net losses on interest rate lock agreements, of which approximately $2 million is expected to be recognized in income over the next twelve months.

Foreign Currency Risk Management: Foreign exchange contracts are used primarily by Time Warner to hedge the risk that unremitted or future royalties and license fees owed to Time Warner or TWE domestic companies for the sale or anticipated sale of U.S. copyrighted products abroad may be adversely affected by changes in foreign currency exchange rates. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, Time Warner hedges a portion of its and TWE's combined foreign currency exposures anticipated over the ensuing twelve-month period. At December 31, 1998, Time Warner had effectively hedged approximately half of the combined estimated foreign currency exposures that principally relate to anticipated cash flows to be remitted to the U.S. over the ensuing twelve-month period. To hedge this exposure, Time Warner used foreign exchange contracts that generally have maturities of three months or less, which generally will be rolled over to provide continuing coverage throughout the year. Time Warner often closes foreign exchange sale contracts by purchasing an offsetting purchase contract. Time Warner reimburses or is reimbursed by TWE for contract gains and losses related to TWE's foreign currency exposure. Foreign exchange contracts are placed with a number of major financial institutions in order to minimize credit risk.

Time Warner records these foreign exchange contracts at fair value in its consolidated balance sheet and the related gains or losses on these contracts are deferred in shareholders' equity (as a component of comprehensive income). These deferred gains and losses are recognized in income in the period in which the related royalties and license fees being hedged are received and recognized in income. However, to the extent that any of these contracts are not considered to be perfectly effective in offsetting the change in the value of the royalties and license fees being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in income. Gains and losses on foreign exchange contracts are generally included as a component of interest and other, net, in Time Warner's consolidated statement of operations.

At December 31, 1998, Time Warner had contracts for the sale of $755 million and the purchase of $259 million of foreign currencies at fixed rates, primarily Japanese yen (40% of net contract value), English pounds (4%), German marks (28%), Canadian dollars (10%) and French francs (16%), compared to contracts for the sale of $507 million and the purchase of $139 million of foreign currencies at December 31, 1997. Time Warner had deferred approximately $6 million of net losses on foreign exchange contracts at December 31, 1998, which is all expected to be recognized in income over the next twelve months. For the years ended December 31, 1998, 1997 and 1996, Time Warner recognized $8 million in losses, $27 million in gains and $15 million in gains, respectively, and TWE recognized $2 million in losses, $14 million in gains and $6 million in gains, respectively, on foreign exchange contracts, which were or are expected to be offset by corresponding decreases and increases, respectively, in the dollar value of foreign currency royalties and license fee payments that have been or are anticipated to be received in cash from the sale of U.S. copyrighted products abroad.

TIMES MIRROR COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Derivative Financial Instruments: Interest rate swaps (see Note 8) are used to manage exposure to market risk associated with changes in interest rates. Interest rate swaps are accounted for on the accrual basis. Payments made or received are recognized as an adjustment to interest expense. Amounts received in connection with initiating or terminating swaps are amortized on a straight-line basis as a reduction in interest expense over the term of the swaps.

Premium equity participating debt securities (see Note 12) are used to manage the Company's exposure to market risk associated with changes in the fair values of the Company's investment in the common stock of Netscape Communications Corporation (Netscape).

The Company's exposure to market risk associated with fluctuations in the value of foreign currencies relative to the U.S. dollar may be managed with foreign currency forward contracts, currency options, currency swaps or other risk management instruments permitted by the Company's internal policy guidelines. During 1998, 1997 and 1996, the Company's forward contracts and other risk management instruments were not significant.

Commodity price hedging contracts (see Note 8) are used to manage the Company's exposure to market risk associated with fluctuations in newprint prices. These contracts are accounted for on the accrual basis. Periodic settlement payments made or received are recognized as an adjustment to the cost basis of newsprint inventory. Amounts paid in connection with initiating these contracts are amortized on a straight-line basis as an adjustment to the cost basis of newsprint inventory over the term of the contracts.

Put options are used in conjunction with the Company's common stock purchase program. These contracts are entered into based on market conditions as well as other factors. The costs or benefits derived from these equity-based financial instruments are recorded in shareholders' equity on the date of the transaction. The potential obligation under these put options outstanding at December 31, 1998 and 1997 has been transferred from shareholders' equity to "Common stock subject to put options."

8. Financial Instruments

Financial instruments consist of the following (in thousands):

	December 31			
	1998		1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Short-term assets	$1,474,519	$1,474,519	$411,911	$411,911
Long-term investments	129,364	129,364	47,738	47,738
Notes receivable	75,265	75,265	8,761	8,761
Short-term liabilities	506,834	506,834	351,511	351,511
Long-term debt	941,423	1,017,245	925,404	982,647
Unrealized net gain on interest rate swaps	—	43,246	—	27,583

Short-Term Assets and Liabilities: The fair values of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and short-term debt approximate their carrying values due to the short-term nature of these financial instruments.

Long-Term Investments: Investments are primarily stated at fair value based on quoted market prices and are classified as available-for-sale securities. The investments are included in "Investments and other assets" in the consolidated balance sheets. The cost of the investments was $55,764,000 and $18,865,000 at December 31, 1998 and 1997, respectively. The unrealized gain is included in accumulated other comprehensive income in the consolidated statements of shareholders' equity, net of applicable income taxes.

Notes Receivable: The carrying value of notes receivable is estimated to approximate fair values. Although there are no quoted market prices available for these instruments, the fair value estimates were based on the change in interest rates and risk related interest rate spreads since the notes origination date.

Long-Term Debt: The fair value of long-term debt is based primarily on the Company's current refinancing rates for publicly issued fixed rate debt with comparable maturities, except for the PEPS securities whose fair value is the current maturity value determined by a formula based on quoted market prices of the underlying common stock whose market risk it modifies.

Interest Rate Swaps: Interest rate swap agreements outstanding at December 31, 1998 were for notional amounts of $148,000,000, $250,000,000, $170,111,000 and $100,000,000 expiring in 1999, 1999, 2002 and 2023, respectively, with the $170,111,000 and $100,000,000 notional amounts also outstanding at December 31, 1997. These swaps effectively convert a portion of the Company's long-term fixed rate debt to a variable rate obligation based on LIBOR or the Commercial Paper rate. The fair values of the interest rate swaps are the amounts at which they could be settled based on estimates of market rates.

Commodity Hedging Contracts: The Company enters into various commodity hedging contracts to manage the Company's exposures to fluctuations in newsprint prices. As of December 31, 1998, the Company had newsprint swap agreements for a total notional amount of 261,000 metric tons per year expiring in 2002 and 2003 at a weighted average contract price of $609 per metric ton. Also, the Company has a newsprint option contract for a total notional amount of 30,000 metric tons per year expiring in 2001 at a contract price of $585 per metric ton. At December 31, 1998, the index rate used for these contracts was $585 per metric ton. This option contract limits the maximum payment to $115 per metric ton above the contract price on an annual basis. In addition to the newsprint hedging contracts, the Company has a swap contract for coated paper used in its Magazine Publishing activities for a total notional amount of 5,000 short tons per year expiring in 2000 at a contract price of $1,047 per short ton. As no liquid forward market for newprint or coated paper exists, it was not practicable to estimate the fair value of the commodity hedging contracts.

New Accounting Pronouncement: In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), which the Company is required to adopt effective January 1,

2000. SFAS 133 will require the Company to record all derivatives as assets or liabilities at fair value. Changes in derivative fair values will either be recognized in earnings, offset against changes in the fair value of the related hedged assets, liabilities and firm commitments or, for forecasted transactions, recorded as a component of other comprehensive income in shareholders' equity until the hedged transactions occur and are recognized in earnings. The ineffective portion of a hedging derivative's change in fair value will be recognized in earnings immediately. The impact of SFAS 133 on the Company's financial statements will depend on a variety of factors, including, the extent of the Company's hedging activities, the types of hedging instruments used and the effectiveness of such instruments. The Company expects to adopt SFAS 133 as of January 1, 2000. The effect of adopting the Statement is currently being evaluated, however, the Company does not believe the effects of adoption will be material to its financial position or results of operations.

12 (In Part): Debt

The 4¼% PEPS hedge the Company's investment in the common stock of Netscape. The amount payable at maturity is determined by reference to the fair market value of the Netscape common stock. As a result, the maturity value will generally move in tandem with changes in the fair market value of Netscape stock. Changes in the current maturity value of the PEPS are included in accumulated other comprehensive income, net of applicable income taxes. At December 31, 1998 and 1997, the fair market value of Netscape common stock was $60.75 and $24.375 per share, respectively. The PEPS are redeemable at the option of the Company, in whole or in part, at any time after December 15, 2000. The redemption price is based on the market value of the Netscape common stock adjusted in accordance with a predetermined formula which allocates a portion of the appreciation, if any, to the Company. During 1998, the Company sold 441,900 shares of Netscape stock and purchased an equal proportion of its PEPS in the open market.

TRANSTECHNOLOGY CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Principles

Financial Instruments: The Company does not hold or issue financial instruments for trading purposes. Amounts to be paid or received under interest rate swap agreements are recognized as increases or reductions in interest expense in the periods in which they accrue. The Company enters into off-balance sheet forward foreign exchange instruments in order to hedge certain financing and investment transactions denominated in foreign currencies, purchase commitments and certain foreign currency denominated long-term debt. Gains and losses on the investing and financing transactions are included in other income/ expense. Gains and losses on the foreign currency purchase commitment transactions are included in the cost of the underlying purchases.

9. Financial Instruments

Interest Rate Swap Agreements: The Company periodically enters into interest rate swap agreements to effectively convert all or a portion of its floating-rate debt to fixed-rate debt in order to reduce the Company's risk to movements in interest rates. Such agreements involve the exchange of fixed and floating interest rate payments over the life of the agreement without the exchange of the underlying principal amounts. Accordingly, the impact of fluctuations in interest rates on these interest rate swap agreements is fully offset by the opposite impact on the related debt. Swap agreements are only entered into with strong creditworthy counterparties. The swap agreements in effect were as follows:

	Notional Amount (In thousands)	Maturities	Receive Rate (l)	Pay Rate
March 31, 1998	$25,000	8/98	5.65%	6.54%
	DM9,981	12/98	3.53	4.57
March 31, 1997	$25,000	8/98	5.56%	6.54%
	DMl2,648	12/98	3.31	4.57

(l) Based on three-month LIBOR

Foreign Currency Exchange Agreements: The Company enters into forward foreign currency agreements to hedge foreign currency financing transactions. Realized and unrealized gains and losses arising from forward currency contracts are recognized as adjustments to the gains and losses resulting from the underlying hedged transactions.

In addition, the Company enters into forward currency contracts to hedge certain foreign currency purchase commitments. Gains and losses from these transactions are included in the cost of the underlying purchases.

The table below summarizes by currency the contractual amounts of the Company's foreign exchange contracts. The "Buy" amounts represent the U.S. dollar equivalent of commitments to purchase foreign currencies, and the "Sell" amounts represent the U.S. dollar equivalent to sell foreign currencies (in thousands):

	1998		1997	
	Buy	Sell	Buy	Sell
Currency				
Deutsche mark	$ —	$16,405	$96	$11,992
Pound sterling	3,677	8,507	—	1,459
	$3,677	$24,912	$96	$13,451

Fair Value of Financial Instruments: The fair values of cash and cash equivalents, receivables and notes receivable approximate their carrying values due to the short-term nature of the instruments.

The fair value of the Company's long-term notes receivable and debt approximates their carrying values due to the variable interest-rate feature of the instruments. The fair values of the Company's interest rate swaps and forward foreign exchange agreements are the estimated amounts the Company would have to (pay) or receive to terminate the agreements based upon quoted market prices as provided by financial institutions which are counterparties to the agreements and were as follows (in thousands):

	1998 (Pay) receive	1997 (Pay) receive
Interest rate swap agreements	$(141)	$ (240)
Forward foreign exchange agreements	$ 20	$1,329

OTHER OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

Financial Guarantees

THE BOEING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

18. Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business, principally relating to customer financing activities. Financial instruments with off-balance-sheet risk include financing commitments, credit guarantees, and participation in customer financing receivables with third-party investors that involve interest rate terms different from the underlying receivables.

Irrevocable financing commitments related to aircraft on order, including options, scheduled for delivery through 2004 totaled $6,239 and $6,029 as of December 31, 1998 and 1997. The Company anticipates that not all of these commitments will be used and that it will be able to arrange for third-party investors to assume a portion of the remaining commitments, if necessary. The Company has additional commitments to arrange for commercial equipment financing totaling $163 and $132 as of December 31, 1998 and 1997.

Participations in customer financing receivables with third-party investors that involve interest rate terms different from the underlying receivables totaled $62 and $64 as of December 31, 1998 and 1997.

The Company's maximum exposure to credit-related losses associated with credit guarantees, without regard to collateral, totaled $1,426 ($730 associated with commercial aircraft and collateralized) and $955 ($660 associated with commercial aircraft and collateralized) as of December 31, 1998 and 1997.

The Company's maximum exposure to losses associated with asset value guarantees, without regard to collateral, totaled $444 and $470 as of December 31, 1998 and 1997. These asset value guarantees relate to commercial aircraft and are collateralized.

20. Disclosures about Fair Value of Financial Instruments

As of December 31, 1998 and 1997, the carrying amount of accounts receivable was $3,288 and $3,121, and the fair value of accounts receivable was estimated to be $3,239 and $3,033. The lower fair value reflects a discount due to deferred collection for certain receivables that will be collected over an extended period. The carrying value of accounts payable is estimated to approximate fair value.

The carrying amount of notes receivable, net of valuation allowance, is estimated to approximate fair value. Although there are generally no quoted market prices available for customer financing notes receivable, the valuation assessments were based on the respective interest rates, risk-related rate spreads and collateral considerations.

As of December 31, 1998 and 1997, the carrying amount of debt, net of capital leases, was $6,539 and $6,354, and the fair value of debt, based on current market rates for debt of the same risk and maturities, was estimated at $7,198 and $6,996. The Company's debt, however, is generally not callable until maturity.

With regard to financial instruments with off-balance-sheet risk, it is not practicable to estimate the fair value of future financing commitments, and all other off-balance-sheet financial instruments are estimated to have only a nominal fair value. The terms and conditions reflected in the outstanding guarantees and commitments for financing assistance are not materially different from those that would have been negotiated as of December 31, 1998.

EASTMAN CHEMICAL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Equity Investments and Other Noncurrent Assets and Liabilities

Eastman has a 50% interest in Genencor International, a joint venture engaged in developing, manufacturing, and marketing industrial enzymes and other fine and specialty chemicals, accounted for under the equity method and included in other noncurrent assets. At December 31, 1998 and 1997, Eastman's equity in the joint venture was $148 million and $142 million, respectively. The Company guarantees a portion of the joint venture's third-party borrowings. Such guarantees are not considered material to Eastman. Management believes, based on current facts and circumstances and the joint venture's financial position, that the likelihood of a payment pursuant to such guarantee is remote.

Eastman has a 50% interest in and serves as the operating partner in Primester, a joint venture engaged in the manufacture of cellulose esters at its Kingsport, Tennesse plant, accounted for under the equity method. The Company guarantees a portion of the principal amount of the joint venture's third-party borrowings; however, management believes, based on current facts and circumstances and the structure of the venture, that the likelihood of a payment pursuant to such guarantee is remote. At December 31, 1998 and 1997, Eastman had a negative investment in the joint venture of $41 million and $42 million, respectively, representing the recognized portion of the venture's accumulated deficits and the debt guarantee that it has a commitment to fund, as necessary. Such amounts are included in other long-term liabilities. The Company provides certain utilities and general plant services to the joint venture. In return for Eastman providing those services, the joint venture paid Eastman a total of $39 million in three equal installments in 1991, 1992, and 1993. Eastman is amortizing the deferred credit to earnings over a 10-year period.

11 (In Part): Fair Value of Financial Instruments

Eastman uses the following methods and assumptions in estimating its fair-value disclosures for financial instruments:

Long-Term Borrowings: The Company has based the fair value for fixed-rate borrowings on current interest rates for comparable securities. The Company's floating-rate borrowings approximate fair value.

Foreign Exchange Contracts: The Company estimates the fair value of its foreign exchange contracts based on dealer-quoted market prices of comparable instruments.

Other Financial Instruments: Because of the nature of all other financial instruments, recorded amounts approximate fair value. In the judgment of management, exposure to third-party guarantees is remote and the potential earnings impact pursuant to such guarantees is insignificant.

GENERAL DYNAMICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

N (In Part): Fair Value of Financial Instruments

The Company was contingently liable for debt and lease guarantees and other arrangements aggregating up to a maximum of approximately $35 at December 31, 1998. The Company knows of no event of default which would require it to satisfy these guarantees and, therefore, the fair value of these contingent liabilities is considered immaterial.

INGERSOLL-RAND COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Commitments and Contingencies

In the normal course of business, the Company has issued several direct and indirect guarantees, including performance letters of credit, totaling approximately $91.7 million at December 31, 1998. The Company has also guaranteed the residual value of leased product in the aggregate amount of $28.9 million. Upon the termination of a dealer, a newly selected dealer generally acquires the assets of the prior dealer and assumes any related financial obligation. Accordingly, the risk of loss to the Company is minimal, and historically, only immaterial losses have been incurred relating to these arrangements. Management believes these guarantees will not adversely affect the consolidated financial statements.

THE MEAD CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

F (In Part): Long-Term Debt

The Company has guaranteed obligations of certain affiliated operations and others totaling $39.9 million at December 31, 1998. In addition, the Company has a 50% interest in a partnership with Kimberly-Clark Corporation, which has borrowed $300 million under a loan agreement with a syndicate of banks, which matures in 2003. The loan, one-half of which has been guaranteed by the Company, may be prepaid at any time either in cash or by delivery of notes receivable from Georgia-Pacific Corporation held by the partnership as part of the consideration from the 1988 sale of Brunswick Pulp and Paper company, a former affiliate. It is not practicable to estimate the fair value of the above guarantees, however, the Company does not expect to incur losses as a result of these guarantees.

SUNOCO, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Commitments and Contingent Liabilities

Sunoco is contingently liable under various arrangements which guarantee debt of affiliated companies and others aggregating approximately $27 million at December 31, 1998 and maturing at various dates through 2013.

17 (In Part): Financial Instruments

The Company guarantees the debt of affiliated companies and others (Note 14). Due to the complexity of these guarantees and the absence of any market for these financial instruments, the Company does not believe it is practicable to estimate their fair value.

Letters of Credit

BEMIS COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Financial Instruments

The Company is also a party to letters of credit totaling $4,275,000 and $4,275,000 at December 31, 1998 and 1997, respectively. In the Company's past experience, virtually no claims have been made against these financial instruments. Management does not expect any material losses to result from these off-balance-sheet instruments because performance is not expected to be required, and, therefore, is of the opinion that the fair value of these instruments is zero.

FMC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Financial Instruments

Standby Letters of Credit and Financial Guarantees: In the ordinary course of business with customers, vendors and others, the Company is contingently liable for performance under letters of credit and other financial guarantees totaling approximately $182 million at December 31, 1998. Management does not believe it is practicable to estimate the fair value of these financial instruments and does not expect any material losses from their resolution since performance is not likely to be required.

HARSCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Financial Instruments

Off-Balance Sheet Risk: As collateral for performance and to ceding insurers, the Company is contingently liable under standby letters of credit and bonds in the amount of $38.7 million and $42.0 million at December 31, 1998 and 1997, respectively. These standby letters of credit and bonds are in force from one to three years, for which the Company pays fees to various banks and insurance companies that range from 0.2 to 1.0 percent per annum of their face value. If the Company were required to obtain replacement standby letters of credit and bonds as of December 31, 1998 for those currently outstanding, it is the Company's opinion that the replacement costs for such standby letters of credit and bonds would not vary significantly from the present fee structure.

At December 31, 1998 and 1997, the Company had $18.3 million and $8.4 million, respectively, of forward foreign currency exchange contracts outstanding. These contracts are part of a worldwide program to minimize foreign currency exchange operating income and balance sheet exposure. The unsecured contracts mature within 12 months and are principally with major financial institutions. The Company is exposed to credit loss in the event of non-performance by the other parties to the contracts. The Company evaluates the creditworthiness of the counterparties' financial condition and does not expect default by the counterparties.

Sale Of Receivables With Recourse

W.R. GRACE & CO. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

1 (In Part): Basis of Presentation and Summary of Significant Accounting and Financial Reporting Policies

Sale of Accounts Receivable: Grace enters into transactions to sell certain of its trade accounts receivable and retains a subordinated interest and servicing rights. Gains or losses on the sale of receivables are based on the carrying value of the assets sold, allocated in proportion to their fair value. Retained interests are carried at fair value and are included in other current assets in the Consolidated Balance Sheet. Grace generally estimates fair value based on the present value of expected future cash flows less management's best estimates of uncollectible accounts receivable. Grace maintains an allowance for doubtful accounts receivable based upon the expected collectibility of all trade receivables, including receivables sold. The allowance is reviewed continually and adjusted for accounts deemed uncollectible by management. Expenses and losses associated with the program are recognized as a component of interest expense and related financing costs.

10 (In Part): Financial Instruments

Sale of Accounts Receivable: During December 1998, Grace entered into an agreement to sell, on an ongoing basis, a pool of its trade accounts receivable to a wholly owned bankruptcy-remote special purpose subsidiary (the "SPS") of Grace. Accordingly, certain strategic business units transfer their North American trade accounts receivable to the SPS. The SPS has sold and, subject to certain conditions, may from time to time sell an undivided fractional ownership interest in the pool of receivables to a multi-seller receivables funding company (the "conduit"). Upon sale of receivables, the SPS holds a subordinated retained interest in the receivables. The estimated fair value of the subordinated interest, excluding allowance for doubtful accounts, was $65.1 at December 31, 1998 which is included in other current assets. Under the terms of the agreement, new receivables are added to the pool as collections reduce previously sold receivables. Grace services, administers and collects the receivables on behalf of the SPS and the conduit. Proceeds of approximately $37.0 were received as of December 31, 1998 from the sale of receivables and Grace has recorded a corresponding net loss on sale of $.5 in 1998 from the related sale to the conduit. The proceeds were used for the reduction of other short-term obligations and are reflected as operating cash flows in the accompanying Consolidated Statement of Cash Flows.

INTERNATIONAL MULTIFOODS CORPORATION (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Financial Instruments

Off-Balance Sheet Risk: As of February 28, 1998 and 1997, the Company had sold with limited recourse $21.2 million and $14.6 million of accounts receivable, respectively, related to its Canadian operations. Collections received on these accounts may be replaced by new receivables in order to maintain the aggregate outstanding balance. The credit risk of uncollectible accounts has been substantially transferred to the purchaser. Fees associated with these transactions are included in other income (expense), net in the consolidated statements of earnings.

DISCLOSURES OF FAIR VALUE

APPLIED MATERIALS, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Financial Instruments

Fair Value of Financial Instruments: For certain of the Company's financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, notes payable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their short maturities. Consequently, such financial instruments are not included in the following table that provides information about the carrying amounts and estimated fair values of other financial instruments, both on and off the balance sheets:

	1997		1998	
(in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt, including current portion	$633,653	$647,983	$623,939	$656,603
Forward exchange contracts:				
Sell foreign currency	$491,796	$491,240	$241,517	$239,827
Buy foreign currency	$217,016	$216,779	$ 99,293	$ 99,293
Currency option contracts:				
Sell foreign currency	$ 4,636	$ 10,337	$ 3,892	$ 202
Buy foreign currency	$ 525	$ 351	$ —	$ —

The estimated fair value of long-term debt is based primarily on quoted market prices for the same or similar issues. The fair value of forward exchange and currency option contracts is based on quoted market prices of comparable instruments.

BRIGGS & STRATTON CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Disclosures About 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, Domestic Notes Payable and Foreign Loans: The carrying amount approximates fair value because of the short maturity of those instruments.

Long-Term Debt: The fair value of the Company's long-term debt is estimated based on quotations made on similar issues.

The estimated fair values of the Company's financial instruments are as follows (in thousands of dollars):

	1998	
	Carrying Amount	Fair Value
Cash and cash equivalents	$ 84,527	$ 84,527
Domestic notes payable	$ 4,700	$ 4,700
Foreign loans	$ 14,336	$ 14,336
Long-term debt—		
9.21% Senior notes due 2001, including current maturities	$ 45,000	$ 47,012
7.25% Notes due 2007	$ 98,102	$105,071
	1997	
	Carrying Amount	Fair Value
Cash and cash equivalents	$112,859	$112,859
Domestic notes payable	$ 5,000	$ 5,000
Foreign loans	$ 13,359	$ 13,359
Long-term debt—		
9.21% Senior notes due 2001, including current maturities	$ 60,000	$ 62,885
7.25% Notes due 2007	$ 97,897	$100,531

HECLA MINING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Fair Value of Financial Instruments

The following estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data and to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange.

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. Potential income tax ramifications related to the realization of unrealized gains and losses that would be incurred in an actual sale or settlement have not been taken into consideration.

The carrying amounts for cash and cash equivalents, accounts and notes receivable, restricted investments, and current liabilities are a reasonable estimate of their fair values. Fair value for equity securities investments is determined by quoted market prices. Fair value of forward contracts is supplied by the Company's counterparties and reflect the difference between the contract prices and forward prices available on the date of valuation. The fair value of long-term debt is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for debt with similar remaining maturities.

The estimated fair values of financial instruments are as follows *(in thousands)*:

December 31,	1998		1997	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Financial assets:				
Cash and cash equivalents	$ 2,480	$ 2,480	$ 3,794	$ 3,794
Accounts and notes receivable	25,919	25,919	24,445	24,445
Investments:				
Equity securities available for sale	72	72	229	229
Restricted	6,331	6,331	7,926	7,926
Gold forward sales contracts	—	371	—	931
Silver forward sales contracts	—	740	—	—
Financial liabilities:				
Current liabilities	24,345	24,345	24,968	24,968
Long-term debt–principal	42,923	42,923	22,136	22,136
Silver forward sales contracts	—	—	—	701

McDERMOTT INTERNATIONAL, INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Fair Values of Financial Instruments

The following methods and assumptions were used by International in estimating its fair value disclosures for financial instruments:

Cash and Cash Equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate their fair values.

Investment Securities: The fair values of investments are estimated based on quoted market prices. For investments for which there are no quoted market prices, fair values are derived from available yield curves for investments of similar quality and terms.

Note Receivable From an Unconsolidated Affiliate: At March 31, 1997, it was not practicable to estimate the fair value of International's 7.75% Note Receivable from the HeereMac joint venture because there were no quoted market prices and the time of its settlement could not be determined.

Long and Short-Term Debt: The fair values of debt instruments are based on quoted market prices or, where quoted prices are not available, on the present value of future cash flows discounted at estimated borrowing rates for similar debt instruments or on estimated prices based on current yields for debt issues of similar quality and terms.

Redeemable Preferred Stocks: The fair values of the redeemable preferred stocks of the Delaware Company are based on quoted market prices.

Foreign Currency Exchange Contracts: The fair values of foreign currency forward exchange contracts are estimated by obtaining quotes from brokers. At March 31, 1998 and 1997, International had net forward exchange contracts outstanding to purchase foreign currencies with notional values of $95,221,000 and $108,852,000 and fair values of $97,181,000 and $115,205,000, respectively.

Interest Rate Swap Agreements: The fair values of interest rate swaps are the amounts at which they could be settled and are estimated by obtaining quotes from brokers. At March 31, 1998 and 1997, International had an interest rate swap outstanding on current notional principal of $12,200,000 and $34,800,000, respectively, with a fair value of ($25,000) and ($395,000), respectively, which represents the estimated amount International would have to pay to terminate the agreement.

The estimated fair values of International's financial instruments are as follows:

(in thousands)	March 31, 1998 Carrying Amount	Fair Value	March 31, 1997 Carrying Amount	Fair Value
Balance Sheet Instruments				
Cash and cash equivalents	$ 277,876	$ 277,876	$ 257,783	$ 257,783
Investment securities	1,073,491	1,073,491	486,535	486,535
Debt excluding capital leases	745,524	794,296	1,105,496	1,139,914
Subsidiary's redeemable preferred stocks	155,358	184,191	170,983	161,698

MEREDITH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Fair Values of Financial Instruments

Estimated fair values and carrying amounts of financial instruments are as follows:

(in thousands)	June 30, 1998 Carrying Amount	Fair Value	June 30, 1997 Carrying Amount	Fair Value
Assets:				
Marketable securities	—	—	$50,382	$50,382
Liabilities:				
Program rights payable	$ 29,607	$ 28,058	$17,032	$16,000
Long-term debt	$215,000	$215,000	—	—
Interest rate swaps	—	$ 3,059	—	—

Fair values were determined as follows:

- Marketable securities: quoted market prices.
- Program rights payable: discounted cash flows.
- Long-term debt: borrowing rates currently available for debt with similar terms and maturities.
- Interest rate swaps: estimated amount the Company would pay or receive to terminate the swap agreements.

The carrying amounts reported on the Consolidated Balance Sheets at June 30, 1998 and 1997, for all other financial instruments, including the put option agreement classified as temporary equity, approximate their respective fair values. Fair value estimates are made at a specific point in time based on relevant market and financial instrument information. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

MORTON INTERNATIONAL, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Values of Financial Instruments

The following methods were used by the Company to estimate its fair value disclosures for financial instruments.

Cash and Cash Equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Notes Payable and Long-Term Debt: The carrying amount of the Company's borrowings in the form of notes payable approximates its fair value. The fair value of the Company's long-term debt is estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Foreign Currency Exchange Contracts: Forward foreign exchange contracts that hedge foreign currency exposures or transactions are valued at current foreign exchange rates.

The carrying or notional amounts and fair values of the Company's financial instruments at June 30, 1998, were as follows:

(in millions)	Carrying or notional amount	Fair value
Notes payable	$ 19.5	$ 19.5
Long-term debt	225.6	293.3
Forward foreign exchange contracts	276.0	276.4

OGDEN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25. 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.

The estimated fair value (expressed in thousands of dollars) of financial instruments at December 31, 1998 and 1997, is summarized as follows:

(in thousands)	1998 Carrying Amount	1998 Estimated Fair Value	1997 Carrying Amount	1997 Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 261,119	$ 261,119	$ 185,671	$ 185,671
Marketable securities	72,136	72,136	25,543	25,543
Receivables	568,553	565,119	568,147	571,159
Restricted funds	291,475	290,141	309,895	309,711
Other assets	641	641	1,116	1,116
Liabilities:				
Notes payable	45,600	45,600		
Debt	421,519	469,093	373,728	413,453
Convertible subordinated debentures	148,650	142,581	148,650	143,342
Project debt	1,430,729	1,539,765	1,492,700	1,563,877
Other liabilities	17,699	14,098	21,175	18,729
Off Balance-Sheet Financial Instruments:				
Unrealized losses on interest rate swap agreements		14,542		3,529
Unrealized gains on interest rate swap agreements				201
Guarantees		9,190		

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:

For cash, cash equivalents, and marketable securities, the carrying value of these amounts is a reasonable estimate of their fair value. The fair value of long-term unbilled receivables is estimated by using a discount rate that approximates the current rate for comparable notes. The fair value of noncurrent receivables is estimated by discounting the future cash flows using the current rates at which similar loans would be made to such borrowers based on the remaining maturities, consideration of credit risks, and other business issues pertaining to such receivables. The fair value of restricted funds held in trust is based on quoted market prices of the investments held by the trustee. Other assets, consisting primarily of insurance and escrow deposits and other miscellaneous financial instruments used in the ordinary course of business, are valued based on quoted market prices or other appropriate valuation techniques.

Fair values for notes payable and 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. Ogden financial guarantees provided on behalf of customers for which Ogden receives fees are valued by discounting the future stream of payments using the incremental borrowing rate of the Corporation.

The fair-value estimates presented herein are based on pertinent information available to management as of December 31, 1998 and 1997. Although management is not aware of any factors that would significantly affect the estimated fair-value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

RITE AID CORPORATION (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Financial Instruments

The carrying amounts and fair values of financial instruments at February 28, 1998 and March 1, 1997 are listed as follows:

(in thousands of dollars)	1998 Carrying Amount	1998 Fair Value	1997 Carrying Amount	1997 Fair Value
Commercial paper indebtedness	$ 400,000	$ 400,000	$ 701,500	$ 701,500
Long-term indebtedness	2,103,236	2,263,751	1,649,842	1,689,030
Note receivable	20,000	20,000	20,000	20,000

It was not practicable to estimate the fair values of non-marketable investments because of the lack of quoted market prices and the inability to estimate fair values without incurring excessive costs. The carrying amounts of $34,426,000 at February 28, 1998 and $33,260,000 at March 1, 1997 represent the costs of the investments currently owned, which management believes are not impaired.

The following methods and assumptions were used in estimating fair value disclosures for financial instruments:

Commercial Paper Indebtedness: The carrying amounts for commercial paper indebtedness approximate their fair market values.

Long-Term Indebtedness: The fair values of long-term indebtedness are 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.

Note Receivable: The fair value of the fixed rate note receivable was determined using the present value of projected cash flows. The discount rate was based upon the U.S. Treasury yield curve adjusted for credit risk.

TEMPLE-INLAND INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value of Financial Instruments

The carrying amount and fair value of financial instruments were as follows:

At year end	1998		1997	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Loans receivable	$8,100.9	$8,126.4	$6,450.9	$6,454.9
Mortgage-backed and investment securities	2,484.6	2,448.8	2,805.7	2,754.0
Financial liabilities:				
Deposits	7,338.4	7,369.0	7,374.8	7,380.2
FHLB advances	3,220.9	3,223.1	1,685.0	1,687.9
Total debt	1,794.4	1,850.8	1,608.1	1,675.8
Off-balance-sheet instruments:				
Interest rate contracts	—	(4.9)	—	(2.3)
Commitments to extend credit	—	(1.6)	—	(0.7)

Differences between fair value and carrying amount are primarily due to instruments that provide fixed interest rates or contain fixed interest rate elements. Inherently, such instruments are subject to fluctuations in fair value due to subsequent movements in interest rates. The fair value of cash and cash equivalents, trade and other receivables, securities sold under agreements to repurchase and mortgage loans held for sale consistently approximate the carrying amount due to their short-term nature and are excluded from the above table. The fair value of mortgage-backed and investment securities and off-balance-sheet instruments are based on quoted market prices. Other financial instruments are valued using discounted cash flows. The discount rates used represent current rates for similar instruments.

CONCENTRATIONS OF CREDIT RISK

BMC INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Concentrations of Credit Risk

Approximately 58% of the trade accounts receivable before allowances (receivables) of Precision Imaged Products at December 31, 1998 were represented by four customers. Approximately 33% of the receivables of Optical Products at December 31, 1998 were represented by 20 customers. These 24 customers represented approximately 45% of the Company's consolidated receivables at December 31, 1998, with one customer of Precision Imaged Products representing approximately 20% of consolidated receivables.

Mask Operations' customer base consists of the largest television and computer monitor manufacturers in the world. Accordingly, Mask Operations generally does not require collateral and its trade receivables are unsecured. Optical Products' customer base consists of a wide range of eyewear retailers and optical laboratories. Optical Products performs detailed credit evaluations of customers and establishes credit limits as required. Collateral or other security for accounts receivable is obtained as considered necessary for Optical Products' customers.

GOLDEN ENTERPRISES, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Concentrations of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents and trade receivables.

The Company maintains its cash accounts primarily with banks located in Alabama. The total cash balances are insured by the F.D.I.C. up to $100,000 per bank. The Company had cash balances on deposit with two Alabama banks at May 31, 1998 that exceeded the balance insured by the F.D.I.C. in the amount of $1,162,372.

The Company's trade receivables result primarily from its snack food operations and reflect a broad customer base, primarily large grocery chains located in the southeastern United States. The Company routinely assesses the financial strength of its customers. As a consequence, concentrations of credit risk are limited.

GUILFORD MILLS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

1 (In Part): Description of Business and Summary of Significant Accounting Policies

Accounts Receivable and Concentration of Credit Risk: The Company maintains credit insurance and uses factors as a means to reduce credit risk. Credit insurance is maintained covering $37,000 of certain outstanding accounts receivable. As of September 27, 1998 and September 28, 1997, approximately 11% and 15%, respectively, of the Company's trade accounts receivable were factored on a non-recourse basis. The Company performs on-going credit evaluations of its non-factored customer's financial condition and generally does not require collateral from those customers. The Company competes primarily in the apparel, automotive, home fashions and specialty fabric markets and sells its products to a multitude of customers in numerous geographical locations throughout the world. There is no disproportionate concentration of risk.

Allowances for doubtful accounts were $9,450 and $9,488 at September 27, 1998 and September 28, 1997, respectively.

HOMASOTE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Business And Credit Concentrations: Sales of the Company's products are dependent upon the economic conditions of the housing and manufacturing industries. Changes in these industries may significantly affect management's estimates and the Company's performance.

The majority of the Company's customers are located in the northeastern United States, with the remainder spread throughout the United States and Canada. No single customer accounted for more than five percent of the Company's sales.

The Company estimates an allowance for doubtful accounts based upon the actual payment history of each individual customer. Consequently, an adverse change in the financial condition or the local economy of a particular customer could affect the Company's estimate of its bad debts.

MEDTRONIC, INC. (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Financial Instruments

Concentrations of Credit Risk: Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of interest-bearing investments, foreign currency exchange contracts, and trade accounts receivable.

The Company maintains cash and cash equivalents, investments, and certain other financial instruments with various major financial institutions. The Company performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers and their dispersion across many geographic areas. The Company monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. However, a significant amount of trade receivables are with national health care systems in many countries. Although the Company does not currently foresee a credit risk associated with these receivables, repayment is dependent upon the financial stability of those countries' national economies.

QUALCOMM INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): The Company and Its Significant Accounting Policies

Concentrations: A significant portion of the Company's CDMA revenues are concentrated with a limited number of customers because the worldwide market for wireless telephone systems and products is dominated by a small number of large corporations and government agencies. The Company also derives significant revenues from the North American trucking industry, particularly providers of long-haul transportation of goods and equipment.

Revenues from international customers which consisted of export sales, including license and royalty fees, to customers outside of the U.S. were approximately 34%, 30% and 36% of total revenues in fiscal 1998, 1997 and 1996, respectively. The 1998, 1997 and 1996 revenues included $697 million, $522 million and $221 million from Asia, respectively. During fiscal 1998, 1997 and 1996, revenues from Globalstar accounted for 11%, 10% and 15% of revenues, respectively. During fiscal 1998, revenues from one Korean customer accounted for 11% of revenues.

At September 30, 1998, the Company has approximately $19 million in Russian/Ukrainian receivables and a further $30 million in products and deployment services placed with carriers in Russia and Ukraine during the fourth quarter of fiscal 1998 for which revenue has not been recognized. The Company will continue to monitor the underlying economics of business in that region, as well as other regions affected by the continuing world economic conditions.

SPECTRUM CONTROL, INC. (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Concentration of Credit Risk

Financial instruments which potentially subject the Company to a concentration of credit risk principally consists of cash, cash equivalents and trade receivables. The Company invests available cash in money market securities of high credit quality financial institutions. At November 30, 1998 and 1997, approximately 49% and 34%, respectively, of the Company's accounts receivable were from customers in the telecommunication industry. To reduce credit risk, the Company performs periodic credit evaluations of its customers, but does not generally require advance payments or collateral. Credit losses to customers operating in the telecommunication industry have not been material.

STANDARD MOTOR PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Concentrations of Credit Risk: Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and accounts receivable. The Company places its cash investments with high quality financial institutions and limits the amount of credit exposure to any one institution. With respect to accounts receivable, such receivables are primarily from warehouse distributors and major retailers in the automotive aftermarket industry located in the United States. The Company performs ongoing credit evaluations of its customers' financial conditions. Members of one marketing group represent the Company's largest group of customers and accounted for approximately 13%, 14% and 16% of consolidated net sales (including sales of discontinued operations) for the years ended December 31, 1998, 1997 and 1996, respectively. One individual member of this marketing group accounted for 10%, 9% and 11% of net sales for the years ended December 31, 1998, 1997 and 1996, respectively. The Company's five largest individual customers, including the members of this marketing group, accounted for 30%, 32% and 34% of net sales in 1998, 1997 and 1996, respectively.

SUNRISE MEDICAL INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Business and Credit Concentrations

The Company manufactures and distributes durable medical equipment and supplies primarily to the home healthcare and extended care markets. A significant portion of the Company's receivables are due from home healthcare and medical equipment dealers located throughout the United States, Canada and Europe. Many of these product sales to dealers are ultimately funded through government reimbursement programs such as Medicare and Medicaid. Any changes in these programs could affect dealer liquidity and profitability. This, in turn, could put pressure on prices charged and credit terms offered for the Company's products sold through this channel of distribution.

The Company estimates an allowance for doubtful accounts based on the credit worthiness of its customers as well as general economic conditions.

SUN MICROSYSTEMS, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Concentration of Credit Risk: Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of investment securities, foreign exchange contracts, and interest rate instruments as well as trade receivables. The counterparties to the agreements relating to the Company's investment securities, foreign exchange contracts, and interest rate instruments consist of various major corporations and financial institutions of high credit standing. The Company does not believe there is significant risk of non-performance by these counterparties because the Company limits the amount of credit exposure to any one financial institution and any one type of investment. The credit risk on receivables due from counterparties related to foreign exchange and currency option contracts is immaterial at June 30, 1998 and 1997. The Company's receivables are derived primarily from sales of hardware and software products and services to customers in diversified industries as well as to a network of resellers. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary but generally requires no collateral. In fiscal 1998 the Company provided approximately $23 million for doubtful accounts ($20 million and $11 million in 1997 and 1996, respectively).

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			
	1998	1997	1996	1995
Business combinations pending or effected	81	92	70	72
Debt incurred, reduced or refinanced	62	62	69	66
Discontinued operations	46	34	39	39
Litigation	52	32	26	36
Capital stock issued or purchased	25	22	22	11
Stock splits or dividends	15	17	13	17
Stock purchase rights	11	10	9	15
Employee benefits	15	18	10	14
Formation of jointly owned companies	10	11	N/C	N/C
Other-described	72	58	48	51

N/C—Not compiled.

Business Combinations

B/E AEROSPACE, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

19. Subsequent Events (Unaudited)

On April 13, 1998, the Company completed its acquisition of Puritan-Bennett Aero Systems Co. (PBASCO) for approximately $69,700 in cash and the assumption of liabilities aggregating approximately $2,810. PBASCO is the leading manufacturer of commercial aircraft oxygen delivery systems and passenger service unit components and systems, and is a major supplier of air valves, overhead lights and switches, crew masks and protective breathing devices for both commercial and general aviation aircraft. Based upon management's assumptions, a portion of the purchase price was allocated to purchased research and development that had not reached technological feasibility and had no future alternative use. During the first quarter of fiscal 1999, the Company recorded a charge of approximately $37,000 for the acquisition of in-process research and development and acquisition-related expenses.

On April 21, 1998, the Company acquired substantially all of the Aircraft Modular Products (AMP) assets for approximately $118,000 in cash and assumed certain liabilities aggregating approximately $2,840. AMP is the leading manufacturer of cabin interior products for general aviation (business jet) and commercial-type VIP aircraft, providing a broad line of products including seating, sidewalls, bulkheads, credenzas, closets, galley structures, lavatories, tables and sofas, along with related spare parts. Based on management's assumptions, a portion of the purchase price was allocated to purchased research and development that had not reached technological feasibility and had no future alternative use. During the first quarter of fiscal 1999, the Company recorded a charge of approximately $61,000 for the acquisition of in-process research and development and acquisition-related expenses.

E.I. DU PONT DE NEMOURS AND COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

29. Subsequent Event

In February 1999 the Company acquired Herberts, the leading supplier of automotive coatings in Europe, from Hoechst for about $1,900. This business will become part of DuPont's Performance Coatings & Polymers segment. Herberts operates 37 manufacturing facilities worldwide and currently employs approximately 9,000 employees. For the year-ended December 31, 1998, Herberts had sales of approximately $1,900. The acquisition will be accounted for as a purchase in 1999.

EATON CORPORATION (DEC)

FINANCIAL REVIEW

Subsequent Event (Unaudited)

On February 1, 1999, the Company announced it had entered into an agreement to acquire all of the outstanding common stock of Aeroquip-Vickers, Inc., for $58 per share in cash, or approximately $1.7 billion, plus the assumption of debt. For 1998, Aeroquip-Vickers reported sales of $2.15 billion, pretax income of $148 million, and net assets of $569 million. Aeroquip-Vickers is a world leader in the design, manufacture and distribution of engineered components and systems to industrial, aerospace and automotive markets.

Eaton expects to finance approximately 20% of the acquisition through the sale of Common Shares, with the remainder through the issuance of debt. In conjunction with the acquisition, Eaton anticipates recording an acquisition integration charge which has not yet been determined. The acquisition is expected to be completed in April 1999 and will be accounted for as a purchase.

KERR-McGEE CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

23. Merger with Oryx Energy Company (Unaudited)

On February 26, 1999, the Company completed the merger with Oryx upon the approval of the shareholders of each Company. Under the terms of the merger agreement, each outstanding share of Oryx common stock was exchanged for 0.369 shares of newly issued company stock. Approximately 39 million shares of the company stock were issued to the Oryx shareholders, bringing the total shares outstanding to approximately 86 million. The merger qualifies as a tax-free exchange to Oryx shareholders and has been accounted for as a pooling of interests. Presented below are combined condensed financial statements for the year ended and at December 31, 1998, as though the merger had been completed at year-end.

COMBINED CONDENSED STATEMENT OF INCOME

(Millions of dollars, except per-share amounts)	Kerr-McGee	Oryx	Reclassifications	Adjustments(1)	Combined Company
Sales	$1,396	$820	$(16)	$ —	$2,200
Costs and operating expenses	1,735	868	(13)	16	2,606
Interest and debt expense	58	99	—	—	157
Total costs and expenses	1,793	967	(13)	16	2,763
	(397)	(147)	(3)	(16)	(563)
Other income	22	—	21	—	43
Provision (benefit) for income taxes	(148)	(52)	18	7	(175)
Loss from continuing operations	(227)	(95)	—	(23)	(345)
Income from discontinued operations	277	—	—	—	277
Net income (loss)	$ 50	$ (95)	$ —	$(23)	$ (68)
Net loss per share—					
Continuing operations					$ (3.98)
Total					(.78)

COMBINED CONDENSED BALANCE SHEET

(Millions of dollars)	Kerr-McGee	Oryx	Reclassifications	Adjustments(1)	Combined Company
Assets:					
Current assets	$ 751	$ 131	$ (5)	—	$ 877
Property, plant and equipment—net	2,288	1,765	123	(23)	4,153
Other noncurrent assets	302	88	(1)	—	389
Total	$3,341	$1,984	$117	$(23)	$5,419
Liabilities and stockholders' equity–					
Current liabilities	$ 536	$ 505	$ 9	$ —	$1,050
Long-term debt	901	1,077	—	—	1,978
Deferred credits	571	329	108	9	1,017
Stockholders' equity	1,333	73	—	(32)	1,374
Total	$3,341	$1,984	$117	$(23)	$5,419

(1) These amounts reflect adjustments to conform accounting methods between Kerr-McGee and Oryx and apply the pooling of interests method of accounting for business combinations.

MEDTRONIC, INC. (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Subsequent Event

On June 29, 1998, Medtronic, Inc. and Physio-Control International Corporation announced the signing of a definitive merger agreement. The agreement calls for each Physio-Control shareholder to receive $27.50 in the form of Medtronic common stock for each share of Physio-Control they now hold. Physio-Control has approximately 21 million shares outstanding on a diluted basis. It is anticipated that the transaction will close in the second quarter of fiscal 1999 and be accounted for as a pooling of interests. In order to be eligible for pooling of interests, Medtronic intends to issue approximately 12 million shares of common stock to the public prior to the closing of the transaction. Physio-Control designs, manufactures, markets, and services an integrated line of noninvasive emergency cardiac defibrillator and vital sign assessment devices, disposable electrodes, and data management software.

Unaudited pro forma information related to this merger is not included as the impact of the merger is not deemed to be material.

VULCAN MATERIALS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Subsequent Events

A. CalMat Acquisition: In January 1999, the Company completed its $31.00 per share tender offer for all of the outstanding shares of common stock of CalMat Co. for a value of $740,000,000. The acquisition was funded by cash and approximately $590,000,000 of commercial paper. It will be accounted for under purchase accounting, with the purchase price allocated to the acquired assets and assumed liabilities based on fair market value.

As of the acquisition, CalMat had fixed term debt of $118,000,000 and $90,000,000 of bank borrowings. The aggregate principal payments for the fixed term debt for the five years subsequent to December 31, 1998 are: 1999—$294,000; 2000—$303,000; 2001—$314,000; 2002—$2,355,000; and 2003—$35,161,000. In addition, CalMat's operating lease obligations with initial or remaining noncancelable lease terms in excess of one year, exclusive of mineral leases, at December 31, 1998 range from $371,000 to $910,000 annually through 2003 and aggregate $829,000 thereafter.

CalMat is a party to various lawsuits incident to the ordinary course of business. It is not possible to determine with precision the probable outcome or the amount of liability, if any, with respect to these lawsuits; however, in the opinion of the Company and its counsel, the disposition of these lawsuits will not adversely affect the consolidated financial statements of the Company to a material extent.

Debt Incurred, Reduced Or Refinanced

AT&T CORP. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Subsequent Events

On January 26, 1999, AT&T filed a registration statement with the Securities and Exchange Commission (SEC) for the offering and sale of up to $10 billion of notes and warrants to purchase notes. AT&T intends to use the proceeds from the sale of the notes and warrants for funding investments in subsidiary companies, capital expenditures, acquisitions of licenses, assets or businesses, refunding of debt and general corporate purposes. The amount and timing of the sales will depend on market conditions and the availability of other funds to AT&T.

EG&G, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26 (In Part): Subsequent Events

Shelf Registration: In January 1999, the Company filed a shelf registration statement with the SEC to register $465 million of securities. This registration statement, together with $35 million of securities covered by a previously filed registration statement, will provide the Company with financing flexibility to offer up to $500 million aggregate principal amount of common stock, preferred stock, depository shares, debt securities, warrants, stock purchase contacts and/or stock purchase units. The Company expects to use the net proceeds from the sale of the securities for general corporate purposes, which may include, among other things: the repayment of outstanding indebtedness, working capital, capital expenditures, the repurchase of shares of common stock and acquisitions. The precise amount and timing of the application of such proceeds will depend upon our funding requirements and the availability and cost of other funds.

LUFKIN INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Debt Obligations

The Company's short term debt obligations at December 31, 1998 and 1997 consist of the following:

(Thousands of dollars)	1998	1997
Discretionary line of credit with a domestic bank, payable daily, floating interest rate agreed to by Company and bank, currently 6.0%, unsecured	$9,500	—
Less-Discretionary line of credit, classified as long term notes payable and current portion of long term notes payable, discussed below	(6,000)	—
Note payable to domestic bank, due January 4, 1999, interest at 6.87%, unsecured	5,000	—
	$8,500	—

Subsequent to December 31, 1998 and prior to the issuance of these financial statements, the Company refinanced $6,000,000 of the discretionary line of credit into a long term obligation, with interest equal to the current Euro currency rate plus 1.75% per annum, payable in sixteen quarterly installments of $375,000 plus interest beginning on the last business day of March, 1999 and maturing on the last business day of December, 2002, and is unsecured. As a result, $4,500,000 was classified as long term notes payable as of December 31, 1998 and $1,500,000 was classified as the current portion of long term notes payable.

The Company's long term notes payable at December 31, 1998 and 1997 consist of the following:

(Thousands of dollars, except payment amounts)	1998	1997
Notes payable to individuals, interest ranging from 6.50% to 6.65%, due in quarterly installments ranging from $9,000 to $55,000 with balloon payments at maturity ranging from $996,000 to $2,162,000 maturing August 2000 to July 2002, unsecured	$ 6,332	$ 6,907
Notes payable to individuals, stated interest rate of 0% with an imputed interest rate of 6.50%, due in annual installments totaling $167,000, maturing August 2000, unsecured	333	500
Notes payable to bank, floating interest rate, based on TIOP quarterly, currently 3.75%, due in quarterly installments ranging from $50,000 to $123,000 secured by certain assets	1,550	—
Discretionary line of credit, subsequently refinanced as long term notes payable, discussed above	6,000	—
Less-current maturities of long term notes payable	(2,687)	(742)
Total	$11,528	$ 6,665

THE STANLEY WORKS (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

As of January 2, 1999, the Company had on file with the Securities and Exchange Commission a shelf registration statement covering the issuance of up to $200.0 million of debt securities, of which $100.0 million was unused. The remaining debt securities were issued and used to refinance commercial paper on February 24, 1999. The Company has unused short and long-term credit arrangements with several banks to borrow up to $400.0 million at the lower of prime or money market rates. Of this amount, $150.0 million is long-term. Commitment fees range from .06% to .07%. In addition, the Company has short-term lines of credit with numerous foreign banks aggregating $113.4 million, of which $86.0 million was available at January 2, 1999. Short-term arrangements are reviewed annually for renewal. Of the long-term and short-term lines, $400.0 million is available to support the Company's commercial paper program. The weighted average interest rates on short-term borrowings at January 2, 1999 and January 3, 1998 were 5.4% and 6.4%, respectively.

VENATOR GROUP, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. Subsequent Event

On March 19, 1999, the Company amended its revolving credit agreement. In accordance with the amended agreement, the facility was reduced to $400 million, with a further reduction to $300 million by February 15, 2000. If certain assets are sold or debt or equity is issued, the revolving credit agreement may be reduced earlier than February 2000 to $350 million. Under the terms of the amended agreement, the Company is required to satisfy certain financial and operating covenants, which include: maximum ratio of total debt to earnings before interest, taxes, depreciation and amortization; minimum fixed charge coverage ratio; minimum tangible net worth and limits on capital expenditures. In addition, the Company is required to fund the repayment of the 7.0% debentures, which are redeemable in June 2000, by February 15, 2000. This facility is unsecured relating to the Company's inventory; however, it does include collateralization of certain properties as defined in the agreement. The amended agreement also restricts consolidations or mergers with third parties, investments and acquisitions, payments of dividends on common stock and repurchases of common stock.

Litigation

PIONEER HI-BRED INTERNATIONAL, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Legal Matters

Since April, 1996, DeKalb Genetics Corporation ("DeKalb") has filed five lawsuits against Pioneer. The lawsuits allege that insect resistant corn products that use a Bt gene, and corn products resistant to a glufosinate herbicide, infringe on certain DeKalb patents.

After reviewing the Company's intellectual property position, DeKalb's patent filings, DeKalb's lawsuits, and conducting extensive discovery, Pioneer continues to believe all DeKalb's claims are without merit. Pioneer has denied DeKalb's allegations and raised defenses that, if successful, would render DeKalb's patents invalid. Pioneer believes that disposition of the lawsuits will not have a materially adverse effect on the consolidated financial position and results of operations of the Company. Pioneer also does not expect delays in the introductions of advanced corn hybrids with insect and herbicide resistance because of these lawsuits.

13. Unaudited Subsequent Event

On November 10, 1998, two lawsuits filed by DeKalb (see Note 7) were dismissed with prejudice. These lawsuits alleged the Company had infringed on DeKalb patents by using glufosinate resistant products in developing corn hybrids.

SERVICE CORPORATION INTERNATIONAL (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19 (In Part): Subsequent Events

Since January 26, 1999, several lawsuits have been commenced on behalf of persons who (i) acquired shares of Company common stock in the merger of a wholly owned subsidiary of the Company into ECI, (ii) purchased shares of Company common stock during certain specified class periods or (iii) owned employee stock options in ECI. As of March 24, 1999, 20 class action lawsuits that had been originally filed in federal district court in Houston had been consolidated into one action pending in that court, and one additional class action lawsuit that had been originally filed in the federal district court in Lufkin, Texas was still pending in that court. These lawsuits allege violations of federal securities laws and name as defendants the Company and certain of its officers and directors. As of the same date, two former state court lawsuits, one of which was a class action, naming the Company as defendant and alleging fraud and violations of Texas securities and common law had been removed to the federal district court in Lufkin. The lawsuits generally refer to the Company's January 26, 1999 public announcement that the Company's diluted earnings per share for the fourth quarter of 1998 and for the year ended December 31, 1998 would be lower than analyst expectations. The lawsuits seek, among other things, to recover unspecified damages. Since the litigation is in its very preliminary stages, no discovery has been taken, and the Company cannot quantify its ultimate liability, if any, for the payment of damages in these lawsuits. However, the Company believes that the allegations in the lawsuits do not provide a basis for the recovery of damages.

Discontinued Operations

GENCORP INC. (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

D (In Part): Acquisitions, Divestitures and Subsequent Events

Subsequent Events: On December 17, 1998, the Company announced a plan to spin off its Performance Chemicals (formerly Specialty Polymers) and Decorative & Building Products businesses to GenCorp shareholders as a separate publicly traded polymer products company. Following the spin-off, GenCorp would continue to operate Aerojet, its aeropace, defense and fine chemicals segment, and its automotive Vehicle Sealing business unit. Implementation of the plan is subject to approval by GenCorp shareholders, the receipt of a favorable ruling from the Internal Revenue Service, as well as market conditions at the time of the proposed spin-off. See Note S for financial information related to the Company's polymer products segment, which consists of Performance Chemicals, Decorative & Building Products and Penn Racquet Sports businesses.

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On December 14, 1998, the Company sold its residential wallcovering business to Blue Mountain Wallcoverings, Inc. for an aggregate consideration of approximately $9 million. The loss on the sale of this business was reflected in 1998 results of operations. Also on December 14, 1998, the Company announced it had initiated the process for divesting its Penn Racquet Sports division for which the Company expects to realize a gain.

HON INDUSTRIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Events

On February 11, 1999, the Company announced a cost savings initiative to increase long-term profitability. It will close three office furniture manufacturing operations and consolidate substantially all production into other U.S. manufacturing operations that have created capacity primarily through ongoing rapid continuous improvement initiatives. The operations will close following an orderly transition of production to other facilities which is expected to be completed during the second and third quarters of 1999. A charge to pre-tax earnings of approximately $19.7 million, or $0.20 per diluted share, will be taken in the first quarter of 1999 in connection with this consolidation.

NORTHWESTERN STEEL AND WIRE COMPANY (JUL)

NOTES TO FINANCIAL STATEMENTS

Subsequent Event

On October 7, 1998, the Company announced that it will exit the majority of its wire products business by the end of calendar 1998. Specifically, the Company will cease in an orderly fashion production and marketing of its agricultural, nail and lawn and garden product lines. The Company will continue to produce and market manufacturer's wire and cut rod products at its Sterling Operations. The Company has incurred losses in these product lines during the last three years. The continued growth of low cost imported products and continued pressure from lower cost domestic producers has impacted the profitability and competitive position of these products. The Company has concluded that market conditions today and for the foreseeable future are such that these product lines are likely to remain uncompetitive. Additionally, incremental future investments into these product lines would not generate sufficient income to recover the cost of those investments.

The Company anticipates incurring a special non-recurring pre-tax charge of $41.9 million in the first quarter ending October 31, 1998, to cover the expected cash and non-cash costs of the closure. The charge includes employee termination expenses, closure costs and the writedown to estimated fair market value of the facility and equipment related to these product lines. The proceeds from the liquidation of these wire product's working capital, net of cash closure costs, is expected to generate a modest amount of cash, after all closure costs have been incurred.

Prior to this decision, the Company manufactured and supplied the primary incoming material, steel rod, in the production of these products. The Company intends to market a correspondingly greater amount of rod to external rod markets although there can be no assurance as to selling price and over what time-frame this will be realized.

The discontinuance of these wire products has not caused the Company to be in violation of its various bank covenants, however, depending on future financial performance, the Company could require a waiver of the debt coverage ratio at some time during the Spring or Summer of 1999. In the event this occurs, the Company will seek a waiver from its bank lenders.

PRIMEDIA INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

23 (In Part): Subsequent Events

On February 22, 1999, the Company announced the closing by PRIMEDIA Workplace Learning of five unprofitable and recently launched product lines as part of a program to return the Company's focus to accreditation-oriented vocational networks and associated products. Accordingly, PRIMEDIA expects to record a charge related to this refocusing for severance, lease discontinuance for transponders and office sites, recoverability of certain assets, related goodwill and other items against its 1999 first quarter results. The Company is currently in the process of calculating the pre-tax charge, which is estimated to be between $20,000 and $24,000. PRIMEDIA Workplace Learning is included in the education segment.

VISHAY INTERTECHNOLOGY INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Subsequent Events

On March 26, 1999, the Company finalilzed the sale of Nicolitch, S.A., its French manufacturer of printed circuit boards to Leonische Drahtwerke AG. In connection with the sale, the Company received proceeds of approximately $9,824,000 and recorded a noncash book loss of approximately ($11,500,000). Nicolitch had net sales of $24,000,000 and a net loss of ($105,000) for 1998.

Capital Stock Issued Or Purchased

LOWE'S COMPANIES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Subsequent Events (Unaudited)

In March 1999, the Company issued 6,206,895 shares of common stock in a public offering. The net proceeds from the stock offering were approximately $348.1 million. The shares were issued under a shelf registration statement filed with the Securities and Exchange Commission in December 1997.

ENGELHARD CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Subsequent Event

On March 2, 1999, Engelhard Corporation announced that it has reached an agreement to purchase approximately 18 million shares of Engelhard stock owned by Minorco, with the remainder of Minorco's 31.8% stake (approximately 28 million shares) to be sold through an underwritten public offering. Engelhard has filed a shelf registration on Form S-3 for those 28 million shares.

Minorco, a Luxembourg-based company, previously announced its intention to divest its 31.8% interest in Engelhard prior to the combination of its businesses with those of Anglo American Corporation of South Africa Limited, which is expected to occur by the end of May 1999.

Under terms of the agreement, Engelhard will purchase approximately 18 million shares at $18.90 per share or the price received by Minorco in the secondary offering less the underwriting spread, whichever is lower. Engelhard also has agreed to purchase up to an additional two million shares if available at the end of the offering. The 20 million shares represent 13.9% of Engelhard's total shares outstanding. In addition, Minorco will compensate Engelhard for the costs and expenses incurred in connection with the transaction.

Engelhard anticipates initially financing the purchase with short-term debt and intends to take steps to reduce its total debt going forward. It is reviewing its portfolio to identify non-core assets and businesses for potential sale and exploring ways to further reduce operating expenses.

Engelhard's purchase of shares and the secondary offering are expected to be completed during the second quarter of 1999.

In October 1998, Standard & Poor's and Moody's Investors Service each placed its ratings of Engelhard Corporation debt on credit watch. The rating action was prompted by Engelhard's announcement that it had hired financial advisors to help the Company explore its strategic alternatives after Minorco announced that it will be divesting its 31.8% interest in Engelhard Corporation. In March 1999, Moody's Investors Service confirmed the A3 ratings on Engelhard's senior unsecured debt and confirmed the Company's commercial paper rating at Prime-2. In addition, in March 1999 Standard & Poor's announced that ratings on Engelhard remain on credit watch, with the implications being revised to "negative" from "developing." If the transaction is consummated as described above, Standard & Poor's indicated that it would lower its corporate credit and senior unsecured debt ratings to single-'A' minus from single-'A' and its commercial paper rating to A-'2' from A-'1'. These rating actions followed the March 2, 1999 announcement discussed above.

Stock Splits/Dividends

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

C (In Part): Subsequent Events

Stock Split: On January 26, 1999, the IBM Board of Directors declared a two-for-one common stock split, subject to the approval of stockholders of an increase in the number of common shares authorized from 1,875 million to 4,687.5 million. The record date for the split will be on May 10, 1999, with distribution of the split shares expected to follow on May 26, 1999. Earnings per share calculations included in this report have not been restated to reflect this proposed stock split.

MCDONALD'S CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Per common share information: On January 26, 1999, the Board of Directors declared a two-for-one-stock split of the Company's common stock, effected in the form of a stock dividend paid on March 5, 1999. As a result of this action, 830.3 million shares were issued to shareholders of record as of February 12, 1999. Par value of the stock remains at $.01 per share and accordingly, $8.3 million were transferred from additional paid-in capital to common stock. All references to the number of common shares and per common share amounts have been restated to give retroactive effect to the stock split for all periods presented.

VULCAN MATERIALS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Subsequent Events

B. Stock Split: On February 12, 1999, the Board of Directors approved an increase in the authorized common stock from 160,000,000 shares to 480,000,000 shares and a three-for-one split of the common stock. Par value of the common stock will remain $1 per share. The stock split was effective March 10, 1999.

The effect of the stock split has been recognized retroactively in the shareholders' equity accounts on the balance sheets as of December 31, 1998, and in all share and per share data in the accompanying consolidated financial statements, Notes to Financial Statements and supplemental financial data. Shareholders' equity accounts have been restated to reflect the reclassification of an amount equal to the par value of the increase in issued common shares from the capital in excess of par value and retained earnings accounts to the common stock account.

Employee Benefits

ADOLPH COORS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Employee Retirement Plans

The Company maintains several defined benefit pension plans for the majority of its employees. Benefits are based on years of service and average base compensation levels over a period of years. Plan assets consist primarily of equity, interest-bearing investments and real estate. The Company's funding policy is to contribute annually not less than the ERISA minimum funding standards, nor more than the maximum amount that can be deducted for federal income tax purposes. Total expense for all these plans was $11.9 million in 1998, $14.1 million in 1997 and $24.8 million in 1996. These amounts include the Company's matching for the savings and investment (thrift) plan of $6.1 million in 1998, $5.8 million in 1997 and $5.7 million in 1996. The steady decrease in pension expense from 1996 through 1998 is primarily due to the improvement in the funded position of the Coors Retirement Plan over that period. In November 1998, the ACC board of directors approved changes to one of the plans. The changes, which will result in an amendment to the plan, will be effective July 1, 1999, and will increase the projected benefit obligation at the effective date by approximately $48 million. To offset the increase in the projected benefit obligation of the defined benefit pension plan, the Company made a $48 million contribution to the plan in January 1999.

Formation of Joint Ventures

GREIF BROS. CORPORATION (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Subsequent Events

CorrChoice Joint Venture: On November 1, 1998, the Company entered into a Joint Venture Agreement to form CorrChoice, Inc. ("CorrChoice"). The Joint Venture Agreement provides for the consolidation into CorrChoice of three sheet feeder parts of Michigan Packaging Company ("Michigan Packaging"), a wholly-owned subsidiary of the Company, and three sheet feeder plants of Ohio Packaging Corporation and its subsidiaries ("Ohio Packaging").

Pursuant to the terms of the Joint Venture Agreement, the Company contributed all of its stock of Michigan Packaging and Ohio Packaging in exchange for a 63.24% ownership interest in CorrChoice and the minority interest contributed all of its stock of Ohio Packaging in exchange for a 36.76% ownership interest in CorrChoice. The ownership percentages of the Company and minority interest in CorrChoice were determined by an appraisal of Michigan

Packaging and Ohio Packaging performed by an independent third party.

The three Michigan Packaging plants are located in Mason, Michigan, Grand Rapids, Michigan and Concord, North Carolina. The three Ohio Packaging plants are located in Massillon, Ohio, Louisville, Kentucky and Cincinnati, Ohio. In addition to these locations, CorrChoice plans to establish a sheet feeder plant in the Atlanta, Georgia area.

Prior to the formation of the joint venture, the Company accounted for its investment in Ohio Packaging's non-voting stock under the cost method of accounting since it had no significant influence over the operations of Ohio Packaging. However, as a result of the Company's controlling interest in the joint venture effective November 1, 1998, the results of which will be consolidated, generally accepted accounting principles require the Company to retroactively adjust the financial statements of prior years using the equity method of accounting. The prior year adjustments will be a $4.1 million, $3.5 million and $3.5 million increase to net income during 1998, 1997 and 1996, respectively, and will be reflected in all future reports. As a result of the cumulative adjustments, the Company's investment will be recorded as $49.1 million as of October 31, 1998. Based on the independent appraisals, as discussed above, the fair value of this investment is $99.2 million.

As discussed above, the Company will include the results of CorrChoice in its Consolidated Financial Statements subsequent to November 1, 1998. The following summarized pro forma (unaudited) information assumes that the joint venture had occurred on November 1, 1997 (Dollars in thousands, except per share amounts):

	1998
Net Sales	$895,723
Net income	$ 36,169
Basic earnings per share:	
Class A Common Stock	$ 1.26
Class B Common Stock	$ 1.87
Diluted earnings per share:	
Class A Common Stock	$ 1.25
Class B Common Stock	$ 1.87

The pro forma information, as presented above, is not necessarily indicative of the results which would have been obtained had the transactions occurred at November 1, 1997, nor are they necessarily indicative of future results.

Abzac Joint Venture: During December 1998, the Company and Abzac s.a., a privately held company in France ("Abzac"), entered into a letter of intent for the exchange of the Company's spiral core manufacturing assets for a 49% equity interest in Abzac's fibre drum business. The Company manufactures spiral cores at three of its Canadian locations. Abzac, at three of its locations, manufactures fibre drums in France. The transaction is subject to due diligence and is anticipated to be completed during the third quarter of 1999.

LABARGE, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. Subsequent Event

In July 1998, LaBarge and Global Research Systems, Inc. of Rome, Georgia ("Global") formed NotiCom L.L.C. ("NotiCom"), a Georgia limited liability company, to develop and market electronic systems providing advance notice of the impending arrival of passenger motor vehicles. The first product marketed by NotiCom will be BusCall™. BusCall notifies parents by phone, electronic mail or pager when a school bus is approaching their children's bus stop. It will be marketed to wireless communications providers and local exchange carriers which can offer BusCall as an add-on service, such as call waiting and call forwarding. LaBarge is the exclusive manufacturer of all electronic hardware sold by NotiCom in the United States and Canada and will recognize revenues as it sells products to NotiCom. Each of LaBarge and Global has a 50% interest in NotiCom, except that after an aggregate of $1.0 million has been distributed by NotiCom, Global will be entitled to 75% of subsequent distributions until it has received preferred distributions aggregating $1.3 million. LaBarge has invested $1.8 million in NotiCom and has committed to contribute $500,000 of development services. In addition, LaBarge has paid Global $1.7 million for a 50% interest in the intellectual property and has licensed the technology to NotiCom. The Company has committed to pay Global up to an aggregate of $23.3 million of additional purchase price for its 50% interest in the technology if NotiCom meets or exceeds cumulative earnings before income tax ("EBT") targets for the period from July 1, 1998 through December 1, 1999 and through each six-month period thereafter through December 31, 2001. In order to generate the maximum purchase price, NotiCom must generate $211.8 million of EBT between July 1, 1998 and December 31, 2001. Because NotiCom is a start-up venture, it is too early to predict if or to what extent NotiCom may contribute to the Company's revenues or earnings; therefore, the Company has not recorded the contingent purchase price.

Tax Settlement

GENERAL DYNAMICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

B (In Part): Subsequent Events

On March 2, 1999, the company was notified that the Joint Committee on Taxation approved the settlement of the company's tax refund claims for research and experimentation tax credits for 1987 through 1989. The company expects to net approximately $250 after-tax cash during the second quarter of 1999, including settlement amounts carried forward from tax years 1981 through 1986. The company is presently evaluating the income effect of these settlements, and expects to recognize substantial income from the event in the first quarter of 1999.

Subsidiary Tender Offer

LYNCH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. Subsequent Events

On February 22, 1999, the Company's 53%-owned subsidiary, The Morgan Group, Inc. announced that it is commencing a tender offer to purchase shares of its Class A common stock. Under terms of the offer, Morgan would determine the price to be paid for shares between $8.50 and $10.00 per share. The tender offer concluded on March 19, 1999, whereby Morgan purchased approximately 103,000 shares at $9.00 per share. Lynch Corporation did not tender any of its Morgan shares.

Transaction Affecting Investment Valuation

POLAROID CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Subsequent Events

The Company owns approximately 14% of the common stock of SDI Holding Corp. ("SDHI") with a book value of approximately $14.0 million at December 31, 1998. The Company also owns preferred stock, with a book value of approximately $35.0 million at that date, of Sterling Dry Imaging Systems, Inc., a subsidiary of SDHI ("SDIS"). In January 1999, Agfa-Gevaert N.V. agreed to acquire SDHI, excluding SDIS which, under the acquisition agreement, is to be spun off to SDHI's shareholders and not acquired by Agfa-Gevaert N.V. The Company is currently reviewing its position relative to this transaction. However, sufficient information is not available for the Company to fully assess the probable effect of this transaction on the value of its preferred stock in SDIS.

Product Distribution Rights Granted

SPEIZMAN INDUSTRIES, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Subsequent Event

On August 1, 1998, the Company was granted the exclusive United States and Canadian distribution rights of the Marzoli product line manufactured by Fratelli Marzoli & C. SpA, an Italian corporation. As part of its agreement with Fratelli Marzoli & C. SpA, the Company will assume the operations of the current offices, showrooms and personnel. Fratelli Marzoli & C. SpA manufactures equipment used in the yarn processing industry. Prior to the Company's receipt of distribution rights, Fratelli Marzoli & Co. SpA distributed its products in the United States through its wholly-owned subsidiary, Marzoli International, Inc., a domestic corporation based in Spartanburg, South Carolina. Revenues of Marzoli International, Inc. for the twelve months ended December 31, 1997 were approximately $13.9 million.

Securities Issued By Company Owned Trust

TEXAS INDUSTRIES, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Event

On June 5, 1998, TXI Capital Trust I (the "Trust"), a Delaware business trust wholly owned by the Company, issued 4,000,000 of its 5.5% Shared Preference Redeemable Securities ("Preferred Securities") to the public for gross proceeds of $200 million. The combined proceeds from the issuance of the Preferred Securities and the issuance to the Company of the common securities of the Trust were invested by the Trust in $206.2 million aggregate principal amount of 5.5% convertible subordinated debentures due June 30, 2028 (the "Debentures") issued by the Company. The Debentures are the sole assets of the Trust.

Holders of the Preferred Securities are entitled to receive cumulative cash distributions at an annual rate of $2.75 per Preferred Security (equivalent to a rate of 5.5% per annum of the stated liquidation amount of $50 per Preferred Security). The Company has guaranteed, on a subordinated basis, distributions and other payments due on the Preferred Securities, to the extent the Trust has funds available therefore and subject to certain other limitations (the "Guarantee"). The Guarantee, when taken together with the obligations of the Company under the Debentures, the Indenture pursuant to which the Debentures were issued, and the Amended and Restated Trust Agreement of the Trust (including its obligations to pay costs, fees, expenses, debts and other obligations of the Trust [other than with respect to the Preferred Securities and the common securities of the Trust]), provide a full and unconditional guarantee of amounts due on the Preferred Securities.

The Debentures are redeemable for cash, at the option of the Company, in whole or in part, on or after June 30, 2001, or under certain circumstances relating to federal income tax matters, at par, plus accrued and unpaid interest. Upon any redemption of the Debentures, a like aggregate liquidation amount of Preferred Securities will be redeemed. The Preferred Securities do not have a stated maturity date, although they are subject to mandatory redemption upon maturity of the Debentures on June 30, 2028, or upon earlier redemption.

Each Preferred Security is convertible at any time prior to the close of business on June 30, 2028, at the option of the holder into shares of the Company's common stock at a conversion rate of .72218 shares of the Company's common stock for each Preferred Security (equivalent to a conversion price of $69.235 per share of TXI Common Stock).

Exchange Of Assets

TRIBUNE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Changes in Operations and Non-Recurring Items

In August 1998, the Company reached an agreement with Meredith Corporation to acquire the assets of television station KCPQ-Seattle in exchange for the assets of the Company's WGNX-Atlanta television station and cash. On March 1, 1999 and in a three-way transaction, Meredith purchased KCPQ from Kelly Television Co. and then exchanged the station for WGNX. The divestiture of WGNX will be accounted for as a sale and the acquisition of KCPQ will be recorded as a purchase. The Company will record the assets of KCPQ at a fair market value, which will result in an estimated pretax gain of $350 million in the first quarter of 1999. Current FCC regulations preclude the Company from owning both KCPQ and the Company's KTZZ-Seattle television station. As part of the transaction, the Company transferred the assets of KTZZ into a disposition trust. Pursuant to the terms of the disposition trust, an independent trustee is charged with finding a buyer for KTZZ by September 1, 1999.

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 1998, 164 survey companies disclosed related party transactions. Examples of related party disclosures follow.

Transactions Between Reporting Entity and Investees

ASHLAND INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Basis of Presentation: Effective January 1, 1998, Ashland and Marathon Oil Company formed Marathon Ashland Petroleum LLC (MAP), combining the major elements of the refining, marketing and transportation operations of the two companies. Marathon has a 62% interest in MAP and Ashland holds a 38% interest, which is accounted for using the equity method of accounting. For comparison purposes, Ashland changed its method of accounting for the businesses conveyed to MAP to the equity method effective October 1, 1997, the beginning of Ashland's 1998 fiscal year. Restatement of financial statements for years prior to 1998 is not permitted under generally accepted accounting principles. As a result, 1998 is not comparable to 1997 and 1996. The change had no effect on Ashland's net income or common stockholders' equity, but reduced its revenues, costs, assets and liabilities, and changed certain components of its cash flow.

M. Related Party Transactions

Ashland sells chemicals and lubricants to Marathon Ashland Petroleum LLC (MAP) and purchases petroleum products from MAP. Such transactions are in the ordinary course of business at negotiated prices comparable to those of transactions with other customers and suppliers. In addition, Ashland leases certain facilities to MAP, and provides certain computer, treasury, accounting, internal auditing and legal services to MAP. For the nine months ended September 30, 1998, Ashland's sales to MAP amounted to $14 million, its purchases from MAP amounted to $147 million, and its costs charged to MAP amounted to $21 million. Ashland's transactions with other affiliates and related parties were not significant.

BRUNSWICK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 (In Part): Investments

The Company has made cash advances to the majority partner of a boat company partnership, in which the Company has a minority interest, in connection with long-term engine supply arrangements. These transactions have occurred in the ordinary course of business and are backed by notes receivable that are reduced as purchases of qualifying products are made. The notes receivable are secured by the majority partner's interest in the boat company partnership and are included in other long-term assets. Amounts outstanding related to these arrangements as of December 31, 1998 and 1997, totaled $50.7 million and $44.3 million, respectively. Total assets as of December

31, 1998 and 1997, directly or indirectly related to this boat company partnership, including trade receivables, the Company's investment and the aforementioned supply agreement assets, were $78.6 million and $64.2 million, respectively.

WORLD COLOR PRESS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

15. Transactions With Affiliates

The Company has incurred expenses of $750 in each of the fiscal years ending 1998, 1997 and 1996 for management services provided by affiliated companies.

Transactions Between Reporting Entity and Major Stockholders

GENERAL INSTRUMENT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. Related Party Transactions

In connection with the asset purchase from TCI, which was consummated on July 17, 1998, TCI obtained approximately a 12% ownership interest in the Company, and at December 31, 1998, such ownership interest was 13%. TCI is also a significant customer of the Company. Sales to TCI represented 31% of total Company sales for the year ended December 31, 1998. Management believes the transactions with TCI are at arms length and are under terms no less favorable to the Company than those with other customers. At December 31, 1998 accounts receivable from TCI totaled $81 million.

LACLEDE STEEL COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Related Party Transactions

The Company has transactions in the normal course of business with Ivaco Inc. or affiliated companies. As of September 30, 1998 Ivaco Inc. owned approximately 25% of the Company's outstanding common stock. For the nine months ended September 30, 1998, the Company purchased rods totaling $1,024,000 from affiliates of Ivaco and for the year ended 1997, the Company purchased $5,502,000. Prior to January 1, 1998, the Company was self-insured for workers' compensation liabilities. Ivaco Inc. issued a $4.0 million guaranty bond covering such liabilities.

The Company also has transactions in the normal course of business with Birmingham Steel or affiliated companies. As of September 30, 1998 Birmingham Steel beneficially owned approximately 25% of the Company's outstanding common stock. In 1998 the Company purchased rods and participated in rod conversion arrangements with affiliates of Birmingham Steel at market prices, which totaled $3,508,000. Also in 1997, an affiliate of Birmingham Steel purchased semi-finished steel from the Company at market prices totaling $643,000.

Transactions Between Reporting Entity and Officers/Directors

ALLIED WASTE INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Related Party Transactions

Transactions with related parties are entered into only upon approval by a majority of the independent directors of the Company and only upon terms comparable to those that would be available from unaffiliated parties.

In connection with the receipt in April 1995 of all permits necessary to develop a landfill on certain real estate acquired in July 1992, the Company was obligated to pay $5.6 million to the previous owners of the real estate, including current stockholders of the Company. During the years ended December 31, 1996, 1997 and 1998, the Company paid principal of $121,000, $136,000 and $1.7 million, respectively, to stockholders of the Company related to the receipt of permits. The Company fully repaid these promissory notes in 1998.

In connection with the successful completion of certain market development projects during 1997, Allied paid approximately $2.5 million to the former owner of a company acquired in 1996 who served as a director of Allied during 1996 and 1997.

In 1998, the Company sold certain assets to a relative of an officer of the Company for approximately $1.5 million. No gain or loss was recognized on this transaction.

FIRST BRANDS CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 (In Part): Commitments, Contingencies and Related Parties

Related Parties: Beginning in January, 1997, Alfred E. Dudley, a Director and former Chairman of the Company, was retained as a consultant. For these services, he was paid a yearly consulting fee of $100,000 in fiscal 1998 and 1997.

The Company has utilized the services of Lee Hill Incorporated, a marketing services company, of which James R. McManus, a Director of First Brands, was the owner. For fiscal 1998 the total fees paid to Lee Hill

Incorporated were $118,000. During September 1997, Mr. McManus sold his interest in Lee Hill.

The Company believes that each of the related party transactions described above were on terms as fair to the Company as could have been obtained from unaffiliated third parties.

THE PERKIN-ELMER CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Additional Information

Related Party Transactions: One of the Company's directors is an employee of the Roche Group, a pharmaceutical manufacturer and strategic partner of the Company in the biotechnology field. The Company made payments to the Roche Group and its affiliates, for the purchase of reagents and consumables, of $72.5 million, $68.2 million, and $59.7 million in fiscal 1998, 1997 and 1996, respectively.

Transactions With Spun Off Company

TANDY CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Relations With InterTAN

InterTAN, Inc. The former foreign retail operations of Tandy, was spun off to Tandy stockholders as a tax-free dividend in fiscal 1987. Under the terms of a merchandise agreement reached with InerTAN in October 1993, as amended, InterTAn may purchase, on payment terms, certain products sold or secured by Tandy. A&A International, Inc. ("A&A"), a subsidiary of Tandy, is and will continue to be the exclusive purchasing agent for products originating in Asia for InterTAN. A&A receives comission income for this service. License agreements, as amended, also provide a royalty payable to Tandy.

The following table summarizes the income components generated from operations relative to InterTAN for each of the three years ended December 31, 1998, 1997 and 1996:

	Year Ended December 31,		
(In millions)	1998	1997	1996
Sales and commission income	$ 7.5	$ 8.4	$ 8.5
Interest income	—	2.0	2.9
Accretion of discount	—	3.4	3.8
Royalty income	5.5	3.3	2.0
Total income	$13.0	$17.1	$17.2

Tax Sharing Agreement

U.S. INDUSTRIES, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Income Taxes

As a result of certain tax elections, the tax basis of assets received and liabilities assumed, from the Company's former parent ("Hanson"), have changed. The final determination of the full extent of the tax benefit related to these changes was finalized in fiscal 1996 and has been credited to paid in capital in that year.

The Company entered into a tax sharing and indemnification agreement in which Hanson generally agreed to indemnify the Company for all federal and state income tax liabilities in respect to periods prior to May 31, 1995.

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 comments about inflation in Management's Discussion and Analysis of Financial Condition and Results of Operations. Examples of such comments follow.

HARMON INDUSTRIES, INC. (DEC)

Inflation

Inflation has been modest in the past three years. Wage increases have been about 4% in each of the past three years. Raw material cost increases were about 3% in 1996, and negligible in 1997 and 1998. Competitive pressure has required the Company to maintain or reduce sales prices to sustain market share. Management believes that competitive pricing pressures will remain for the foreseeable future. Its program to combat this is to continue to increase productivity, adopt emerging lower-cost technological advances into its products, expand its available products through internal development and acquire products or companies in the railroad supply industry that will expand Harmon's product or service offerings.

HUMANA INC. (DEC)

Effects of Inflation and Changing Prices

The Company's operations are regulated by various state and federal government agencies. Actuarially determined premium rate increases for Commercial products are generally approved by the respective state insurance commissioners, while increases in premiums for Medicaid and Medicare HMO products are established by various state governments and the Health Care Financing Administration. Premium rates under the TRICARE contract with the United States Department of Defense may be adjusted on a year by year basis to reflect inflation, changes in the workload volumes of military medical facilities and contract modifications.

The Company's 1999 average rate of statutory increase under the Medicare contracts is approximately 2 percent. Over the last five years, annual increases have ranged from as low as the January 1998 increase of 2 percent to as high as 9 percent in January 1996, with an average of approximately 5 percent. The Company's Medicare contracts with the federal government are renewed for a one-year term each December 31 unless terminated 90 days prior thereto.

Legislative proposals are being considered which may revise the Medicare program's current support of the use of managed health care for Medicare beneficiaries and the future reimbursement rates thereunder. Management is unable to predict the outcome of these proposals or the impact they may have on the Company's financial position, results of operations or cash flows. The Company's Medicaid contracts are generally annual contracts with various states except for the two-year contract with the Commonwealth of Puerto Rico. The Puerto Rico contract, previously scheduled to expire March 31, 1999, has been extended one month to April 30, 1999. The Company does not expect to be able to renew the contract in Puerto Rico under favorable terms and, therefore, has announced its intention to close this market when the contract expires. Additionally, the Company's TRICARE contract is a one-year contract renewable annually for up to two additional years. The loss of these contracts (other than the contract in Puerto Rico) or significant changes in these programs as a result of legislative action, including reductions in payments or increases in benefits without corresponding increases in payments, would have a material adverse effect on the revenues, profitability and business prospects of the Company. In addition, the Company continually contracts and seeks to renew contracts with providers at rates designed to ensure adequate profitability. To the extent the Company is unable to obtain such rates, its financial position, results of operations and cash flows could be adversely impacted. Currently, the Company is in renegotiations with a major provider and is unable to predict the impact of these negotiations on future contract rates.

MORTON INTERNATIONAL, INC. (JUN)

Impact of Inflation

Inflation generally has not had a significant impact upon the results of the company's operations in recent years. Historically, the company has taken steps to reduce the effects of inflation on its business. In periods of increasing prices, to the extent permitted by competition, the company has adjusted its selling prices to compensate for increased costs.

An ongoing cost control program implemented throughout the company also has contributed to reducing the influence of inflationary costs. Further, a continuing program of investment in new and more efficient facilities, production processes and productivity enhancements has made a significant contribution in offsetting inflation.

The company uses the LIFO method of accounting for its domestic inventories. Under this method the cost of products sold, as reported in the financial statements, approximates current costs.

PPG INDUSTRIES, INC. (DEC)

Impact of Inflation

PPG's financial statements are prepared on a historical cost basis, which does not completely account for the effects of inflation. Since the cost of most of the Company's inventories is determined using the last-in, first-out (LIFO) method, the cost of sales reported in the financial statements approximates current costs.

In 1998 the overall decline in sales prices was partially offset by improved manufacturing efficiencies and the overall positive impacts of inflation on our production costs. In 1997 and 1996, the increase in production costs due to the negative effects of inflation was not fully recovered through price increases and manufacturing efficiencies. While inflationary pressure on costs is expected to be experienced in 1999, we anticipate that ongoing improvements in manufacturing efficiencies, as well as raw material substitution and increases in selling prices for certain products, will mitigate to a significant extent the negative impact of inflation on 1999 operating income.

PHELPS DODGE CORPORATION (DEC)

Inflation

The principal impact of general inflation upon our financial results has been on unit production costs, especially supply costs, at our mining and industrial operations. It is important to note, however, that the selling price of our principal product, copper, does not necessarily parallel the rate of inflation or deflation.

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

	1998	1997	1996	1995
Balance Sheet	569	565	564	562
Statement of Financial Position	27	30	30	32
Statement of Financial Condition	4	5	6	6
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 (6 companies in 1998) or a balance sheet classified as to industrial operations but showing assets and liabilities of nonhomogeneous operations as segregated amounts (6 companies in 1998). Prior to the effective date of *SFAS No. 94*, the survey companies, with rare exception, presented classified balance sheets.

Occasionally the survey companies disclose reclassifications of balance sheet amounts. An example of a reclassification follows.

TABLE 2-2: BALANCE SHEET FORMAT

	1998	1997	1996	1995
Report form	465	461	450	436
Account form	134	138	149	164
Financial position form	1	1	1	—
Total Companies	**600**	**600**	**600**	**600**

Reclassifications

THE WALT DISNEY COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Reclassifications

Certain reclassifications have been made in the 1997 and 1996 financial statements to conform to the 1998 presentation, including the change in format from an unclassified balance sheet to a classified balance sheet, which separately presents the current and non-current portions of assets and liabilities. Consistent with the classification of television broadcast rights as current assets, payments for such rights are now reclassified as operating cash flows.

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

	1998	1997	1996	1995
Cash	57	56	61	63
Cash and cash equivalents	462	460	447	433
Cash and equivalents	40	41	41	45
Cash includes certificates of deposit or time deposits	5	5	9	6
Cash combined with marketable securities	31	32	35	46
No amount for cash	5	6	7	7
Total Companies	**600**	**600**	**600**	**600**

COURIER CORPORATION (SEP)

	1998	1997
Current assets:		
Cash and cash equivalents (Note A)	$ 722,000	$ 27,000
Accounts receivable, less allowance for uncollectible accounts of $1,078,000 in 1998 and $1,242,000 in 1997	27,941,000	25,919,000
Inventories	10,828,000	9,695,000
Deferred income taxes	1,758,000	1,642,000
Other current assets	847,000	780,000
Total current assets	$42,096,000	$38,063,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Financial Instruments

Financial instruments consist primarily of cash, accounts receivable, accounts payable and debt obligations. The Company classifies as cash and cash equivalents amounts on deposit in banks and cash invested temporarily in various instruments with maturities of three months or less at time of purchase. The Company estimates the fair value of financial instruments based on interest rates available to the Company and by comparison to quoted market prices. At September 26, 1998 and September 27, 1997, the fair value of the Company's financial instruments approximated their carrying values.

JOSTENS INC. (DEC)

(in thousands)	1998	1997
Current assets:		
Short-term investments	$ 2,595	$ 6,068
Accounts receivable, net of allowance of $7,308 and $7,446, respectively	106,347	108,697
Inventories	90,494	92,062
Deferred income taxes	14,682	15,543
Other receivables, net of allowance of $7,061 and $8,322, respectively	20,689	25,495
Prepaid expenses and other current assets	5,737	4,679
Total current assets	$240,544	$252,544

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash and Short-term Investments

Cash and short-term investments include cash on hand, time deposits and commercial paper. Short-term investments have an original maturity of three months or less and are considered cash equivalents. All investments in debt securities have an original maturity of three months or less and are considered to be held to maturity. The short-term securities are carried at amortized cost, which approximates fair value. Negative cash balances of $8.4 million and $14.1 million at January 2, 1999, and January 3, 1998, respectively, have been reclassified to "accounts payable" on the consolidated balance sheets.

VULCAN MATERIALS COMPANY (DEC)

(Amounts in thousands)	1998	1997
Current assets:		
Cash and cash equivalents (Note 2)	$180,568	$128,566
Accounts and notes receivable:		
Customers, less alllowance for doubtful accounts: 1998, $7,391; 1997, $7,548; 1996, $8,106	210,690	189,389
Other	10,571	10,361
Inventories	143,680	132,359
Deferred income taxes	24,923	21,385
Prepaid expenses	5,949	5,072
Total current assets	$576,381	$487,132

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Cash

At year-end 1998, 1997 and 1996, the Company did not have any commercial paper outstanding but did have $2,400,000, $2,900,000 and $3,100,000, respectively, in bank borrowings.

All of the lines of credit extended to the Company in 1998, 1997 and 1996 were based solely on a commitment fee basis, and thus no compensating balances were required. In the normal course of business, the Company maintains balances for which it is credited with earnings allowances. To the extent the earnings allowances are not sufficient to fully compensate banks for the services they provide, the Company pays the fee equivalent for the differences. The Company was in compliance with these informal compensation arrangements during all three years. Because the arrangements are evaluated on a 12-month average basis, the Company does not consider any of its cash balances to be restricted as of any specific date.

TIME WARNER INC. (DEC)

(millions)	1998	1997
Current assets:		
Cash and equivalents	$ 442	$ 645
Receivables, less allowances of $1.007 billion and $991 million	2,885	2,447
Inventories	946	830
Prepaid expenses	1,176	1,089
Total current assets	$5,449	$5,011

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and Equivalents

Cash equivalents consist of commercial paper and other investments that are readily convertible into cash and 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. 104 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			
	1998	1997	1996	1995
Market/fair value	120	138	120	116
Cost	56	47	66	85
Lower of cost or market	2	1	2	3

Available-For-Sale Securities

ATMEL CORPORATION (DEC)

(in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$161,721	$174,310
Short-term investments	161,844	158,758
Accounts receivable, net of allowance for doubtful accounts of $34,610 in 1998 and $24,623 in 1997	252,601	216,991
Inventories	240,258	124,336
Other current assets	74,967	119,358
Total current assets	$891,391	$793,753

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Short-Term Investments

All marketable securities are deemed by management to be available for sale and are reported at fair value with net unrealized gains or losses reported within shareholders' equity. Realized gains and losses are recorded based on the specific identification method. For fiscal years 1998, 1997 and 1996, gross realized gains and losses were $90, $69 and $9, respectively. The carrying amount of the Company's investments is shown in the table below:

	December 31, 1998 Cost	Market Value	1997 Cost	Market Value
Investments				
U.S. government obligations	$101,838	$ 94,799	$123,516	$122,741
State and municipal securities	53,124	60,727	30,962	30,768
Other	7,345	6,318	5,283	5,249
	162,307	161,844	159,761	158,758
Allowance for unrealized losses	(463)	—	(1,003)	—
Total	$161,844	$161,844	$158,758	$158,758

At December 31, 1998, investments with scheduled maturities within one year were $48,850 and for one to three years were $112,994. At December 31, 1997, investments with scheduled maturities within one year were $63,222 and for one year to three years were $95,536. The Company has classified all investments as short term since it has the intent and ability to redeem them within the year.

FLEETWOOD ENTERPRISES, INC. (APR)

(Amounts in thousands)	1998	1997
Cash	$ 28,143	$ 37,890
Marketable investments	255,919	45,503
Receivables	195,388	181,085
Inventories:		
Raw materials	111,875	101,794
Work in process and finished products	41,871	43,719
Deferred tax benefits—current	30,212	26,580
Other current assets	19,443	21,704
Total current assets	$682,851	$458,275

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Investments

The Company has a cash management program which provides for the investment of excess cash balances primarily in short-term money market instruments and intermediate-term debt instruments. Investments consist of time deposits, U.S. Treasury obligations, tax-exempt instruments and other non-equity type investments stated at cost, which approximates market.

FAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that all applicable investments be classified as trading securities, available-for-sale securities or held-to-maturity securities. The Company did not have any investments classified as trading securities during the periods presented. The statement further requires that held-to-maturity securities be reported at amortized cost and available-for-sale securities be reported at fair value, with unrealized gains and losses excluded from earnings but reported in a separate component of shareholders' equity (net of the effect of income taxes) until they are sold. At the time of sale, any gains or losses, calculated by the specific identification method, will be recognized as a component of operating results.

The following is a summary of investment securities as of April 26, 1998 and April 27, 1997:

(Amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
April 26, 1998				
Available-for-Sale Securities:				
U.S. Treasury securities and obligations of U.S. government agencies	$13,671	$ 82	$ 5	$13,748
U.S. corporate securities	41,244	229	71	41,402
Foreign government obligations	3,136	10	1	3,145
Other debt securities	2,221	54	—	2,275
	$60,272	$375	$77	$60,570

(Amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
April 27, 1997				
Available-for-Sale Securities:				
U.S. Treasury securities and obligations of U.S. government agencies	$26,092	$ 3	$367	$25,728
Foreign government obligations	1,846	27	—	1,873
Other debt securities	34,056	551	40	34,567
	$61,994	$581	$407	$62,168

The amortized cost and estimated fair value of the securities at April 26, 1998, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(Amounts in thousands)	Cost	Fair Value
April 26, 1998		
Available-for-Sale:		
Due in one year or less	$ 38,946	$ 38,910
Due after one year through five years	13,377	13,549
Due after five years through ten years	7,949	8,111
	$ 60,272	$ 60,570
Held-to-Maturity:		
All due in one year or less	$217,009	$217,009

Investment income for fiscal years 1998, 1997 and 1996 consisted of the following:

(Amounts in thousands)	1998	1997	1996
Interest income	$12,407	$11,939	$11,824
Gross realized gains	284	1,077	2,476
Gross realized losses	(4)	(461)	(8)
Investment management fees	(145)	(257)	(260)
	$12,542	$12,298	$14,032

GIANT FOOD INC. (FEB)

(Dollar amounts in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 28,857	$ 40,981
Short-term investments (Note 2)	120,278	137,096
Receivables	63,560	53,452
Income taxes receivable	8,723	8,501
Inventories	274,137	291,644
Deferred income taxes	23,068	22,579
Other current assets	3,450	3,623
Total current assets	$522,073	$557,876

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands)

1 (In Part): Summary of Significant Accounting Policies

Short-term Investments

The Company classifies all of its short-term investments as available-for-sale securities. Such short-term investments consist primarily of United States government and federal agency securities, corporate commercial paper and corporate bonds which are stated at market value, with unrealized gains and losses on such securities reflected, net of tax, as other comprehensive income in shareholders' equity. Realized gains and losses on short-term investments are included in earnings and are derived using the specific identification method for determining the cost of securities. It is the Company's intent to maintain a liquid portfolio to take advantage of investment opportunities; therefore, all securities are considered to be available-for-sale and are classified as current assets.

Fair Value of Financial Instruments

The carrying amount of the Company's cash and cash equivalents, receivables, accounts payable and accrued expenses approximates fair value because of the short maturity of those instruments. The Company derives the fair value of its short-term investments based on quoted market prices. The Company estimates the fair value of its notes and mortgages by discounting the required future cash flows under such notes and mortgages using borrowing rates at which similar types of borrowing arrangements could be currently obtained by the Company.

2. Short-Term Investments

Short-term investments consist of the following:

	Cost	Unrealized Holding (Losses) Gains	Fair Value
As of February 28, 1998:			
Government obligations	$ 30,719	$(456)	$ 30,263
Corporate obligations	88,094	56	88,150
Other	1,860	—	1,860
	$120,673	$(400)	$120,273
As of February 22, 1997:			
Government obligations	$136,590	$(742)	$135,848
Corporate obligations	—	—	—
Other	1,248	—	1,248
	$137,838	$(742)	$137,096
As of February 24, 1996:			
Government obligations	$133,941	$(177)	$133,764
Corporate obligations	—	—	—
Other	913	—	913
	$134,854	$(177)	$134,677

Maturities of short-term investments at February 28, 1998 were as follows:

	Cost	Fair Value
Due within one year	$ 93,198	$ 93,516
Due after one year through five years	27,475	26,757
	$120,673	$120,273

GOLDEN ENTERPRISES, INC. (MAY)

	1998	1997
Current assets:		
Cash and cash equivalents	$ 114,869	$ 670,974
Investment securities available-for-sale	3,077,464	4,012,813
Receivables:		
Trade accounts	10,812,685	11,433,301
Other	471,101	555,166
	11,283,786	11,988,467
Less: Allowance for doubtful accounts	75,000	10,000
	11,208,786	11,978,467
Inventories:		
Raw materials	2,425,367	2,495,815
Finished goods	2,359,201	2,901,025
	4,784,568	5,396,480
Prepaid expenses	1,899,294	2,200,582
Total current assets	$21,084,981	$24,259,676

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Investment Securities

Investment securities at May 31, 1998 are principally instruments of municipalities and of short-term mutual, municipal and corporate bond funds. The Company currently classifies all investment securities as available-for-sale. Securities accounted for as available-for-sale includes bonds, notes, common stock and non-redeemable preferred stock not classified as either held-to-maturity or trading. Securities available-for-sale are reported at fair value, adjusted for other-than-temporary declines in value. Unrealized holding gains and losses, net of tax, on securities available-for-sale are reported as a net amount in a separate component of stockholders' equity until realized. Realized gains and losses on the sale of securities available-for-sale are determined using the specific-identification method.

Disclosures About Fair Value of Financial Instruments

The fair values of investment securities have been determined using values supplied by independent pricing services and are disclosed together with carrying amounts in Note 2.

2. Investment Securities

The amortized cost, gross unrealized gains and losses and fair value of the investment securities available-for-sale are as follows:

	1998				1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government	—	$—	$—	—	$2,288,343	$9,103	—	$2,297,446
Municipal obligations	$ 177,700	—	—	$ 177,700	150,708	—	$708	150,000
Mutual funds	2,899,764	—	—	2,899,764	1,565,367	—	—	1,565,367
Total	$3,077,464	$—	$—	$3,077,464	$4,004,418	$9,103	$708	$4,012,813

Maturities of investment securities classified as available-for-sale at May 31, 1998 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to recall or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Investment securities available-for-sale:		
Due within one year	$2,899,764	$2,899,764
Due after one year through three years	102,986	102,986
Due after three years through five years	74,714	74,714
Total	$3,077,464	$3,077,464

Proceeds from sales of investment securities available-for-sale during fiscal 1998 and 1997 were $10,576,211 and $14,938,643, respectively. Gross gains of $9,678 and $18,333 for fiscal 1998 and 1997, respectively, were realized on those sales.

LANCE, INC. (DEC)

(in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 7,856	$ 34,040
Marketable securities	9,126	25,430
Accounts receivable (less allowance for doubtful accounts of $1,275 and $1,054, respectively	39,616	34,057
Inventories	20,331	17,882
Prepaid income taxes	2,800	—
Deferred income tax benefit	5,808	6,913
Prepaid expenses and other	1,943	1,275
Total current assets	$87,480	$119,597

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, receivables, marketable securities and accounts payable approximate fair value.

Marketable Securities

Marketable securities at December 26, 1998 and December 27, 1997 are principally instruments of the U.S. government and its agencies, of state governments, and of municipalities. Debt and marketable equity securities are classified in one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. All other securities not included in trading or held-to-maturity are classified as available-for-sale. All of the Company's marketable securities were classified as available-for-sale at December 26, 1998 and December 27, 1997.

Available-for-sale securities are recorded at market value. Unrealized holding gains and losses, net of the related income tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders' equity until realized. Dividend and interest income are recognized when earned. Realized gains and losses for securities classified as available-for-sale are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

2. Marketable Securities

At December 26, 1998 and December 27, 1997, the Company has classified all investments as available-for-sale. The amortized cost, gross unrealized holding gains, gross unrealized holding losses and fair value of the available-for-sale securities by major security type at December 26, 1998 and December 27, 1997 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
At December 26, 1998:				
Municipal obligations	$ 8,999	$127	$—	$ 9,126
Total	$ 8,999	$127	$—	$ 9,126
At December 27, 1997:				
U.S. government agencies	$ 5,501	$ 2	$(7)	$ 5,496
Municipal obligations	19,222	146	(6)	19,362
Equity securities	58	518	(4)	572
Total	$24,781	$666	$(17)	$25,430

Maturities of investment securities were as follows at December 26, 1998 (in thousands):

	Amortized Cost	Fair Value
Due within one year	$2,491	$2,511
Due after one year through five years	6,508	6,615
Total	$8,999	$9,126

OGDEN CORPORATION (DEC)

	1998	1997
Current assets:		
Cash and cash equivalents	$261,119,000	$185,671,000
Marketable securities available for sale	44,685,000	—
Restricted funds held in trust	110,553,000	103,882,000
Receivables (less allowances: 1998, $30,595,000 and 1997, $20,207,000)	394,923,000	393,185,000
Inventories	31,100,000	34,235,000
Deferred income taxes	49,327,000	56,690,000
Other	62,742,000	59,211,000
Total current assets	$954,449,000	$832,874,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Marketable Securities

Marketable securities are classified as available for sale and recorded at current market value. Net unrealized gains and losses on marketable securities available for sale are credited or charged to Other Comprehensive Income (see Note 2).

2. Investments in Marketable Securities Available for Sale

At December 31, 1998 and 1997, marketable equity and debt securities held for current and noncurrent uses, such as nonqualified pension liabilities and a deferred compensation plan, are classified as current assets and long-term assets, respectively. Accumulated net unrealized losses on marketable equity and debt securities held for current and noncurrent uses are charged to Other Comprehensive Income.

Marketable securities at December 31, 1998 and 1997 (expressed in thousands of dollars), include the following:

	1998 Market Value	1998 Cost	1997 Market Value	1997 Cost
Classified as current assets:				
Mutual and bond funds	$44,685	$44,714	$ —	$ —
Total classified as current assets	$44,685	$44,714	$ —	$ —
Classified as noncurrent assets:				
Mutual and bond funds	$27,451	$27,673	$25,543	$26,495
Total classified as noncurrent assets	$27,451	$27,673	$25,543	$26,495

At December 31, 1998 and 1997, unrealized losses were $251,000 and $952,000, respectively. The deferred tax benefits on these losses at December 31, 1998 and 1997, were $186,000 and $417,000, respectively, resulting in net charges of $65,000 and $535,000, respectively, to Other Comprehensive Income.

Proceeds, realized gains, and realized losses from the sales of securities classified as available for sale for the years ended December 31, 1998, 1997, and 1996, were $14,232,000, zero, and zero; $13,970,000, $3,444,000, and zero; and $13,158,000, $1,455,000, and $304,000, respectively. For the purpose of determining realized gains and losses, the cost of securities sold was based on specific identification.

SEAGATE TECHNOLOGY, INC. (JUN)

(in millions)	1998	1997
Cash and cash equivalents	$ 666	$1,047
Short-term investments	1,161	1,236
Accounts receivable, net	799	1,041
Inventories	508	808
Deferred income taxes	243	254
Other current assets	238	166
Total current assets	$3,615	$4,552

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Cash, Cash Equivalents and Short-Term Investments

The Company considers all highly liquid investments with a remaining maturity of 90 days or less at the time of purchase to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value. The Company's short-term investments primarily comprise readily marketable debt securities with remaining maturities of more than 90 days at the time of purchase.

The Company has classified its entire investment portfolio as available-for-sale. Available-for-sale securities are classified as cash equivalents or short-term investments and are stated at fair value with unrealized gains and losses included in stockholders' equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest income. Realized gains and losses are included in other income (expense). The cost of securities sold is based on the specific identification method.

Financial Instruments (In Part)

The following is a summary of available-for-sale securities at July 3, 1998, and June 27, 1997:

(Fair value in millions)	1998	1997
Money market mutual funds	$ 71	$ 182
U.S. government and agency obligations	398	364
Repurchase agreements	81	150
Auction rate preferred stock	167	227
Municipal bonds	102	78
Corporate securities	612	731
Other	301	417
	$1,732	$2,149
Included in short-term investments	$1,161	$1,236
Included in cash and cash equivalents	571	913
	$1,732	$2,149

The fair value of all available-for-sale securities approximates amortized cost. Gross realized and unrealized gains and losses on the sale of available-for-sale securities were not material for each of the three years in the period ended July 3, 1998.

The fair value of the Company's investment in debt securities, by contractual maturity, is as follows:

(in millions)	1998	1997
Due in less than 1 year	$ 771	$1,529
Due in 1 to 3 years	723	211
	$1,494	$1,740

Fair Value Disclosures

The carrying value of cash and cash equivalents approximates fair value. The fair values of short-term investments, notes, debentures and foreign currency forward exchange and option contracts are estimated based on quoted market prices.

The carrying values and fair values of the Company's financial instruments are as follows:

(in millions)	1998 Carrying Amount	1998 Estimated Fair Value	1997 Carrying Amount	1997 Estimated Fair Value
Cash and cash equivalents	$ 666	$ 666	$1,047	$1,047
Short-term investments	1,161	1,161	1,236	1,236
7.125% senior notes, due 2004	(200)	(199)	(200)	(200)
7.37% senior notes, due 2007	(200)	(198)	(200)	(201)
7.45% senior debentures, due 2037	(200)	(198)	(200)	(202)
7.875% senior debentures, due 2017	(100)	(98)	(100)	(100)
Italian lira debentures, 14.65% to 15.25%	(1)	(1)	(1)	(1)
Foreign currency forward exchange and option contracts	(18)	(18)	(2)	(10)

Held-to-Maturity Securities

DATASCOPE CORP. (JUN)

(Dollars in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 3,364	$ 2,597
Short-term investments (Note 2)	46,314	57,338
Accounts receivable, less *allowance for doubtful* accounts of $1,078 and $922	55,248	52,240
Inventories	40,246	34,604
Prepaid expenses and other current assets	10,036	9,485
Total current assets	$155,208	$156,264

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Financial Instruments

The carrying amounts and estimated fair values of the Company's significant financial instruments at June 30, 1998 and 1997 were as follows:

(in thousands)	1998 Carrying Amount	1998 Fair Value	1997 Carrying Amount	1997 Fair Value
Cash and short-term investments	$49,678	$49,716	$59,935	$59,883
Non-current marketable securities	$34,371	$34,821	$25,902	$25,964

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Fair values of short-term investments are based upon quoted market prices, including accrued interest, and approximate their carrying values due to their short maturities. Fair values of non-current marketable securities are also based upon quoted market prices and include accrued interest.

The Company has determined that its investment portfolio will be held-to-maturity and is therefore carried at amortized cost.

As of June 30, 1998, the Company's marketable securities were classified as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short Term				
U.S. Treasury securities	$43,123	$ 36	$ 4	$43,155
Tax-exempt securities	3,191	6	—	3,197
Short-term total	$46,314	$ 42	$ 4	$46,352
Long Term				
U.S. Treasury securities	$19,017	$341	$ 9	$19,349
Tax-exempt securities	15,354	120	2	15,472
Long-term total	$34,371	$461	$11	$34,821
Totals	$80,685	$503	$15	$81,173

As of June 30, 1997, the Company's marketable securities were classified as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short Term				
U.S. Treasury securities	$47,698	$ 77	$129	$47,646
Tax-exempt securities	9,640	2	2	9,640
Short-term total	$57,338	$ 79	$131	$57,286
Long Term				
U.S. Treasury securities	$18,010	$ 72	$ 58	$18,024
Tax-exempt securities	7,892	48	—	7,940
Long-term total	$25,902	$120	$ 58	$25,964
Totals	$83,240	$199	$189	$83,250

The Company invests its excess cash primarily in U.S. Treasury and tax-exempt securities. Since the Company holds all short- and long-term securities until maturity, such investments are subject to little market risk. The Company has not incurred losses related to these investments.

QUALCOMM INCORPORATED (SEP)

(in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 175,846	$ 248,837
Investments	127,478	448,235
Accounts receivable, net	612,209	445,382
Finance receivables	56,201	111,501
Inventories, net	386,536	225,156
Other current assets	178,950	70,484
Total current assets	$1,537,220	$1,549,595

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): The Company and Its Significant Accounting Policies

Investments

Management determines the appropriate classification of marketable debt and equity securities at the time of purchase and re-evaluates such designation as of each balance sheet date. At September 30, 1998 and 1997, the Company's investment portfolio consisted of marketable debt securities classified as held-to-maturity and is carried at amortized cost, which approximates fair value.

4. Investments

At September 30, 1998 and 1997, all marketable debt securities were classified as held-to-maturity and carried at amortized cost. Investments consisted of the following (in thousands):

	September 30, 1998	1997
Current:		
Certificates of deposit	$ 1,388	$211,604
Commercial paper	19,576	209,828
U.S. government securities	64,949	7,998
Corporate medium-term notes	41,565	18,805
	$127,478	$448,235
Long-Term:		
U.S. government securities	$ —	$ 64,863
Corporate medium-term notes	—	46,923
	$ —	$111,786

At September 30, 1998 and 1997, the estimated fair value of each investment approximated its amortized cost and therefore, there were no significant unrealized gains or losses.

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.

213 survey companies disclosed fair value information about current receivables of which 205 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

	1998	1997	1996	1995
Trade Receivable Captions				
Accounts receivable	280	269	268	255
Receivables	143	138	137	143
Trade accounts receivable	116	130	123	131
Accounts and notes receivable	61	63	72	71
Total Companies	600	600	600	600
Receivables Other Than Trade Receivables				
Tax refund claims	49	45	31	38
Contracts	37	46	46	51
Investees	31	26	25	24
Finance	16	20	28	28
Retained interest in sold receivables	10	5	—	—
Insurance claims	9	6	5	6
Installment notes or accounts	3	4	2	6
Employees	2	4	6	8
Sales of assets	1	5	5	5

RECEIVABLES OTHER THAN TRADE RECEIVABLES

Tax Refund Claims

LOUISIANA-PACIFIC CORPORATION (DEC)

(Dollar amounts in millions)	1998	1997
Current assets:		
Cash and cash equivalents	$126.5	$ 31.9
Accounts receivable, less allowances of $1.5 and $2.0	134.7	146.2
Inventories	205.7	258.8
Prepaid expenses	8.1	8.9
Income tax refunds receivable	43.9	78.0
Deferred income taxes	93.2	73.0
Total current assets	$612.1	$596.8

REPUBLIC GROUP (JUN)

	1998	1997
Current assets:		
Cash and cash equivalents	$ 1,124,000	$ 1,436,000
Investments and marketable securities, at market	—	650,000
Accounts receivable, less allowance for doubtful accounts of $681,000 in 1998 and $748,000 in 1997	14,611,000	13,893,000
Income tax refunds receivable	652,000	494,000
Inventories:		
Finished goods	2,621,000	2,246,000
Raw materials and supplies	5,829,000	5,095,000
	8,450,000	7,341,000
Prepaid expenses and other	851,000	660,000
Deferred income taxes	597,000	576,000
Total current assets	$26,285,000	$25,050,000

Contracts

COMPUTER SCIENCES CORPORATION (MAR)

(in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 274,688	$ 110,726
Receivables, net of allowance for doubtful accounts of $75,373 (1998) and $52,507 (1997) (Note 4)	1,456,330	1,294,003
Prepaid expenses and other current assets	251,618	161,317
Total current assets	$1,982,636	$1,566,046

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

4. Receivables

Receivables consist of the following:

	1998	1997
Billed trade accounts	$1,043,703	$ 884,772
Recoverable amounts under contracts in progress	366,778	376,266
Other receivables	45,849	32,965
	$1,456,330	$1,294,003

Amounts due under long-term contracts include the following items:

	1998	1997
Included in billed trade accounts receivable:		
Amounts retained in accordance with contract terms, due upon completion or other specified event	$ 3,556	$ 8,848
Included in recoverable amounts under contracts in progress:		
Amounts on fixed price contracts not billable in accordance with contract terms until some future date	$240,814	$231,115
Amounts retained in accordance with contract terms, due upon completion or other specified event	23,246	31,072
Excess of costs over provisional billings, awaiting clearance for final billing or future negotiation	6,593	26,056
Accrued award fees	14,647	12,120
Amounts on completed work, negotiated and awaiting contractual document	3,670	4,106
Unrecovered costs related to claims	3,902	4,554
	$292,872	$309,023

The recoverable amounts under contracts in progress which have not yet been billed comprise amounts of contract revenue not billable at the balance sheet date. Such amounts generally become billable upon completion of a specified phase of the contract, negotiation of contract modifications, completion of government audit activities, or upon acceptance by the customer.

All items relating to long-term contracts shown above are expected to be collected during fiscal 1999 except for $3,896 of unrecovered costs related to claims and $118,949 of other items to be collected during fiscal 2000 and thereafter. The unrecovered costs related to claims are recorded at net realizable value and consist primarily of amounts due under long-term contracts which are pending determination by negotiation or legal proceedings.

EMCOR GROUP, INC. (DEC)

(in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 83,053	$ 49,376
Accounts receivable, less allowance for doubtful accounts of $24,006 and $20,456, respectively	538,457	480,997
Costs and estimated earnings in excess of billings on uncompleted contracts	91,569	73,974
Inventories	7,188	7,363
Prepaid expenses and other	11,702	10,951
Total current assets	$731,969	$622,661

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B (In Part): Summary of Significant Accounting Policies

Classification of Contract Amounts

In accordance with industry practice, the Company classifies as current all assets and liabilities related to the performance of long-term contracts. The contracting cycle for certain long-term contracts may extend beyond one year and, accordingly, collection or payment of amounts related to these contracts may extend beyond one year. Accounts receivable at December 31, 1998 and 1997 included $91.6 million and $88.2 million, respectively, of retainage billed under terms of the contracts. The Company estimates that approximately 85% of retainage recorded at December 31, 1998 will be collected during 1999.

INTERGRAPH CORPORATION (DEC)

(in thousands)	1998	1997
Cash and cash equivalents	$ 95,473	$ 46,645
Accounts receivable, net	312,123	324,654
Inventories	38,001	105,032
Other current assets	48,928	25,693
Total current assets	$494,525	$502,024

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Accounts Receivable

Accounts receivable includes unbilled amounts of $77,400,000 and $80,900,000 at December 31, 1998 and 1997, respectively. These amounts include amounts due under long-term contracts of approximately $25,000,000 and $35,000,000, at December 31, 1998 and 1997, respectively.

Receivables From Affiliates

SEABOARD CORPORATION (DEC)

(Thousands of dollars)	1998	1997
Current assets:		
Cash and cash equivalents	$ 20,716	$ 8,552
Short-term investments	155,763	108,744
Receivables:		
Trade	160,229	169,990
Due from foreign affiliates	25,319	16,041
Other	22,152	10,267
	207,700	196,298
Allowance for doubtful receivables	(26,117)	(20,658)
Net receivables	181,583	175,640
Inventories	214,846	211,024
Deferred income taxes	14,604	9,730
Prepaid expenses and deposits	13,757	15,545
Total current assets	$601,269	$529,235

YORK INTERNATIONAL CORPORATION (DEC)

(in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 22,746	$ 12,228
Receivables	632,768	555,830
Inventories	536,854	541,114
Prepayments and other current assets	118,165	112,448
Total current assets	$1,310,533	$1,221,620

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Receivables

Receivables are as follows:

(in thousands)	1998	1997
Customers, trade	$554,601	$509,333
Affiliate receivables, trade	12,538	15,759
Other receivables	85,540	48,577
	652,679	573,669
Less alllowance for doubtful accounts receivable	19,911	17,839
Net receivables	$632,768	$555,830

At December 31, 1998 and 1997, $100 million was outstanding under an agreement whereby the Company sold a fractional interest in a defined pool of trade accounts receivable as discussed in note 9.

Finance Receivables

WINNEBAGO INDUSTRIES, INC. (AUG)

(Dollars in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 53,859	$ 32,130
Receivables, less allowance for doubtful accounts ($1,582 and $1,429, respectively)	22,025	31,322
Dealer financing receivables, less allowance for doubtful accounts ($78 and $155, respectively)	12,782	13,336
Inventories	55,433	53,584
Prepaid expenses	3,516	5,872
Deferred income taxes	6,906	4,917
Total current assets	$154,521	$141,161

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Dealer Financing Receivables

Dealer floor plan receivables are collateralized by recreation vehicles and are due upon the dealer's sale of the vehicle, with the entire balance generally due at the end of one year. At August 29, 1998, the Company had certain concentration of credit risks whereby $12,408,000 of dealer financing receivables were due from one dealer.

XEROX CORPORATION (DEC)

(in millions)	1998	1997
Cash	$ 79	$ 75
Accounts receivable, net	2,671	2,145
Finance receivables, net	5,220	4,599
Inventories	3,269	2,792
Deferred taxes and other current assets	1,236	1,155
Total current assets	12,475	10,766
Finance receivables due after one year, net	9,093	7,754
Land, buildings and equipment, net	2,366	2,377
Investments in affiliates, at equity	1,456	1,332
Goodwill, net	1,731	1,375
Other assets	1,233	1,103
Investment in discontinued operations	1,670	3,025
Total assets	$30,024	$27,732

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

5. Finance Receivables, Net

Finance receivables result from installment sales and sales-type leases arising from the marketing of our business equipment products. These receivables generally mature over two to five years and are typically collateralized by a security interest in the underlying assets. The components of finance receivables, net at December 31, 1998, 1997 and 1996 follow:

	1998	1997	1996
Gross receivables	$16,918	$15,035	$13,872
Unearned income	(2,863)	(2,850)	(2,551)
Unguaranteed residual values	699	557	398
Allowance for doubtful accounts	(441)	(389)	(347)
Finance receivables, net	14,313	12,353	11,372
Less current portion	5,220	4,599	4,386
Amounts due after one year, net	$ 9,093	$ 7,754	$ 6,986

Contractual maturities of our gross finance receivables subsequent to December 31, 1998 follow:

1999	2000	2001	2002	2003	Thereafter
$6,295	$4,570	$3,257	$1,911	$740	$145

Experience has shown that a portion of these finance receivables will be prepaid prior to maturity. Accordingly, the preceding schedule of contractual maturities should not be considered a forecast of future cash collections.

Allowances for doubtful accounts on our accounts receivable balances for the years ended December 31, 1998, 1997 and 1996 amounted to $102, $92 and $92, respectively.

Retained Interest in Sold Receivables

SEARS, ROEBUCK AND CO. (DEC)

(millions)	1998	1997
Current assets:		
Cash and cash equivalents	$ 495	$ 358
Retained interest in transferred credit card receivables	4,294	3,316
Credit card receivables	18,946	20,956
Less allowance for uncollectible accounts	974	1,113
Net credit card receivables	17,972	19,843
Other receivables	397	335
Merchandise inventories	4,816	5,044
Prepaid expenses and deferred charges	506	517
Deferred income taxes	791	830
Total current assets	$29,271	$30,243

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Retained Interest in Transferred Credit Card Receivables

As part of its domestic credit card securitizations, the Company transfers credit card receivables to a Master Trust ("Trust") in exchange for certificates representing undivided interests in such receivables. Effective January 3, 1998, the Company reclassified, for all periods presented, its retained interest in transferred credit card receivables to a separate balance sheet account and presented the related charge-offs of transferred credit card receivables as a reduction of credit revenues. Subsequent to January 3, 1998, amounts transferred from the Company's credit card portfolio to the Trust become securities upon transfer. Accounts are transferred net of the related allowance for uncollectible accounts and income is recognized generally on an effective yield basis over the collection period of the transferred balances. The retained interest consists of investor certificates held by the Company and the seller's certificate, which represents both contractually required seller's interest and excess seller's interest in the credit card receivables in the Trust. The contractually required seller's interest represents the dollar amount of credit card receivables that, according to the terms of the Company's securitization agreements, must be included in the Trust in addition to the amount of receivables which back the securities sold to third parties. The excess seller's interest is the dollar amount of receivables that exist in the Trust to provide for future securitizations, but is not contractually required to be in the Trust. Retained interests are as follows:

(millions)	1998	1997	1996
Investor certificates held by the Company	$ 920	$ 545	$ 522
Contractually required seller's interest	764	697	684
Excess seller's interest	2,716	2,074	1,054
Retained interest in transferred credit card receivables	$4,400[1]	$3,316	$2,260

[1] The 1998 retained interest amount is shown before reserve of $106 million related to the transfers during 1998.

The Company intends to hold the investor certificates and contractually required seller's interest to maturity. The excess seller's interest is considered available for sale. Due to the revolving nature of the underlying credit card receivables, the carrying value of the Company's retained interest in transferred credit card receivables approximates fair value and is classified as a current asset.

Insurance Claims

AMERICA ONLINE, INC. (JUN)

(Amounts in millions)	1998	1997
Current assets:		
Cash and cash equivalents	$631	$124
Trade accounts receivable, less allowances of $19 and $6, respectively	104	65
Other receivables	92	26
Prepaid expenses and other current assets	103	108
Total current assets	$930	$323

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Settlement Charges

In fiscal 1998, the Company recorded a net settlement charge of $18 million in connection with the settlement of the Orman v. America Online, Inc., class action lawsuit filed in the U.S. District Court for the Eastern District of Virginia alleging violations of federal securities laws between August 1995 and October 1996. The settlement is subject to final documentation and court approval. At June 30, 1998, the Company had accrued a settlement charge of $35 million in other accrued expenses and liabilities and a receivable of $17 million related to the estimated insurance receipts in other receivables.

ROHM AND HAAS COMPANY (DEC)

(Millions of dollars)	1998	1997
Current assets:		
Cash and cash equivalents	$ 16	$ 40
Accounts receivable, net—Note 9	711	755
Inventories	427	459
Prepaid expenses and other assets	133	143
Total current assets	$1,287	$1,397

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Accounts Receivable, Net

(Millions of dollars)	1998	1997
Customers	$642	$672
Unconsolidated subsidiaries and affiliates	21	43
Employees	6	5
Insurance recoveries for environmental remediation (see Note 21)	2	19
Other	52	31
	723	770
Less allowance for losses	12	15
Total	$711	$755

21 (In Part): Contingent Liabilities, Guarantees and Commitments

The company is a party in various government enforcement and private actions associated with former waste disposal sites, many of which are on the U.S. Environmental Protection Agency's (EPA) Superfund priority list. The company is also involved in corrective actions at some of its manufacturing facilities. The company considers a broad range of information when determining the amount of its remediation accruals, including available facts about the waste site, existing and proposed remediation technology and the range of costs of applying those technologies, prior experience, government proposals for this or similar sites, the liability of other parties, the ability of other principally responsible parties to pay costs apportioned to them and current laws and regulations. These accruals are updated quarterly as additional technical and legal information becomes available. Major sites for which reserves have been provided are the non-company-owned Lipari, Woodland and Kramer sites in New Jersey, and Whitmoyer in Pennsylvania and company-owned sites in Bristol and Philadelphia, Pennsylvania, and in Houston, Texas. In addition, the company has provided for future costs at approximately 80 other sites where it has been identified as potentially responsible for cleanup costs and, in some cases, damages for alleged personal injury or property damage.

The amount charged to earnings before tax for environmental remediation, net of insurance recoveries, was $9 million in 1998. In 1997, remediation related settlements with insurance carriers, a $20 million charge resulting from an unfavorable arbitration decision relating to the Woodlands sites, and other waste remediation expenses resulted in a net gain of $13 million. The 1996 charge, net of insurance recoveries, was $27 million.

The accruals for remediation were $131 million and $147 million at December 31, 1998 and 1997, respectively, and are recorded as "other liabilities" (current and long-term). The company is in the midst of lawsuits over insurance coverage for environmental liabilities. It is the company's practice to reflect environmental insurance recoveries in results of operations for the quarter in which the litigation is resolved through settlement or other appropriate legal process. Resolutions typically resolve coverage for both past and future environmental spending. Insurance recoveries receivable, included in accounts receivable, net, were $2 million at December 31, 1998, and $19 million at December 31, 1997. The company settled with several of its insurance carriers in January 1999 for approximately $17 million. These settlements will be recognized in income in 1999.

Installment Receivables

SUNRISE MEDICAL INC. (JUN)

(in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 931	$ 4,223
Trade receivables, net of alllowance for doubtful accounts of $8,155 and $5,075, respectively	121,967	115,986
Installment receivables, net	12,329	13,351
Income tax refunds receivable	4,013	3,794
Inventories	94,589	90,034
Deferred income taxes	19,288	11,343
Other current assets	3,622	3,729
Total current assets	$256,739	$242,460

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

2 (In Part): Financial Instruments

Installment Receivables

Installment receivables consist of the following:

	1998	1997
Current portion	$16,198	$17,994
Less:		
Unearned interest	(2,185)	(2,409)
Allowance for doubtful accounts	(1,684)	(2,234)
Net current portion	12,329	13,351
Due after one year (included in other assets)	5,716	6,190
Total installment receivables, net	$18,045	$19,541

The carrying amount of installment receivables approximates their fair value. The majority of these receivables are due in less than one year, and the related interest rates have not varied significantly over the past two years.

Marketing Agreement Services

ETHYL CORPORATION (DEC)

(in thousands of dollars)	1998	1997
Current assets:		
Cash and cash equivalents	$ 8,403	$ 18,162
Accounts receivable, less allowance for doubtful accounts ($1,386 in 1998; $2,349 in 1997)	152,937	165,259
Receivable—TEL marketing agreements services	16,954	—
Inventories:		
Finished goods and work-in-process	161,480	166,089
Raw materials	21,328	20,001
Stores, supplies and other	8,968	7,746
	191,776	193,836
Deferred income taxes and prepaid expenses	21,358	21,857
Total current assets	$391,428	$399,114

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Basis of Presentation

The Company's reporting of the TEL marketing agreements with The Associated Octel Company Limited (Octel) from its effective date of October 1, 1998 is discussed in Note 2. The Company accounts for its proceeds from the agreements in accordance with the terms of the contract.

2. Tel Marketing Agreements Services

On October 1, 1998, the Company entered into agreements with Octel to market and sell tetraethyl lead (TEL). The area covered by the agreements (the Territory) includes all world areas except for North America and the European economic area. The Company continues to provide bulk distribution services, marketing and other services related to sales made within the Territory. The amounts for these services were not material in 1998. Octel continues to produce TEL marketed under this arrangement and also provides marketing and other services. The proceeds earned by the Company under this arrangement, net of cost reimbursements, are reflected in the Consolidated Statements of Income in the caption, "TEL Marketing Agreements Services."

All sales under the agreements are made in the name of or on behalf of Octel. The proceeds generated from the sale of TEL in the Territory are included in determining the proceeds for services from the agreements. The net proceeds are paid to the Company and Octel as compensation for services and are based on an agreed-upon formula with the Company receiving approximately one-third of the total compensation for services provided.

As part of the arrangements, most of the Company's remaining inventory of TEL will be sold to Octel over an agreed-upon period at a wholesale price. Accordingly, these sales to Octel and distribution services are reflected in the 1998 Consolidated Statements of Income in net sales and cost of sales. Octel will use the inventory for sales in the Territory.

Summary financial information related to the TEL alliance for the period October 1 through December 31, 1998 is as follows:

(in thousands)	1998
Territory sales	$92,070
Contractual cost of sales	40,720
	51,350
Selling, general & administrative expenses	6,605
Net proceeds for services	$44,745

At December 31, 1998, assets under this alliance consisted of a receivable of $54,228 due from Octel. Liabilities consisted of $37,274 due to Octel and $16,954 due to Ethyl. Included in these liabilities are undistributed proceeds of $30,427 for Octel and $14,318 for Ethyl.

RECEIVABLES USED FOR FINANCING

Table 2-6 shows that 1998 annual reports of 125 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

	1998	1997	1996	1995
Receivables sold	103	106	97	92
Receivables used as collateral	25	31	33	42
Total References	**128**	**137**	**130**	**134**
Reference to receivable financing	125	131	127	131
No reference to receivable financing	475	469	473	469
Total Companies	**600**	**600**	**600**	**600**

Receivables Sold

ALBERTO-CULVER COMPANY (SEP)

(in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 72,395	$ 76,040
Short-term investments	910	11,560
Receivables, less allowance for doubtful accounts of $10,868 in 1998 and $9,042 in 1997 (note 3)	129,063	120,774
Inventories:		
Raw materials	37,316	44,175
Work-in-process	6,119	7,252
Finished goods	325,769	292,441
Total inventories	369,204	343,868
Prepaid expenses	19,993	28,017
Total current assets	$591,565	$580,259

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In January, 1998, the Company renewed an agreement to sell, without recourse, up to $30 million of designated trade receivables on an ongoing basis. The agreement expires in one year and is renewable annually upon the mutual consent of both parties. At September 30, 1998, the facility was fully utilized. Costs related to this agreement are included in administrative expenses.

BURLINGTON INDUSTRIES, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

E (In Part): Long-Term Debt

Long-term debt consisted of the following (in thousands):

	1998	1997
Bank credit agreement	$294,000	$335,000
Receivables facility	204,058	—
Commercial paper	—	163,592
Senior debentures due 2005	149,921	149,911
Senior debentures due 2027	149,208	149,117
Other indebtedness with various rates and maturities	4,769	9,263
	801,956	806,883
Less long-term debt due currently	470	470
Total	$801,486	$806,413

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Receivables-Backed Financing

In December 1997, the Company established a five-year, $225.0 million Trade Receivables Financing Agreement ("Receivables Facility") with a bank. The amount of borrowings allowable under the Receivables Facility at any time is a function of the amount of then outstanding eligible trade accounts receivable up to $225.0 million. Loans under the Receivables Facility bear interest, with terms up to 270 days, at the bank's commercial paper dealer rate plus 0.1875%. A commitment fee of 0.125% is charged on the unused portion of the Receivables Facility. The Receivables Facility replaced the Company's A-1/D-1 rated commercial paper facility and the related $225.0 million Receivables-Backed Liquidity Facility established with a group of banks. The Company has the intent and ability to maintain the receivables-backed borrowings on a long-term basis. Accordingly, receivables-backed borrowings have been classified as long-term debt.

EXIDE CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

10. Receivables Sale Agreements

In July 1997, certain of the Company's European subsidiaries sold selected receivables to a wholly-owned bankruptcy remote subsidiary of the Company, Exide Europe Funding Ltd., who in turn established a multi-currency receivable sale facility (collectively the "European Agreement") with a financial institution, whereby the financial institution has committed to purchase, with limited recourse, all right, title and interest in these receivables up to a maximum net investment of $175,000. The net proceeds from the initial sale of accounts receivable under the European Agreement were used to repay borrowings under the European Facilities Agreement. As of March 31, 1998, net uncollected receivables sold under the multi-currency receivable sale facility was $136,666. Losses and expenses related to receivables sold under this agreement for fiscal 1998 were $7,550, and are included in other income, net in the Consolidated Statements of Operations.

The Company entered into a Receivables Sale Agreement (the "U.S. Agreement") with certain banks (the "Purchasers"), and under this agreement, the Purchasers have committed to purchase, with limited recourse, all right, title and interest in selected accounts receivable of the U.S. Company, up to a maximum net investment of $75,000 (increased from $40,000 effective December 20, 1995). In connection with the U.S. Agreement, during fiscal 1997 the Company established a wholly owned, bankruptcy remote subsidiary, Exide U.S. Funding Corporation, to purchase accounts receivable at a discount from the Company on a continuous basis, subject to certain limitations as described in the U.S. Agreement. Exide U.S. Funding Corporation simultaneously sells the accounts receivable at the same discount to the Purchasers. As of March 31, 1997 and 1998, net uncollected receivables sold under the U.S. Agreement were $68,161 and $65,682, respectively. Losses and expenses related to receivables sold under this agreement for fiscal years 1996, 1997 and 1998 were $2,554, $4,290 and $4,084, respectively, and are included in other income, net in the Consolidated Statements of Operations.

The above transactions qualify as sales under the provisions of SFAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

RITE AID CORPORATION (FEB)

(in thousands of dollars)	1998	1997
Current assets:		
Cash	$ 90,968	$ 7,042
Accounts receivable, net (Note 1)	165,429	370,588
Inventories	3,061,211	2,336,659
Prepaid expenses and other current assets	60,700	57,210
Total current assets	$3,378,308	$2,771,499

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Accounts Receivable

During November 1997, the company and certain of its subsidiaries entered into an agreement to sell, on an ongoing basis, a pool of receivables to a wholly owned bankruptcy-remote special purpose funding subsidiary (the "funding subsidiary") of the company. Accordingly, the company and certain subsidiaries transfer all their accounts receivable (principally representing amounts owed by third party prescription payers) to the funding subsidiary. The funding subsidiary has sold and, subject to certain conditions, may from time to time sell an undivided fractional ownership interest in the pool of receivables to a multi-seller receivables securitization company. Under the terms of the agreement, new receivables are added to the pool as collections reduce previously sold accounts receivable. The company services, administers and collects the receivables on behalf of the purchaser. Proceeds of approximately $259,200,000 were received as of February 28, 1998 from the securitization of receivables. The proceeds were used to reduce outstanding commercial paper borrowings and are reflected as operating cash flows in the accompanying consolidated statement of cash flows. Expenses associated with the securitization program are recognized as a component of cost of goods sold.

The company maintains an allowance for doubtful accounts receivable based upon the expected collectibility of all trade receivables, including receivables sold. The company has recorded an allowance for uncollectible accounts of $14,096,000 at February 28, 1998 and $14,583,000 at March 1, 1997. Most of the company's accounts receivable are due from third party providers (e.g., insurance companies and governmental agencies) under third party payment plans and are booked net of any allowances provided for under the respective plans. Since payments due from third party payers are sensitive to payment criteria changes and legislative actions, the allowance is reviewed continually and adjusted for accounts deemed uncollectible by management.

STANDARD MOTOR PRODUCTS, INC. (DEC)

(Dollars in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 23,457	$ 16,809
Accounts receivable, less allowances for discounts and doubtful accounts of $4,525 (1997—$18,654) (Note 4)	122,008	151,026
Inventories	174,092	189,006
Deferred income taxes	11,723	22,005
Prepaid expenses and other current assets	11,231	11,630
Total current assets	$342,511	$390,476

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Sale of Accounts Receivable

The Company sells certain accounts receivable to its wholly-owned subsidiary, SMP Credit Corp., a qualifying special-purpose corporation. On March 19, 1997, SMP Credit Corp., entered into a two year agreement whereby it can sell up to a $25,000,000 undivided ownership interest in a designated pool of certain of these eligible receivables. At December 31, 1998 and 1997, net accounts receivables amounting to $25,000,000 had been sold under this agreement. These sales were reflected as reductions of trade accounts receivable in 1998 and 1997 and the related fees and discounting expense were recorded as other expense. The Company has received an extension of this agreement until April 30, 1999 while it completes negotiations on a three year renewal with similar terms and conditions.

14. Other Income (Expense), Net

(in thousands)	1998	1997	1996
Other income (expense), net consists of:			
Interest and dividend income	$ 1,856	$898	$ 1,668
(Loss) on sale of accounts receivable (Note 4)	(1,410)	(1,358)	(1,266)
Income (loss) from joint ventures	(2,078)	1,335	1,336
Other—net	210	123	(28)
Total other income (expense), net	$(1,422)	$998	$1,710

TYCO INTERNATIONAL LTD. (SEP)

(in millions)	1998	1997
Current assets:		
Cash and cash equivalents	$ 820.1	$ 369.8
Receivables, less allowance for doubtful accounts of $256.9 in 1998 and $107.7 in 1997	2,082.5	1,600.4
Contracts in process	565.3	450.2
Inventories	1,460.0	1,124.8
Deferred income taxes	562.9	389.4
Prepaid expenses and other current assets	252.5	174.2
Total current assets	$5,743.3	$4,108.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Sale of Accounts Receivable

The Company has an agreement under which one of its operating subsidiaries sells a defined pool of trade accounts receivable to a limited purpose subsidiary of the Company. The subsidiary, a separate corporate entity, owns all of its assets and sells participating interests in such accounts receivable to financiers who, in turn, purchase and receive ownership and security interests in those assets. As collections reduce accounts receivable included in the pool, the operating subsidiary sells new receivables. The limited purpose subsidiary has the risk of credit loss on the receivables and, accordingly, the full amount of the allowance for doubtful accounts has been retained on the Company's Consolidated Balance Sheets. At September 30, 1998 and 1997, the $300 million available under the program was fully utilized. The proceeds from the sales were used to reduce borrowings under uncommitted lines of credit and are reported as operating cash flows in the Company's Consolidated Statements of Cash Flows. The proceeds of sale are less than the face amount of accounts receivable sold by an amount that approximates the purchaser's financing costs of issuing its own commercial paper backed by these accounts receivable. The discount from the face amount is accounted for as a loss on the sale of receivables of $17.3 million, $10.4 million, and $12.1 million during Fiscal 1998, Fiscal 1997 and 1996, respectively, and has been included in selling, general and administrative expenses in the Company's Consolidated Statements of Operations. The operating subsidiary, as servicing agent for the purchaser, retains collection and administrative responsibilities for the participating interests in the defined pool.

UNIFI, INC. (JUN)

(Amounts in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 8,372	$ 9,514
Receivables	222,310	224,233
Inventories	137,201	142,263
Other current assets	1,308	3,688
Total current assets	$369,191	$379,698

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Receivables

Certain customer accounts receivable are factored without recourse with respect to credit risk. Factored accounts receivable at June 28, 1998, and June 29, 1997, were $49.2 million and $55.9 million, respectively. An allowance for losses is provided for known and potential losses rising from yarn quality claims and for customers not factored based on a periodic review of these accounts. The allowance for such losses was $8.2 million at June 28, 1998, and $5.5 million at June 29, 1997.

USX CORPORATION (DEC)

(Dollars in millions)	1998	1997
Current assets:		
Cash and cash equivalents	$ 146	$ 54
Receivables, less allowance for doubtful accounts of $12 and $15 (Note 14)	1,663	1,417
Inventories	2,008	1,685
Deferred income tax benefits	217	229
Other current assets	172	87
Total current assets	$4,206	$3,472

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Sales of Receivables

USX has an agreement (the program) at December 31, 1998, to sell an undivided interest in certain accounts receivable of the U.S. Steel Group. Payments are collected from the sold accounts receivable; the collections are reinvested in new accounts receivable for the buyers; and a yield, based on defined short-term market rates, is transferred to the buyers. At December 31, 1998, the amount sold under the program that had not been collected was $320 million, which will be forwarded to the buyers at the end of the agreement in 1999, or in the event of earlier contract termination. If USX does not have a sufficient quantity of eligible accounts receivable to reinvest in for the buyers, the size of the program will be reduced accordingly. The amounts sold under the current and previous programs averaged $347 million, $705 million and $740 million for years 1998, 1997 and 1996, respectively. (For most of 1997 and for the year 1996, the Marathon and Delhi Groups had a separate accounts receivable program that was terminated in late 1997.) The buyers have rights to a pool of receivables that must be maintained at a level of at least 115% of the program's size. USX does not generally require collateral for accounts receivable, but significantly reduces credit risk through credit extension and collection policies, which include analyzing the financial condition of potential customers, establishing credit limits, monitoring payments and aggressively pursuing delinquent accounts. In the event of a change in control of USX, USX may be required to forward to the buyers, payments collected on the sold accounts receivable.

Receivables Used As Collateral

LOWE'S COMPANIES, INC. (JAN)

(in thousands)	1999	1998
Current assets:		
Cash and cash equivalents	$ 222,709	$ 195,146
Short-term investments	20,343	16,155
Accounts receivable—Net (Note 4)	143,928	118,408
Merchandise inventory	2,104,845	1,714,592
Deferred income taxes	56,124	34,116
Other current assets	37,734	31,185
Total current assets	$2,585,683	$2,109,602

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Short-Term Borrowings and Lines of Credit

The Company has a $300 million revolving credit facility with a syndicate of 11 banks. The facility has $100 million expiring November 1999, with the remaining $200 million expiring November 2001. The facility is used to support the Company's commercial paper program and for short-term borrowings. Facility fees ranging from .06% to .075% are paid on the unused amount of these facilities. The revolving credit facility contains certain restrictive covenants including maintenance of specific financial ratios. There were no borrowings outstanding under this revolving credit facility as of January 29, 1999 or January 30, 1998.

Five banks have extended lines of credit aggregating $278.2 million for the purpose of issuing documentary letters of credit and standby letters of credit. These lines do not have termination dates but are reviewed periodically. Commitment fees ranging from .19% to .50% per annum are paid on the amounts of standby letters of credit used. At January 29, 1999, outstanding letters of credit totaled $80.1 million.

A $100 million revolving credit and security agreement, expiring in September 1999 and renewable annually, is available from a financial institution. Interest rates under this agreement are determined at the time of borrowing. Under the current terms of the agreement, borrowings are based upon commercial paper rates plus 21 basis points. At January 29, 1999 and January 30, 1998, respectively, there were $92.5 and $98.1 million outstanding under this credit and security agreement and $132.1 and $105.3 million of the Company's accounts receivable were pledged as collateral.

In addition, $80 million is available, on an unsecured basis, for the purpose of short-term borrowings on a bid basis from various banks. These lines are uncommitted and are reviewed periodically by both the banks and the Company. There were no borrowings outstanding under these lines of credit as of January 29, 1999 or January 30, 1998.

The weighted average interest rate on short-term borrowings outstanding at January 29, 1999 and January 30, 1998 was 4.96% and 5.73%, respectively.

MAGNETEK, INC. (JUN)

(Amounts in thousands)	1998	1997
Current assets:		
Cash	$ 5,976	$ 6,138
Accounts receivable, less allowance for doubtful accounts of $4,823 in 1998 and $5,168 in 1997	197,284	191,011
Inventories	196,830	181,014
Deferred income taxes	6,791	12,888
Prepaids and other assets	10,673	7,331
Total current assets	$417,554	$398,382

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in the notes to consolidated financial statements are expressed in thousands)

5 (In Part): Long-Term Debt and Bank Borrowing Arrangements

Bank Borrowing Arrangements

On June 20, 1997, the Company entered into an amended agreement with a group of banks (Bank Loan Agreement) that have committed to lend up to $350,000 under a revolving loan facility through June, 2002. Borrowings under the credit facility bear interest at the bank's prime lending rate or, at the Company's option, the London Interbank Offered Rate plus five-eighths percent. These rates may be reduced or increased based upon the level of certain debt-to-cash flow ratios. At June 30, 1998, borrowings under the Bank Loan Agreement bore interest at a weighted average rate of approximately 6.4%. The Company is required to pay a commitment fee of .20 percent on unused commitments.

Borrowings under the Bank Loan Agreement are secured by domestic accounts receivable and inventories and by the capital stock of certain of the Company's subsidiaries. The Bank Loan Agreement contains certain provisions and covenants which, among other things, restrict the payment of cash dividends on common stock, limit the amount of future indebtedness and require the Company to maintain specific levels of net worth and cash flow.

MAXXAM INC. (DEC)

(in millions of dollars)	1998	1997
Current assets:		
Cash and cash equivalents	$ 294.2	$ 164.6
Marketable securities	19.4	84.6
Receivables:		
Trade, net of allowance for doubtful accounts of $6.4 and $5.9, respectively	184.5	255.9
Other	122.6	126.3
Inventories	587.5	629.6
Prepaid expenses and other current assets	152.4	175.1
Total current assets	$1,360.6	$1,436.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Long-term Debt

Long-term debt consists of the following (in millions):

	1998	1997
12% MGHI senior secured notes due August 1, 2003	$ 130.0	$ 130.0
11¼% MGI senior secured notes due August 1, 2003	—	100.0
12¼% MGI senior secured discount notes due August 1, 2003, net of discount	—	117.3
10½% Pacific Lumber senior notes due March 1, 2003	—	235.0
Pacific Lumber credit agreement	—	9.4
7.43% Scotia LLC Timber collateralized notes due July 20, 2028	867.2	—
7.95% Scotia Pacific Timber collateralized notes due July 20, 2015	—	320.0
1994 KACC credit agreement	—	—
10⅞% KACC senior notes due October 15, 2006, including premium	225.7	225.8
9⅞% KACC senior notes due February 15, 2002, net of discount	224.4	224.2
12¾% KACC senior subordinated notes due February 1, 2003	400.0	400.0
Alpart CARIFA loans	60.0	60.0
Other aluminum operations debt	52.9	61.6
Other notes and contracts, primarily secured by receivables, buildings, real estate and equipment	30.0	36.1
	1,990.2	1,919.4
Less: current maturities	(18.5)	(31.4)
	$1,971.7	$1,888.0

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

	1998	1997	1996	1995
Allowance for doubtful accounts	284	281	270	271
Allowance	164	167	160	161
Allowance for losses	21	21	23	26
Allowance for uncollectible accounts	14	12	9	8
Reserve	13	13	14	15
Reserve for doubtful accounts	7	6	7	8
Other caption titles	20	20	29	31
	523	520	512	520
Receivables shown net	19	17	20	16
No reference to doubtful accounts	58	63	68	64
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-seven 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. Fourteen 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. One survey company 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			
	1998	1997	1996	1995
Methods				
First-in first-out (FIFO)	409	415	417	411
Last-in first-out (LIFO)	319	326	332	347
Average cost	176	188	181	185
Other	40	32	37	40
Use of LIFO				
All inventories	30	17	15	14
50% or more of inventories	152	170	178	191
Less than 50% of inventories	95	99	92	88
Not determinable	42	40	47	54
Companies Using LIFO	**319**	**326**	**332**	**347**

TABLE 2-9: INDUSTRY CLASSIFICATION OF COMPANIES USING LIFO

	1998 No.	1998 %*	1997 No.	1997 %*
Advertising	—	—	—	—
Aerospace	7	41	7	37
Apparel, shoes	10	53	9	50
Beverages	4	57	4	57
Building materials, glass	10	63	10	67
Chemicals	26	84	27	87
Computer and data services	—	—	—	—
Computers, office equipment	2	11	2	11
Electronics, electrical equipment	13	28	14	30
Engineering, construction	1	13	2	22
Entertainment	1	20	1	25
Food	16	42	17	45
Forest and paper products	25	93	25	93
Furniture	8	80	7	78
Hotels, casinos	—	—	—	—
Industrial and farm equipment	29	71	29	71
Medical products	4	36	4	40
Metal products	19	83	19	79
Metals	15	68	17	71
Mining, crude oil production	5	46	5	42
Motor vehicles and parts	15	68	16	70
Petroleum refining	16	84	19	86
Pharmaceuticals	6	50	6	50
Publishing, printing	14	64	13	62
Retailing–grocery stores	11	100	11	100
Retailing–other stores	16	73	15	71
Rubber and plastic products	9	75	10	77
Scientific, photographic, and control equipment	9	31	9	31
Semiconductors	—	—	—	—
Soaps, cosmetics	4	50	4	44
Textiles	8	80	8	80
Tobacco	2	40	2	40
Transportation equipment	2	50	2	50
Waste management	—	—	—	—
Wholesalers	5	36	5	36
Not otherwise classified	7	26	7	27
Total Companies	**319**	**53**	**326**	**54**

* Percent of total number of companies for each industry classification included in the survey.

FIFO

ALPHA INDUSTRIES, INC. (MAR)

(in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$14,356	$ 5,815
Short-term investments	1,493	1,218
Accounts receivable, trade, less allowance for doubtful accounts of $634 and $521	18,500	17,019
Inventories (Note 3)	7,941	10,267
Prepayments and other current assets	883	857
Total current assets	$43,173	$35,176

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market.

3. Inventories

Inventories consisted of the following:

(in thousands)	1998	1997
Raw materials	$3,916	$ 4,886
Work-in-process	2,259	3,439
Finished goods	1,766	1,942
	$7,941	$10,267

During fiscal 1997, the Company recorded a $2.6 million write-down of inventory resulting from shifts in demand away from ceramic products.

FURNITURE BRANDS INTERNATIONAL, INC. (DEC)

(Dollars in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 13,220	$ 12,274
Receivables, less allowances of $18,333 ($13,793 at December 31, 1997)	324,164	293,975
Inventories (Note 3)	307,382	287,046
Prepaid expenses and other current assets	31,107	25,214
Total current assets	$675,873	$618,509

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

2 (In Part): Significant Accounting Policies

Inventories

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

3. Inventories

Inventories are summarized as follows:

	1998	1997
Finished products	$122,993	$118,385
Work-in-process	57,915	53,536
Raw materials	126,474	115,125
	$307,382	$287,046

LIFO

CLARCOR INC. (NOV)

(Dollars in thousands)	1998	1997
Current assets:		
Cash and short-term cash investments	$ 33,321	$ 30,324
Accounts receivable, less allowance for losses of $2,711 for 1998 and $2,106 for 1997	67,557	62,387
Inventories	58,614	58,282
Prepaid expenses and other	2,444	3,917
Deferred income taxes	6,237	5,617
Total current assets	$168,173	$160,527

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

D. Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method for approximately 60% and 61% of the Company's inventories at November 30, 1998 and 1997, respectively, and by the first-in, first-out (FIFO) method for all other inventories. The FIFO method approximates current cost. Inventories are summarized as follows:

	1998	1997
Raw materials	$20,657	$20,890
Work-in-process	9,231	9,341
Finished products	30,767	30,585
Total at FIFO	60,655	60,816
Less excess of FIFO over LIFO	2,041	2,534
	$58,614	$58,282

CONSOLIDATED PAPERS, INC. (DEC)

(Dollars in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 3,230	$ 13,169
Accounts and notes receivable, net of allowances of $6,504 in 1998, $6,374 in 1997 and $5,313 in 1996	147,307	160,874
Inventories:		
Finished and partly finished products	89,377	92,245
Raw materials	39,616	51,726
Stores supplies	60,127	61,075
	189,120	205,046
Prepaid expenses	48,550	26,506
Total current assets	$388,207	$405,595

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Inventories

Inventories accounted for using the last-in, first-out (LIFO) cost method (approximately 50% in 1998, 45% in 1997 and 57% in 1996) are stated at amounts that do not exceed market. If the first-in, first-out (FIFO) method of accounting for inventories had been used by the company, inventories would have been higher than that reported at December 31, 1998, 1997 and 1996, by $18.2 million, $21.5 million and $21.3 million, respectively. The remaining inventories are stated at the lower of cost or market using the FIFO method, except for stores supplies and certain manufacturing supplies, which are accounted for on a moving average cost basis.

HAMPTON INDUSTRIES, INC. (DEC)

	1998	1997
Current assets:		
Cash	$ 282,375	$ 171,944
Accounts receivable, less allowances for doubtful accounts and customer allowances of $2,389,000 in 1998 and $2,304,000 in 1997	32,322,955	24,313,827
Inventories (Note B)	35,593,471	30,356,997
Deferred income tax assets	361,062	405,145
Other current assets	944,952	514,303
Total current assets	$69,504,815	$55,762,216

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Inventories

Inventories are carried at the lower of cost or market value. As described in Note B, the cost of substantially all inventory is determined by the last-in, first-out (LIFO) method.

B. Inventories

	1998	1997
Finished goods	$26,073,123	$21,731,568
Work-in-process	4,447,059	4,215,569
Piece goods	4,443,906	3,926,422
Supplies and other	629,383	483,438
	$35,593,471	$30,356,997

Principally all inventories are valued at the lower of last-in, first-out (LIFO) cost or market. Information related to the first-in, first-out (FIFO) method may be useful in comparing operating results to those of companies not on the LIFO method. On a supplemental basis, if inventories had been valued at the lower of FIFO cost or market, inventories at December 26, 1998 and December 27, 1997 would have been approximately $39,800,000 and $35,300,000, respectively. The LIFO valuation method had the effect of increasing net earnings by $514,500 ($.10 per share) in 1998, decreasing net earnings by $404,900 ($.08 per share) in 1997 and increasing net earnings by $553,900 ($.11 per share) in 1996. Inventories increased in 1998. Income realized as a result of inventory liquidation was not significant in 1997 and was $668,200 ($.13 per share) in 1996.

Inventory in transit of $1,934,496 in 1998 and $4,675,046 in 1997 are included in finished goods.

KIMBALL INTERNATIONAL, INC. (JUN)

(Amounts in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 16,757	$ 18,818
Short-term investments	156,010	149,677
Receivables, less allowances of $4,023 and $4,017, respectively	119,170	110,142
Inventories	96,303	76,142
Other	24,697	21,994
Total current assets	$412,937	$376,773

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Inventory Pricing

Inventories are stated at the lower of cost or market value. Cost includes material, labor and applicable manufacturing overhead and is determined using the last-in, first-out (LIFO) method for approximately 52% and 59% of consolidated inventories in 1998 and 1997, respectively. Cost of the remaining inventories is determined using the first-in-first-out (FIFO) method.

3. Inventories

Inventories are valued using the lower of last-in, first-out (LIFO) cost or market value for approximately 52% and 59% of consolidated inventories in 1998 and 1997, respectively. The remaining inventories are valued using the lower of first-in, first-out (FIFO) cost or market value.

Had the FIFO method been used for all inventories, net income would have been, in millions, $0.6 higher in 1998, $0.1 lower in 1997, and $0.7 lower in 1996. Additionally, inventories would have been, in millions, $20.3 and $19.3 higher at June 30, 1998 and 1997, respectively, if the FIFO method had been used. During 1998 and 1997, certain inventory quantity reductions caused a liquidation of LIFO inventory values, which were immaterial.

Inventory components at June 30 are as follows:

(Amounts in thousands)	1998	1997
Finished products	$31,365	$23,822
Work-in-process	12,971	11,852
Raw materials	51,967	40,468
Total inventory	$96,303	$76,142

OXFORD INDUSTRIES, INC. (MAY)

(Dollars in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 10,069	$ 3,313
Receivables, less alllowance for doubtful accounts of $3,098 in 1998 and $2,800 in 1997	100,789	77,771
Inventories	146,708	149,781
Prepaid expenses	13,621	16,080
Total current assets	$271,187	$246,945

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Inventories

Inventories are principally stated at the lower of cost (last-in, first-out method, "LIFO") or market.

B. Inventories

The components of inventories are summarized as follows:

(Dollars in thousands)	May 29, 1998	May 30, 1997
Finished goods	$ 89,906	$ 87,368
Work-in-process	24,330	26,276
Fabric	25,750	29,370
Trim and supplies	6,722	6,767
	$146,708	$149,781

The excess of replacement cost over the value of inventories based upon the LIFO method was $39,205,000 at May 29, 1998 and $38,308,000 at May 30, 1997. Changes in the LIFO allowance increased earnings $0.04 per share basic in 1997 and decreased earnings $0.06 per share basic in 1998.

During fiscal 1998, inventory quantities were reduced, which resulted in a liquidation of LIFO inventory layers carried at lower costs which prevailed in prior years. The effect of the liquidation was to decrease cost of goods sold by approximately $591,000 and to increase net earnings by $361,000 or $0.04 per share basic. There were no significant liquidations of LIFO inventories in 1997 or 1996.

Average Cost

B/E AEROSPACE, INC. (FEB)

(Dollars in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$164,685	$ 44,149
Accounts receivable—trade, less allowance for doubtful accounts of $2,190 (1998) and $4,864 (1997)	87,931	73,489
Inventories, net	121,728	92,900
Other current assets	7,869	2,781
Total current assets	$382,213	$213,319

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

4. Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the weighted average cost method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs. Inventories consists of the following:

	1998	1997
Raw materials	$ 56,100	$45,947
Work-in-process	59,036	39,024
Finished goods	6,592	7,929
	$121,728	$92,900

CONAGRA, INC. (MAY)

(Dollars in millions)	1998	1997
Current assets:		
Cash and cash equivalents	$ 95.2	$ 105.8
Receivables, less allowance for doubtful accounts of $67.7 and $67.2	1,535.6	1,367.6
Inventories (Note 5)	3,523.1	3,342.9
Prepaid expenses	333.5	388.7
Total current assets	$5,487.4	$5,205.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Columnar amounts in millions)

1 (In Part): Summary of Significant Accounting Policies

Inventories

Grain, flour and major feed ingredient inventories are hedged to the extent practicable and are generally stated at market, including adjustment to market of open contracts for purchases and sales. Short-term interest expense incurred to finance hedged inventories is included in cost of sales in order to properly reflect gross margins on hedged transactions. Inventories not hedged are priced at the lower of average cost or market.

5. Inventories

The major classes of inventories are as follows:

	1998	1997
Hedged commodities	$1,199.3	$1,169.8
Food products and livestock	1,245.6	1,191.0
Agricultural chemicals, fertilizer and feed	581.4	381.4
Retail merchandise	13.6	127.5
Other, principally ingredients and supplies	483.2	473.2
	$3,523.1	$3,342.9

Production Cost

KAMAN CORPORATION (DEC)

(in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 65,130	$109,974
Accounts receivable	213,128	191,154
Inventories	207,897	199,485
Deferred income taxes	20,900	21,475
Other current assets	9,449	13,216
Total current assets	$516,504	$535,304

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

Summary of Significant Accounting Policies (In Part):

Inventories

Inventory of merchandise for resale is stated at cost (using the average costing method) or market, whichever is lower. Contracts and work in process and finished goods are valued at production cost represented by material, labor and overhead, including general and administrative expenses where applicable. Contracts and work in process and finished goods are not recorded in excess of net realizable values.

Inventories

Inventories are comprised as follows:

December 31	1998	1997
Merchandise for resale	$108,833	$107,112
Contracts in process:		
U.S. government	4,035	7,757
Commercial	12,168	12,194
Other work in process (including certain general stock materials)	45,001	41,088
Finished goods	37,860	31,334
Total	$207,897	$199,485

Included above in other work in process and finished goods at December 31, 1998 and 1997 is K-MAX inventory of $73,249 and $61,936, respectively.

The aggregate amounts of general and administrative costs allocated to contracts in process during 1998, 1997 and 1996 were $55,178, $57,474, and $47,985, respectively.

The estimated amounts of general and administrative costs remaining in contracts in process at December 31, 1998 and 1997 amount to $2,003 and $3,808, respectively, and are based on the ratio of such allocated costs to total costs incurred.

Specific Cost

SPEIZMAN INDUSTRIES, INC. (JUN)

	1998	1997
Current assets:		
Cash and cash equivalents	$ 2,193,329	$ 3,832,534
Accounts receivable	19,817,834	21,075,138
Inventories (Notes 3 and 7)	15,934,745	12,970,134
Prepaid expenses and other current assets	3,372,266	2,988,786
Total current assets	$41,318,174	$40,866,592

SUMMARY OF ACCOUNTING POLICIES

Inventories

Inventories are carried at the lower of cost or market. Cost is computed, in the case of machines, on an identified cost basis and, in the case of other inventories, on an average cost basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Inventories

Inventories are summarized as follows:

	1998	1997
Machines		
New	$ 3,051,280	$ 3,961,362
Used	6,414,845	4,807,479
Parts and supplies	6,468,620	4,201,293
Total	$15,934,745	$12,970,134

Precious Metals

ENGELHARD CORPORATION (DEC)

(in thousands)	1998	1997
Current assets:		
Cash	$ 22,339	$ 28,765
Receivables, net of allowances of $7,038 and $4,931, respectively	376,826	323,330
Committed metal positions	541,224	502,494
Inventories	349,752	356,403
Other current assets	69,826	44,180
Total current assets	$1,359,967	$1,255,172

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Inventories

Inventories are stated at the lower of cost or market. The elements of cost include direct labor and materials, variable overhead and the full absorption of fixed manufacturing overhead. The cost of precious-metals inventories is determined using the last-in, first-out (LIFO) method of inventory valuation. The cost of other inventories is principally determined using either the average cost or the first-in, first-out (FIFO) method.

Committed Metal Positions And Hedged Metal Obligations

The Company routinely enters into a variety of arrangements for the sourcing of industrial commodities. These arrangements are spread among a number of counter parties, which are generally major industrial companies or highly rated financial or other institutions. The conduct of this business is closely monitored.

Generally, all industrial commodity transactions are hedged on a daily basis, using forward, future, option or swap contracts to substantially eliminate the exposure to price risk. In addition, all industrial commodity transactions are marked-to-market daily. In limited and closely monitored situations, for which exposure levels have been set by senior management, the Company holds significant unhedged industrial commodity positions that are subject to future market fluctuations. Such positions may include varying levels of derivative commodity instruments.

Committed metal positions (non-inventory metal purchases) and hedged metal obligations (metal sold not yet purchased but fully hedged) are carried at fair value. Fair value is generally based on listed market prices. If listed market prices are not available or if liquidating the Company's positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations and price quotations in different markets, including markets located in different geographic areas. Any change in value, realized or unrealized, is recognized in gross profit in the period of the change.

4. Inventories

Inventories consist of the following:

Inventories

(in millions)	1998	1997
Raw materials	$ 76.3	$ 99.2
Work-in-process	54.9	31.9
Finished goods	189.7	191.8
Precious metals	28.9	33.5
Total inventories	$349.8	$356.4

All precious-metals inventories are stated at LIFO cost. The market value of the precious-metals inventories exceeded cost by $85.8 million and $49.7 million at December 31, 1998 and 1997, respectively. Net earnings include after-tax gains of $4.9 million in 1998, $2.0 million in 1997, and $3.3 million in 1996 from the sale of inventory accounted for under the LIFO method.

In the normal course of business, certain customers and suppliers deposit significant quantities of precious metals with the Company under a variety of arrangements. Equivalent quantities of precious metals are returnable as product or in other forms.

7. Metal Positions and Obligations

The following table sets forth the Company's open metal positions included in Committed Metal Positions on the consolidated balance sheets:

Metal Positions Information

	1998		1997	
(in millions)	Gross Position	Value	Gross Position	Value
Platinum group metals	Long	$17.4	Long	$16.0
Gold	Flat	—	Short	(0.6)
Silver	Flat	—	Short	(1.7)
Base metals	Long	4.6	Short	(0.2)
Total open metal positions, net		$22.0		$13.5

The net mark-to-market adjustments related to open positions were not material in 1998, 1997 or 1996.

Derivative commodity and foreign currency instruments used to hedge metal positions and obligations consist of the following:

Metal Hedging Instruments

	1998		1997	
(in millions)	Buy	Sell	Buy	Sell
Forward/futures contracts	$1,270.9	$1,057.4	$927.9	$742.5
Eurodollar futures	44.5	120.4	385.0	639.0
Swaps	367.2	343.5	246.9	298.4
Options	0.1	—	42.9	14.6
Yen forwards/futures	—	11.6	—	31.1

Market

INTERNATIONAL MULTIFOODS CORPORATION (FEB)

(in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 10,363	$ 8,753
Trade accounts receivable, net of allowances	144,201	207,459
Inventories	265,989	283,948
Deferred income taxes	7,080	9,418
Other current assets	56,771	53,678
Total current assets	$484,404	$563,256

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Inventories

Inventories, excluding grain in Canada, are valued principally at the lower of cost (first-in, first-out) or market (replacement or net realizable value).

In Canada, inventories of grain are valued on the basis of replacement market prices prevailing at fiscal year-end. The Company generally minimizes risks associated with market price fluctuations by hedging those inventories with futures contracts. Therefore, included in inventories is the amount of gain or loss on open grain contracts, including future contracts, which generally has the effect of adjusting those inventories to cost.

The Company also enters into futures contracts to reduce the risk of price increases with respect to certain anticipated raw material purchases. The futures contracts are accounted for as hedges, with gains and losses deferred in inventory and subsequently included in cost of sales as the inventory is sold.

6 (In Part): Supplemental Balance Sheet Information

(in thousands)	1998	1997
Inventories:		
Raw materials, excluding grain	$ 19,823	$ 15,776
Grain	87,769	86,500
Finished and in-process goods	151,894	174,274
Packages and supplies	6,503	7,398
Total inventories	$265,989	$283,948

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			
	1998	**1997**	**1996**	**1995**
Prepaid expenses	110	129	140	146
Prepaid expenses and other current assets	182	170	166	161
Prepaid expenses and deferred taxes	8	14	11	9
Prepaid expenses and advances	3	5	9	6
Prepaid expenses and other receivables	3	3	3	3
Advertising costs	9	13	12	N/C
Employee benefits	3	4	6	4
Other captions indicating prepaid expenses	18	19	21	28

N/C-Not Compiled.

EKCO GROUP, INC. (DEC)

(Amounts in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 1,179	$ 14,565
Accounts receivable, net of allowance for doubtful accounts of $643 and $957, respectively	59,773	45,529
Inventories	75,751	74,150
Prepaid expenses and other current assets	13,053	9,021
Deferred income taxes	7,370	6,877
Total current assets	$157,126	$150,142

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Market Expansion Programs and Advertising Costs

The Company incurs certain costs in connection with maintaining and expanding its market position. These costs are deferred and amortized using the straight-line method over the shorter of the period of benefit or the program period. Program periods currently range from one to three years. It is the Company's policy to periodically review and evaluate whether the expected benefits will be realized and whether continued deferral and amortization of these costs is justified. Approximately $4.1 million of these costs are included in prepaid expenses at January 3, 1999 and December 28, 1997.

The Company expenses all advertising costs as incurred.

HARTMARX CORPORATION (NOV)

(in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 5,292	$ 1,626
Accounts receivable, less allowance for doubtful accounts of $8,210 in 1998 and $9,803 in 1997	131,342	136,854
Inventories	207,679	193,780
Prepaid expenses	3,234	4,332
Recoverable and deferred income taxes	15,881	20,152
Total current assets	$363,428	$356,744

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Advertising Costs

Advertising expenditures relating to the manufacturing and marketing businesses are expensed in the period the advertising initially takes place. Direct response advertising costs, consisting primarily of catalog preparation, printing and postage expenditures, are amortized over the period during which the benefits are expected. Advertising costs of $25.9 million in 1998, $23.4 million in 1997 and $19.5 million in 1996 are included in the accompanying Statement of Earnings. Prepaid expenses at November 30, 1998 include deferred advertising costs of $1.0 million ($1.4 million) at November 30, 1997), which will be reflected as an expense during the quarterly period benefited.

THE KROGER CO. (DEC)

(in thousands of dollars)	1998	1997
Current assets:		
Cash	$ 121,431	$ 65,484
Receivables	456,917	400,529
Inventories:		
FIFO cost	2,202,088	2,273,896
Less LIFO allowance	(471,932)	(467,931)
	1,730,156	1,805,965
Property held for sale	10,291	39,672
Prepaid and other current assets	354,385	328,901
Total current assets	$2,673,180	$2,640,551

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

Prepaid and Other Current Assets

Prepaid and other current assets consists of:

	1998	1997
Health and welfare benefit costs	$200,000	$160,000
Other	154,385	168,901
	$354,385	$328,901

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			
	1998	**1997**	**1996**	**1995**
Nature of Asset				
Deferred income taxes	400	375	378	365
Property held for sale	28	33	37	32
Unbilled costs	20	14	16	19
Advances or deposits	6	4	6	7
Other-identified	46	29	30	33

Deferred Taxes

CONCORD FABRICS INC. (AUG)

	1998	1997
Current assets:		
Cash and cash equivalents	$ 8,678,053	$ 7,381,044
Investments in held-to-maturity securities	14,593,225	13,522,758
Accounts receivable (less doubtful accounts of $1,350,000 in 1998 and 1997	18,003,495	21,311,977
Inventories	16,015,819	12,903,902
Prepaid and refundable income taxes	—	255,000
Prepaid expenses and other current assets	1,289,839	1,416,839
Deferred income taxes (Note 5)	1,935,000	1,773,000
Total current assets	60,515,431	58,564,520

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Total Current Liabilities	10,816,390	7,771,694
Notes Payable	17,150,000	20,000,000
Deferred Income Taxes (Note 5)	288,000	550,000
Other Liabilities	556,249	484,249
Total Liabilities	$28,810,639	$28,805,943

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Income Taxes

Deferred tax assets and liabilities are comprised of the following elements:

	1998	1997
Gross deferred assets:		
Excess of tax over financial statement basis of property and plant leased to others	$ 171,500	$ 173,000
Estimated doubtful accounts	540,000	540,000
Excess of tax over financial statement basis of inventory	1,051,700	941,000
Accruals deductible for tax purposes when paid	427,500	421,000
Gross deferred assets	2,190,700	2,075,000
Excess of financial statement over tax basis of property, plant and equipment	325,700	431,000
Excess of financial statement over tax basis of property, plant and equipment held for sale	218,000	421,000
Gross deferred liabilities	543,700	852,000
Net deferred taxes	$1,647,000	$1,223,000
Reflected on consolidated balance sheets:		
Current deferred asset, net	$1,935,000	$1,773,000
Noncurrent deferred (liability), net	(288,000)	(550,000)
Net deferred taxes	$1,647,000	$1,223,000

LAM RESEARCH CORPORATION (JUN)

(in thousands)	1998	1997
Cash and cash equivalents	$ 13,509	$ 140,872
Short-term investments	383,647	54,821
Accounts receivable, less of allowance for doubtful accounts of $5,103 in 1998 and $2,377 in 1997	176,029	232,073
Inventories	220,610	261,738
Prepaid expenses and other assets	25,809	37,707
Deferred income taxes	77,485	75,935
Total current assets	897,089	803,146
Equipment and leasehold improvements, net	144,252	196,992
Restricted cash	51,357	—
Deferred income taxes	26,397	1,550
Other assets	31,677	33,361
	$1,150,772	$1,035,049

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

P (In Part): Income Taxes

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)	1998	1997
Deferred tax assets:		
Accounting accruals deductible in different periods	$ 63,937	$43,871
Inventory valuation differences	37,240	24,635
Tax benefit carryforwards	39,268	15,189
Net undistributed profits of foreign subsidiaries	9,239	3,805
Other	—	466
Gross deferred tax assets	149,684	87,966
Deferred tax liabilities:		
Temporary differences for capital assets	(8,594)	(8,534)
Other	(2,157)	(1,236)
Gross deferred tax liabilities	(10,751)	(9,770)
Valuation allowance for deferred tax assets	(35,051)	—
Net deferred tax assets	$103,882	$78,196

Approximately $5.9 million of the valuation allowance for deferred taxes is attributable to stock option deductions, the benefit of which will be credited to equity when realized.

Realization of the Company's net deferred tax assets is dependent on future taxable income. The Company believes that it is more likely than not such assets will be realized; however, ultimate realization could be negatively impacted by market conditions and other variables not known or anticipated at this time.

QUANTUM CORPORATION (MAR)

(in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 642,150	$345,125
Marketable securities	71,573	—
Accounts receivable, net of allowance for doubtful accounts of $12,928 in 1998 and $10,610 in 1997	737,928	887,477
Inventories	315,035	252,802
Deferred taxes	133,981	122,899
Other current assets	124,670	80,116
Total current assets	2,025,337	1,688,419
• • • • • •		
Total current liabilities:	700,236	815,578
Deferred taxes	38,668	33,587
Convertible subordinated debt	287,500	241,350
Long-term debt	39,985	177,668

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Income Taxes

Significant components of deferred tax assets and liabilities are as follows:

	Year ended March 31,	
(in thousands)	1998	1997
Deferred tax assets:		
Inventory valuation methods	$ 57,630	$ 42,236
Accrued warranty expense	33,824	53,995
Allowance for doubtful accounts	4,563	3,625
Distribution	7,002	6,821
Restructing	20,422	26,230
Other accruals and reserves not currently deductible for tax purposes	27,927	16,873
Depreciation methods	24,634	17,079
Amortization methods	30,711	29,275
Federal and state valuation allowance	0	(6,375)
	206,713	189,759
Deferred tax liabilities:		
Foreign inventory valuation methods	(17,322)	(17,912)
Tax on unremitted foreign earnings net of foreign tax credits and foreign deferred taxes	(77,180)	(68,435)
Other	(16,899)	(14,100)
	(111,401)	(100,447)
Net deferred tax asset	$ 95,312	$ 89,312

For financial reporting purposes, the Company had provided a valuation allowance for certain deferred tax assets that are expected to reverse over a 15-year period. The valuation allowance decreased approximately $6.4 million during fiscal year 1998. Management has determined, based on the Company's history of prior operating earnings and its expectations for the future, that no valuation allowance for deferred tax assets should be provided as of March 31, 1998.

TEXAS INSTRUMENTS INCORPORATED (DEC)

(Million of Dollars)	1998	1997
Current assets:		
Cash and cash equivalents	$ 540	$ 1,105
Short-term investments	1,709	2,005
Accounts receivable, less allowance for losses of $97 million in 1998 and $73 million in 1997	1,343	1,705
Inventories	596	742
Prepaid expenses	75	59
Deferred income taxes	583	577
Total current assets	4,846	6,103
Property, plant and equipment at cost	6,379	7,414
Less accumulated depreciation	(3,006)	(3,234)
Property, plant and equipment (net)	3,373	4,180
Investments	2,564	69
Deferred income taxes	23	134
Other assets	444	363
Total assets	$ 11,250	$ 10,849
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Total current liabilities:	$ 2,196	$ 2,496
Long-term debt	1,027	1,286
Accrued retirement costs	895	731
Deferred income taxes	381	288
Deferred credits and other liabilities	224	134

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Provision for Income Taxes (In Part)

The primary components of deferred income tax assets and liabilities at December 31 were as follows:

(Millions of dollars)	1998	1997
Deferred income tax assets:		
Accrued retirement costs (pension and retiree health care)	$ 322	$ 221
Inventories and related reserves	242	216
Accrued expenses	251	195
Loss and credit carryforwards	49	80
Other	59	210
	923	922
Less valuation allowance	(173)	(121)
	750	801
Deferred income tax liabilities:		
Investments	(256)	(5)
Property, plant and equipment	(104)	(165)
International earnings	(19)	(38)
Other	(146)	(170)
	(525)	(378)
Net deferred income tax asset	$ 225	$ 423

As of December 31, 1998 and 1997, the net deferred income tax asset of $225 million and $423 million was presented in the balance sheet, based on tax jurisdiction, as deferred income tax assets of $606 million and $711 million and deferred income tax liabilities of $381 million and $288 million. The valuation allowance shown above reflects the company's ongoing assessment regarding the realizability of certain non-U.S. deferred income tax assets. The balance of the deferred income tax assets is considered realizable based on carryback potential, existing taxable temporary differences and expectation of future income levels comparable to recent results. Such future income levels are not assured because of the nature of the company's businesses, which are generally characterized by rapidly changing technology and intense competition.

Property Held For Sale

CARPENTER TECHNOLOGY CORPORATION (JUN)

(in millions)	1998	1997
Current assets:		
Cash and cash equivalents	$ 52.4	$ 18.6
Accounts receivable, net of allowance for doubtful accounts ($1.9 and $1.4)	177.0	159.9
Inventories	267.1	211.5
Net assets held for sale	130.2	—
Other current assets	18.8	12.2
Total current assets	645.5	402.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Net Assets Held for Sale

As described in Note 3, Carpenter intends to sell the businesses in the government products and services and industrial products segments of Talley. The sales are expected to be completed by December 1998. The expected net proceeds of these sales and the cash flows of these businesses until they are sold less an allocation of interest expense for the holding period were allocated to net assets held for sale in the allocation of the Talley purchase price. Any difference between the actual and expected amounts will result in an adjustment of goodwill unless there is a difference caused by a post-acquisition event.

Activity from the acquisition date to June 30, 1998, in the net assets held for sale follows:

(in millions)	
Allocation of purchase price	$150.9
Net cash funded by Carpenter	14.1
Interest allocated	6.6
Proceeds from sales of businesses	(41.4)
Balance June 30, 1998	$130.2

The businesses held for sale had net income of $2.7 million from December 5, 1997 to June 30, 1998. The net cash funded by Carpenter, including working capital and property, plant and equipment investments, was $14.1 million which was accounted for as an increase in the carrying value of the net assets held for sale.

Several of the businesses to be sold have defined benefit pension plans which are expected to be assumed by the buyers. The aggregate present values of pension obligations and assets of these plans at June 30, 1998, were $4.2 million and $5.9 million, respectively.

DIMON INCORPORATED (JUN)

(in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 18,729	$ 107,131
Notes receivable	5,600	6,797
Trade receivables, net of allowances (1998–$2,799, 1997–$5,902)	319,295	396,156
Inventories:		
Tobacco	588,143	583,579
Other	24,483	25,282
Advances on purchases of tobacco	192,191	226,765
Recoverable income taxes	2,748	3,051
Prepaid expenses and other assets	24,794	22,718
Net assets of discontinued operations	32,907	—
Total current assets	$1,208,890	$1,371,479

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

B. Discontinued Operations

On August 12, 1998, the Company reached a definitive agreement to sell the net assets of the flower operations for approximately $66 million in cash and the assumption of $24 million of the debt of Florimex Worldwide. The Company expects to record a pre-tax gain of approximately $30 million in the first quarter of the year ending June 30, 1999. Net assets of $32.9 million relating to the sale have been segregated on the June 30, 1998 Consolidated Balance Sheet.

The results of the operations for all years presented have been restated for the discontinued flower operations.

Net Assets of Discontinued Operations:	June 30, 1998
Assets	
Cash and cash equivalents	$ 3,262
Receivables	35,515
Inventories	3,921
Recoverable income taxes	350
Prepaid expenses and other	5,470
Intangible assets	17,419
Property, plant and equipment, net	37,335
Total Assets	103,272
Liabilities	
Notes payable to banks and others	10,539
Accounts payable and accruals	35,166
Income taxes payable	1,431
Long-term debt	17,110
Deferred taxes and other	5,661
Minority interest	458
Total Liabilities	70,365
Net Assets of Discontinued Operations	$32,907

Summary of Operating Results of Discontinued Operations:	1998	1997	1996
Sales and other operating revenues	$391,560	$387,488	$397,307
Cost of goods and services sold	351,517	343,786	353,300
Restructuring and merger costs	—	—	(498)
Selling, administrative and general expenses	33,856	33,419	36,029
Operating Income	6,187	10,283	8,476
Interest expense	1,909	2,509	3,763
Income before income taxes and minority interest	4,278	7,774	4,713
Income taxes	2,358	3,045	1,671
Income applicable to minority interest	100	124	292
Income from discontinued operations	$ 1,820	$ 4,605	$ 2,750

FLUOR CORPORATION (OCT)

(in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 340,544	$ 299,324
Marketable securities	—	10,089
Accounts and notes receivable	959,416	917,604
Contract work in progress	596,983	691,395
Inventories	198,645	175,448
Deferred taxes	81,155	58,039
Other current assets	64,108	61,487
Net assets held for sale	36,300	—
Total current assets	$2,277,151	$2,213,386

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Business Dispositions (In Part)

On October 28, 1998, the company entered into an agreement to sell its ownership interest in FD/GTI. Under terms of the agreement, the company sold its 4,400,000 shares in FD/GTI for $8.25 per share, or $36.3 million in cash, on December 3, 1998. The net assets of FD/GTI have been reflected on the consolidated balance sheet at net realizable value and include $26.4 million in cash and cash equivalents. This transaction did not have a material impact on the company's results of operations or financial position.

KNAPE & VOGT MANUFACTURING COMPANY (JUN)

	1998	1997
Current assets:		
Cash	$ 3,057,158	$ 1,146,546
Accounts receivable, less allowances of $352,000 and $525,000, respectively	25,677,043	24,991,341
Refundable income taxes	176,204	1,578,681
Inventories	12,808,532	18,629,454
Prepaid expenses	2,706,490	3,686,042
Net current assets of discontinued operation	—	1,462,089
Net assets held for sale	18,648,000	—
Total current assets	$63,073,427	$51,494,153

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Restructuring and Impairment of Assets

The Company is in the process of completing the negotiation of a definitive agreement to sell The Hirsh Company, a wholly owned subsidiary. Hirsh manufactures free-standing shelving, wood storage products and workshop accessories. At June 30, 1998, the carrying value of the net assets subject to the sale was reduced to fair value based on the estimated selling price less costs to sell. This resulted in a pre-tax loss of $11,800,000, which is included in the restructuring and impairment of assets line of the consolidated statement of operations. The loss includes the write-off of the unamortized balance of goodwill recorded in connection with the purchase of Hirsh. In connection with the sale, the Company recognized an additional tax cost of $1,000,000, resulting in a total loss related to the sale of The Hirsh Company of $12,800,000. Management expects to complete the sale during the first quarter of fiscal year ending June 30, 1999.

The components of the net assets held for sale as of June 30, 1998 are as follows:

Current assets	$ 4,483,000
Property and equipment	6,923,000
Other assets	8,985,000
Liabilities	(1,743,000)
Net assets held for sale	$18,648,000

Summary operating results for Hirsh (in thousands) are as follows:

Year Ended June 30	1998	1997	1996
Revenues	$ 35,634	$36,589	$37,312
Costs and expenses	47,880	37,344	37,880
Income (loss) before taxes	(12,246)	(755)	(568)
Income tax expense (benefit)	998	(79)	(57)
Net income (loss)	$(13,244)	$ (676)	$ (511)

Unbilled Costs

HARMON INDUSTRIES, INC. (DEC)

(Dollars in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 1,669	$ 6,748
Trade receivables, less allowance for doubtful accounts of $351 in 1998 and $318 in 1997	52,229	45,001
Cost and estimated earnings in excess of billings on uncompleted contracts (note 2)	9,649	2,850
Inventories:		
Work in process	6,372	6,171
Raw materials and supplies	36,640	32,894
	43,012	39,065
Income tax receivable	597	—
Deferred tax asset	587	2,215
Prepaid expenses and other current assets	1,301	473
Total current assets	$109,044	$96,352

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Contracts in Progress

Contract costs on uncompleted contracts are as follows:

(Dollars in thousands)	Costs and Estimated Earnings In Excess of Billings	Billings in Excess of Costs and Estimated Earnings	Total
December 31, 1998:			
Costs and Estimated Earnings	$ 30,374	$ 121,701	$152,075
Billings	20,725	139,194	159,919
	$ 9,649	$ (17,493)	$ (7,844)
December 31, 1997:			
Cost and Estimated Earnings	$ 13,850	$ 110,836	$124,686
Billings	11,000	116,513	127,513
	$ 2,850	$ (5,677)	$ (2,827)

Balances billed, but not paid by customers under retainage provisions in contracts amounted to $2,643,000 and $798,000 at December 31, 1998 and 1997, respectively. Receivables on contracts in progress are considered to be collectible within twelve months.

Deferred Advertising

DELUXE CORPORATION (DEC)

(Dollars in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$268,934	$171,438
Marketable securities	41,133	8,021
Trade accounts receivable	145,079	151,201
Inventories:		
Raw material	2,619	15,462
Semi-finished goods	7,401	9,132
Finished goods	1,981	26,503
Supplies	17,400	15,899
Deferred advertising	7,939	15,763
Deferred income taxes	63,785	50,345
Prepaid expenses and other current assets	62,961	48,849
Total current assets	$619,232	$512,613

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant accounting policies

Deferred Advertising

These costs consist of materials, production, postage and design expenditures required to produce catalogs for the Company's direct mail businesses. Such costs are amortized over periods (generally less than 12 months) that correspond to the estimated revenue streams of the individual catalogs. The actual timing of these revenue streams may differ from these estimates. Sales materials are charged to expense when no longer owned or expected to be used. The total amount of deferred advertising expense for 1998, 1997 and 1996 was $100 million, $101.3 million and $107.4 million, respectively.

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. Balance 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

	1998	1997	1996	1995
Land	357	368	373	370
Land and improvements	140	131	126	134
Land and buildings	49	46	42	41
Land combined with other identified assets	11	10	13	5
No caption with term land	17	18	20	23
	574	573	574	573
Lines of business classification	26	27	26	27
Total Companies	**600**	**600**	**600**	**600**

TABLE 2-13: DEPRECIABLE ASSET CAPTIONS

	1998	1997	1996	1995
Buildings				
Buildings	233	239	244	254
Buildings and improvement	224	224	225	212
Building and land or equipment	85	81	68	74
Buildings combined with other identified assets	15	9	11	11
No caption with term buildings	16	18	21	17
	573	571	569	568
Line of business classification	27	29	31	32
Total Companies	**600**	**600**	**600**	**600**
Other Depreciable Asset Captions	**Number of Companies**			
Machinery and/or equipment	446	450	454	453
Machinery and/or equipment combined with other assets	104	95	91	100
Construction in progress	273	269	266	262
Leasehold improvements	108	102	104	104
Lease assets	64	65	63	69
Automobiles, marine equipment, etc.	80	74	67	66
Furniture and fixtures	64	58	58	43
Assets leased to others	24	14	19	16

TABLE 2-14: ACCUMULATED DEPRECIATION

	1998	1997	1996	1995
Accumulated depreciation	339	321	320	325
Accumulated depreciation and amortization	183	185	177	171
Accumulated depreciation, amortization and depletion	24	28	31	33
Accumulated depreciation and depletion	8	10	9	8
Allowance for depreciation	25	33	34	35
Allowance for depreciation and amortization	11	11	14	14
Other captions	10	12	15	14
Total Companies	**600**	**600**	**600**	**600**

CHAMPION INTERNATIONAL CORPORATION (DEC)

(in millions of dollars)	1998	1997
Total Current Assets	$1,438.5	$1,448.0
Timber and Timberlands, at cost—less cost of timber harvested	2,430.4	2,397.3
Property, Plant and Equipment, at cost (Note 4)	8,585.3	9,473.4
Less—accumulated depreciation	4,356.5	4,673.3
	4,228.8	4,800.1
Other Assets and Deferred Charges	742.2	465.2
	$8,839.9	$9,110.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Fixed Assets

Property, Plant and Equipment, which includes capitalized leases, is stated at cost. Timber and Timberlands, which includes original costs, road construction costs, and reforestation costs, such as site preparation and planting costs, is stated at unamortized cost. Property taxes, surveying, fire control and other forest management expenses are charged to expense as incurred. When fixed assets are sold or retired, cost and accumulated depreciation are eliminated from the accounts, and gains or losses are recorded in income.

For financial reporting purposes, plant and equipment are depreciated using the straight-line method over the estimated service lives of the individual assets.

Machinery and equipment lives range from three to 35 years, buildings from 10 to 40 years, and land improvements from five to 24 years. Leasehold improvements are amortized over the shorter of the lives of the leases or estimated service lives. Cost of timber harvested is based on the estimated quantity of timber available during the growth cycle and is credited directly to the asset accounts.

4. Property, Plant and Equipment

December 31 (in millions of dollars)	1998	1997
Land and land improvements	$ 315.3	$ 356.4
Buildings and leasehold improvements	912.9	993.3
Machinery and equipment	7,194.2	7,965.5
Construction in progress	162.9	158.2
	8,585.3	9,473.4
Accumulated depreciation	(4,356.5)	(4,673.3)
	$4,228.8	$4,800.1

Interest capitalized into construction in progress during 1998, 1997 and 1996 was $8.8 million, $8.0 million and $10.6 million, respectively. Accumulated depreciation at December 31, 1998 includes $569 million of asset impairment and asset write-off charges related to assets to be divested pursuant to the company's restructuring plan (Note 10).

Depreciation expense includes the following components:

Years Ended December 31	1998	1997	1996
(in millions of dollars)			
Land improvements	$ 14.2	$ 13.0	$ 14.3
Buildings and leasehold improvements	28.0	29.2	27.8
Machinery and equipment	353.1	382.4	365.7
	$395.3	$424.6	$407.8

ELCOR CORPORATION (JUN)

($ in thousands)	1998	1997
Total current assets	$ 94,529	$ 85,492
Property, Plant and Equipment, at Cost		
Land	2,194	2,065
Buildings	35,835	30,873
Machinery and equipment	149,369	145,881
Construction in progress	6,735	1,296
	194,133	180,115
Less—Accumulated depreciation	(73,401)	(62,648)
Property, plant and equipment, net	120,732	117,467
Other Assets	1,783	3,490
	$217,044	$206,449

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized, while maintenance and repairs are expensed when incurred. Depreciation is computed over the estimated useful lives of depreciable assets using the straight-line method. Useful lives for property and equipment are as follows:

Buildings and improvements	10-40 years
Machinery and equipment	5-20 years
Computer equipment	3- 6 years
Office furniture and equipment	5-12 years

The cost and accumulated depreciation for property, plant and equipment sold, retired, or otherwise disposed of are relieved from the accounts, and resulting gains or losses are reflected in income. Historically, preoperating and start-up costs incurred in connection with the construction of major new manufacturing facilities were capitalized until such facilities became operational. These costs were then amortized over a five-year period. Capitalized preoperating and start-up costs included in capital expenditures were $977,000 and $4,772,000 in fiscal years 1997 and 1996 respectively. Effective in fiscal 1999, preoperating and start-up costs will be expensed as incurred in accordance with AcSec Statement of Position 98-5, as described more fully in the New Accounting Standards section of these financial statements. Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. In 1998, 1997 and 1996, $160,000, $1,784,000 and $1,459,000 of interest cost was capitalized, respectively.

MICRON TECHNOLOGY, INC. (AUG)

(Dollars in millions)	1998	1997
Total current assets:	$1,499.2	$1,972.4
Product and process technology, net	84.9	51.1
Property, plant and equipment net	3,030.8	2,761.2
Other assets	73.4	66.6
Total assets	$4,688.3	$4,851.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All tabular dollar amounts are stated in millions)

Significant Accounting Policies (In Part)

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of 5 to 30 years for buildings and 2 to 20 years for equipment. When property or equipment is retired or otherwise disposed of, the net book value of the asset is removed from the Company's books and the net gain or loss is included in the determination of income.

The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. For 1998, 1997 and 1996, the Company capitalized $15.5 million, $6.0 million and $7.8 million of interest, respectively, in connection with various capital expansion projects.

The Company reviews the carrying value of property, plant and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets.

Property, Plant and Equipment

Land	$ 34.8	$ 35.4
Buildings	915.5	817.9
Equipment	3,017.4	2,416.2
Construction in progress	704.6	681.9
	4,672.3	3,951.4
Less accumulated depreciation and amortization	(1,641.5)	(1,190.2)
	$3,030.8	$2,761.2

As of September 3, 1998, property, plant and equipment included unamortized costs of $701.2 million for the Company's semiconductor memory manufacturing facility in Lehi, Utah, of which $640.4 million has not been placed in service and is not being depreciated. Timing of the completion of the remainder of the Lehi production facilities is dependent upon market conditions. Market conditions which the Company expects to evaluate include, but are not limited to, worldwide market supply and demand of semiconductor products and the Company's operations, cash flows and alternative uses of capital. The Company continues to evaluate the carrying value of the facility and as of September 3, 1998, it was determined to have no impairment.

Depreciation expense was $567.6 million, $461.7 million and $363.7 million for 1998, 1997 and 1996, respectively.

SCIENTIFIC INDUSTRIES, INC. (JUN)

	1998	1997
Total current assets:	$1,892,400	$1,773,900
Property and equipment, net	150,800	143,200
Other assets and deferred charges:		
Intangible assets, less accumulated amortization of $38,300 and $21,500 in 1998 and 1997	55,200	52,900
Deferred income taxes	22,700	16,100
Other	135,600	123,900
	213,500	192,900
	$2,256,700	$2,110,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Property and Equipment

Property and equipment are stated at cost. Depreciation of computer equipment, machinery and equipment and furniture and fixtures is provided for primarily by the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized by the straight-line method over the term of the related lease or the estimated useful lives of the assets, whichever is shorter. The carrying amount of all long-lived assets is evaluated periodically to determine if adjustment to the useful life or to the undepreciated balance is warranted.

5. Property and Equipment, Net

	Useful Lives (Years)	1998	1997
Computer equipment	4-5	$138,200	$ 99,200
Machinery and equipment	3-7	77,400	63,500
Furniture and fixtures	4-10	37,100	47,900
Leasehold improvements	3-8	30,900	30,900
		283,600	241,500
Less accumulated depreciation and amortization		132,800	98,300
		$150,800	$143,200

THE J.M. SMUCKER COMPANY (APR)

(Dollars in thousands)	1998	1997
Total current assets	$201,506	$178,472
Property, plant and equipment		
Land and land improvements	15,058	13,820
Buildings and fixtures	78,658	74,709
Machinery and equipment	177,372	170,160
Construction in progress	13,147	6,881
	284,235	265,570
Accumulated depreciation	(140,521)	(125,935)
Total property, plant, and equipment	$143,714	$139,635

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Accounting Policies

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets, as follows: 3 to 15 years for machinery and equipment; and 10 to 40 years for buildings, fixtures, and improvements. Property sold or retired is eliminated from the accounts in the year of disposition.

TWIN DISC, INCORPORATED (JUN)

(Dollars in thousands)	1998	1997
Total current assets	$ 93,580	$ 97,962
Property, plant and equipment, net	35,728	34,249
Investments in affiliates	10,356	10,880
Deferred income taxes	1,241	4,559
Intangible pension asset	4,082	4,779
Other assets	15,967	6,326
	$160,954	$158,755

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Property, Plant and Equipment and Depreciation

Assets are stated at cost. Expenditures for maintenance, repairs and minor renewals are charged against earnings as incurred. Expenditures for major renewals and betterments are capitalized and amortized by depreciation charges. Depreciation is provided on the straight-line method over the estimated useful lives of the assets for financial reporting and on accelerated methods for income tax purposes. The lives assigned to buildings and related improvements range from 10 to 40 years, and the lives assigned to machinery and equipment range from 5 to 15 years. Upon disposal of property, plant and equipment, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings. Fully depreciated assets are not removed from the accounts until physical disposition.

C. Property, Plant and Equipment

Property, plant and equipment at June 30 were as follows:

(in thousands)	1998	1997
Land	$ 1,295	$ 1,335
Buildings	19,065	18,708
Machinery and equipment	92,309	87,832
	112,669	107,875
Less accumulated depreciation	76,941	73,626
	$35,728	$34,249

INVESTMENTS

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 securities 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. 139 survey companies made 174 fair value disclosures. 15 disclosures stated that it was not practicable to estimate fair value; 38 disclosures stated that fair value approximated the carrying amounts of investments; 88 disclosures stated that market or broker quotes were used to estimate fair value; 18 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.

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			
	1998	**1997**	**1996**	**1995**
Equity	279	260	260	253
Cost	90	87	80	101
Fair value	77	59	74	67
Lower of cost or market	3	1	2	4

Equity Method

DOW JONES & COMPANY, INC. (DEC)

Consolidated Balance Sheets

(Dollars in thousands)	1998	1997
Total current assets	$442,289	$506,553
Investments in associated companies, at equity (Note 4)	40,479	46,064

Consolidated Statements of Income (Loss)

(in thousands)	1998	1997	1996
Revenues			
Advertising	$1,031,210	$1,011,864	$ 896,981
Information services	670,441	1,101,696	1,125,625
Circulation and others	456,455	458,958	458,986
Total revenues	2,158,106	2,572,518	2,481,592
Expenses			
News, operations and development	677,381	899,868	820,564
Selling, administrative and general	762,803	895,707	831,270
Newsprint	163,146	152,478	164,766
Second class postage and carrier delivery	117,649	114,442	110,256
Depreciation and amortization	142,439	250,734	217,756
Restructuring	76,115	1,001,263	
Operating expenses	1,939,533	3,314,492	2,144,612
Operating income (loss)	218,573	(741,974)	336,980
Other Income (Deductions)			
Investment income	12,266	3,473	4,249
Interest expense	(7,193)	(19,367)	(18,755)
Equity in losses of associated companies (Notes 3 & 4)	(21,653)	(49,311)	(5,408)
(Loss) gain on disposition of businesses and investments	(126,085)	52,595	14,315
Other, net	(4,250)	(9,300)	(121)
Income (loss) before income taxes and minority interests	71,658	(763,884)	331,260

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

The Consolidated Financial Statements include the accounts of the company and its majority-owned subsidiaries. The equity method of accounting is used for companies and other investments in which the company has significant influence, generally this represents common stock ownership or partnership equity of at least 20% and not more than 50% (see Note 4). All significant intercompany transactions are eliminated in consolidation. On May 29, 1998, the company completed the sale of Telerate (formerly, Dow Jones Markets), which was a significant subsidiary of the company. The disposition of this business has had a major impact on the comparability of the company's financial statements. To assist the reader of these financial statements and related notes with comparability, the company has disclosed certain financial information throughout the footnotes excluding the impact of Telerate.

3 (In Part): Restructuring Charges

Operating expenses in 1998 included charges associated with restructuring certain business units, collectively totaling $76.1 million ($45.4 million after taxes). Additionally, the company recorded a $6.5 million charge ($4.2 million after taxes) to Equity in Losses of Associated Companies for costs associated with international television joint ventures.

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The $6.5 million charge to Equity in Losses of Associated Companies represented the company's share of additional losses associated with television satellite lease redundancies in Asia and Europe, as a result of establishing joint ventures in 1997 with CNBC. These charges are due to difficulties in subleasing satellites.

4. Investments in Associated Companies, At Equity

At December 31, 1998, the principal components of investments in associated companies, at equity were the following:

Investment	Ownership	Description of business
Business News (Asia) Private	50%	Business and financial news television company broadcasting as CNBC Asia, in partnership with NBC
Business News (Europe) L.P.	50	Business and financial news television company broadcasting as CNBC Europe, in partnership with NBC
F.F. Soucy, Inc. & Partners, L.P.	40	Newsprint mill in Quebec, Canada
HB-Dow Jones S.A.	42	A part-owner of a publishing company in the Czech Republic
Interactive Video LLC	33	Provides Internet delivery of live and archived audio and video business and financial news, in partnership with MSNBC as CNBC/Dow Jones Business Video
SmartMoney	50	Publisher of Smart Money magazine and SmartMoney. com, serving the private-investor market throughout the U.S. and Canada, in partnership with Hearst Corp.

Dow Jones & Company has entered a long-term contract with F.F. Soucy, Inc. & Partners, L.P. covering a substantial portion of its annual newsprint requirements. Operating expenses of the company include the cost of newsprint supplied by F.F. Soucy of $22,325,000 in 1998, $21,598,000 in 1997 and $26,417,000 in 1996.

Summarized financial information for 1998 of the company's equity-basis investments in associated companies, combined, was as follows. The majority of these investments are partnerships, which require the associated tax benefit or expense to be recorded by the parent.

(in thousands)	1998
Income statement information:	
Revenues	$182,694
Operating loss	(41,261)
Net loss	(39,615)
Financial position information:	
Current assets	80,402
Noncurrent assets	139,201
Current liabilities	74,248
Noncurrent liabilities	50,639
Net assets	94,716

INGERSOLL-RAND COMPANY (DEC)

Consolidated Balance Sheet

(in millions)	1998	1997
Total current assets	$2,427.6	$2,544.9
Investments in and advances with partially-owned equity affiliates	344.7	328.0

Consolidated Statement of Income

(in millions)	1998	1997	1996
Net sales	$8,291.5	$7,103.3	$6,702.9
Cost of goods sold	6,046.6	5,263.7	5,029.9
Administrative, selling and service engineering expenses	1,200.5	1,079.3	989.5
Operating income	1,044.4	760.3	683.5
Interest expense	(225.8)	(136.6)	(119.9)
Other income (expense), net	(22.0)	(21.5)	(18.8)
Equity in earnings of partially-owned affiliates	46.8	28.8	42.4
Minority interests	(54.2)	(17.3)	(18.9)
Earnings before income taxes	789.2	613.7	568.3

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 wholly-owned and majority-owned subsidiaries. Intercompany transactions and balances have been eliminated. Partially-owned equity affiliates are accounted for under the equity method. In conformity with generally accepted accounting principles, management has used estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

5. Investments in Partially-Owned Equity Affiliates

The company has numerous investments, ranging from 20 percent to 50 percent, in companies that operate in similar lines of business.

The company's investments in and amounts due to partially-owned equity affiliates amounted to $380.9 million and $36.2 million, respectively, at December 31, 1998, and $354.2 million and $26.2 million, respectively, at December 31, 1997. The company's equity in the net earnings of its partially-owned equity affiliates was $46.8 million, $28.8 million and $42.4 million in 1998, 1997 and 1996, respectively. The company's 1997 earnings were reduced by $13.9 million due to a restructuring charge at one of its partially-owned equity affiliates.

The company received dividends based on its equity interests in these companies of $8.5 million, $8.7 million and $6.8 million in 1998, 1997 and 1996, respectively.

Summarized financial information for these partially-owned equity affiliates at December 31, and for the years then ended:

(in millions)	1998	1997
Current assets	$ 985.1	$ 959.6
Property, plant and equipment, net	490.5	506.7
Other assets	57.7	73.7
Total assets	$1,533.3	$1,540.0
Current liabilities	$526.5	$610.8
Long-term debt	65.9	75.3
Other liabilities	170.0	227.1
Total shareholders' equity	770.9	626.8
Total liabilities and equity	$1,533.3	$1,540.0

(in millions)	1998	1997	1996
Net sales	$1,996.2	$2,048.4	$2,070.4
Gross profit	353.6	382.4	391.7
Net earnings	90.6	59.4	89.5

SPS TECHNOLOGIES, INC. (DEC)

Consolidated Balance Sheets

(Thousands of dollars)	1998	1997
Total current assets	$271,940	$226,888
Investments in affiliates	2,033	5,988
Property, plant and equipment, net	207,800	172,599
Other assets	125,462	66,573
Total assets	$607,235	$472,048

Statements of Consolidated Operations

(Thousands of dollars)	1998	1997	1996
Net sales	$716,605	$588,616	$485,903
Cost of goods sold	553,770	460,159	386,403
Gross Profit	162,835	128,457	99,500
Selling, general and administrative expense	83,501	70,379	61,322
Operating Earnings	79,334	58,078	38,178
Other income (expense):			
Interest income	947	1,002	621
Interest expense	(10,860)	(8,998)	(7,989)
Equity in earnings (loss) of affiliates	(2,442)	230	853
Minority interest	(523)	(224)	(100)
Other, net	114	(788)	(513)
	(12,764)	(8,778)	(7,128)
Earnings Before Income Taxes	66,570	49,300	31,050

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Thousands of dollars)

1 (In Part): Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries. Investments in affiliates are recorded on the equity method, either due to ownership interest of 20 percent or more but less than 50 percent or due to the Company's inability to exercise effective control. Certain prior year amounts have been reclassified for comparative purposes.

5. Investments in Affiliates

At December 31, 1998, the Company's investments in affiliates consist of a 22.05 percent interest in Precision Fasteners Limited (PFL), Bombay, India, and a 55 percent interest in Shanghai SPS Biao Wu Fasteners Co. Ltd. (SSBW), Shanghai, China. SSBW is accounted for as an affiliate under the equity method because the Company is not able to exercise effective control over the operations. Dividends received from affiliates were $99 and $339 in 1997 and 1996, respectively. No dividends were received in 1998. Retained earnings in 1998, 1997 and 1996 included undistributed earnings of affiliates, net of deferred taxes, of $1,081, $3,161 and $3,945 respectively.

Fair Value

AUTOMATIC DATA PROCESSING, INC. (JUN)

(in thousands)	1998	1997
Total current assets	$1,829,304	$1,805,322
Long-term marketable securities	765,272	470,164
Long-term receivables	177,946	176,771
Property, plant and equipment—at cost:		
Land and buildings	386,745	361,594
Data processing equipment	696,424	626,013
Furniture, leaseholds and other	432,654	364,161
	1,515,823	1,351,768
Less accumulated depreciation	932,150	832,423
	583,673	519,345
Other assets	166,112	96,383
Intangibles	1,653,048	1,314,787
	$5,175,355	$4,382,772

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Marketable Securities

Marketable securities consist primarily of high-grade fixed income investments. Most of the Company's marketable securities are considered to be "available-for-sale" and, accordingly, are carried on the balance sheet at fair market value, which approximates cost. Gains/losses from the sale of marketable securities have not been material. Approximately $201 million of the Company's long-term marketable securities mature in 1-2 years, $310 million in 2-3 years, $147 million in 3-4 years, and the remainder in less than 7 years.

CISCO SYSTEMS, INC. (JUL)

(in thousands)	1998	1997
Current assets:		
Cash and equivalents	$ 534,652	$ 269,608
Short-term investments	1,156,849	1,005,977
Accounts receivable, net of allowances for doubtful accounts of $39,842 in 1998 and $22,340 in 1997	1,297,867	1,170,401
Inventories, net	361,986	254,677
Deferred income taxes	344,905	312,132
Prepaid expenses and other current assets	65,665	88,471
Total current assets	3,761,924	3,101,266
Investments	3,463,279	1,267,174
Restricted investments	553,780	363,216
Property and equipment, net	595,349	466,352
Other assets	542,373	253,976
Total assets	$8,916,705	$5,451,984

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Investments

The Company's investments comprise U.S., state, and municipal government obligations and foreign and corporate securities. Investments with maturities of less than one year are considered short term and are carried at fair value. Nearly all investments are held in the Company's name and custodied with two major financial institutions. The specific identification method is used to determine the cost of securities disposed of, with realized gains and losses reflected in other income and expense. At July 25, 1998 and July 26, 1997, substantially all of the Company's investments were classified as available for sale. Unrealized gains and losses on these investments are included as a separate component of shareholders' equity, net of any related tax effect.

Fair Value of Financial Instruments

Carrying amounts of certain of the Company's financial instruments, including cash and equivalents, accrued payroll, and other accrued liabilities, approximate fair value because of their short maturities. The fair values of investments are determined using quoted market prices for those securities or similar financial instruments (see Note 5).

5. Investments

The following tables summarize the Company's investment in securities (in thousands):

July 25, 1998	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government notes and bonds	$ 978,308	$ 2,596	$ (447)	$ 980,457
State, municipal, and county government notes and bonds	3,215,316	11,319	(2,870)	3,223,765
Foreign government notes and bonds	30,848	—	(71)	30,777
Corporate notes and bonds	767,877	545	(972)	767,450
Corporate equity securities	55,252	137,117	(20,910)	171,459
Total	$5,047,601	$151,577	$(25,270)	$5,173,908
Reported as:				
Short-term investments				$1,156,849
Investments				3,463,279
Restricted investments				553,780
Total				$5,173,908

July 26, 1997	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government notes and bonds	$ 609,580	$ 1,407	$ (960)	$ 610,027
State, municipal and county government notes and bonds	1,313,652	6,214	(755)	1,319,111
Foreign government notes and bonds	31,565	29	(111)	31,483
Corporate notes and bonds	562,039	594	(589)	562,044
Corporate equity securities	40,759	89,390	(16,447)	113,702
Total	$2,557,595	$97,634	$(18,862)	$2,636,367
Reported as:				
Short-term investments				$1,005,977
Investments				1,267,174
Restricted investments				363,216
Total				$2,636,367

The following table summarizes debt maturities (including restricted investments) at July 25, 1998 (in thouands):

	Amortized Cost	Fair Value
Less than one year	$1,415,707	$1,414,444
Due in 1-2 years	857,306	887,140
Due in 2-5 years	2,505,377	2,508,387
Due after 5 years	213,959	192,478
Total	$4,992,349	$5,002,449

During fiscal year 1997, the Company began to sell its minority equity position in a publicly traded company which was completed in fiscal year 1998. Also, in fiscal 1997, the Company established the Cisco Systems Foundation ("the Foundation"). As part of this initiative, the Company donated a portion of the equity investment, along with other equity securities, to the Foundation, with a combined cost basis of approximately $2 million and an approximate fair value of $72 million at July 26, 1997. The realized gains reported on the sale of this investment, net of the 1997 donation to the Foundation, were $153 million in fiscal 1997 and $5 million in fiscal 1998.

COLUMBIA/HCA HEALTHCARE CORPORATION (DEC)

(Dollars in millions)	1998	1997
Net property and equipment	$9,449	$10,230
Investments of insurance subsidiary	1,614	1,422
Investments in and advances to affiliates	1,275	1,329
Intangible assets, net of accumulated amortization of $596—1998 and $510—1997	2,910	3,521
Net assets of discontinued operations	—	841
Other	318	236

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Investments of Insurance Subsidiary

At December 31, 1998, all of the investments of the Company's wholly-owned insurance subsidiary were classified as "available for sale" as defined in Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115").

At December 31, 1997, a portion of the insurance subsidiary's investments (approximately $57 million) were classified as trading securities. Trading securities are bought and held principally for the purpose of selling them in the near future. Trading securities are recorded at fair value and unrealized gains and losses are included in results of operations.

10. Investments of Insurance Subsidiary

A summary of the insurance subsidiary's investments at December 31 follows (dollars in millions):

	1998			
	Amortized Cost	Unrealized Amounts Gains	Unrealized Amounts Losses	Fair Value
Fixed maturities:				
United States government	$ 119	$—	$—	$ 119
States and municipalities	886	32	—	918
Mortgage-backed securities	78	1	—	79
Corporate and other	173	3	(1)	174
Money market funds	27	—	—	27
Redeemable preferred stocks	52	1	—	53
	1,335	36	(1)	1,370
Equity securities:				
Perpetual preferred stocks	21	1	—	22
Common stocks	287	126	(41)	372
	308	127	(41)	394
	$1,643	$163	$(42)	1,764
Amounts classified as current assets				(150)
Investment carrying value				$1,614

	1997			
	Amortized Cost	Unrealized Amounts Gains	Unrealized Amounts Losses	Fair Value
Fixed maturities:				
United States government	$ 17	$ —	$—	$ 17
States and municipalities	657	24	—	681
Mortgage-backed securities	107	2	—	109
Corporate and other	128	3	(1)	130
Money market funds	63	—	—	63
Redeemable preferred stocks	64	—	—	64
	1,036	29	(1)	1,064
Equity securities:				
Perpetual preferred stocks	36	1	(1)	36
Common stocks	303	130	(18)	415
	339	131	(19)	451
	$1,375	$160	$(20)	1,515
Amounts classified as current assets				(93)
Investment carrying value				$1,422

The fair value of investment securities is generally based on quoted market prices.

Scheduled maturities of investments in debt securities at December 31, 1998 were as follows (dollars in millions):

	Amortized Cost	Fair Value
Due in one year or less	$ 243	$ 243
Due after one year through five years	368	377
Due after five years through ten years	361	378
Due after ten years	285	293
	1,257	1,291
Mortgage-backed securities	78	79
	$1,335	$1,370

The average expected maturity of the investments in debt securities listed above approximated 4.1 years at December 31, 1998. Expected and scheduled maturities may differ because the issuers of certain securities may have the right to call, prepay or otherwise redeem such obligations without penalty.

The tax equivalent yield on investments (including common stocks) averaged 10% for 1998, 12% for 1997 and 7% for 1996. Tax equivalent yield is the rate earned on invested assets, excluding unrealized gains and losses, adjusted for the benefit of certain investment income not being subject to taxation.

The cost of securities sold is based on the specific identification method. Sales of securities for the years ended December 31 are summarized below (dollars in millions).

	1998	1997	1996
Fixed maturities:			
Cash proceeds	$341	$364	$287
Gross realized gains	3	3	3
Gross realized losses	1	1	3
Equity securities:			
Cash proceeds	$308	$249	$135
Gross realized gains	77	76	27
Gross realized losses	30	10	13

TEXAS INSTRUMENTS INCORPORATED (DEC)

(Millions of dollars)	1998	1997
Total current assets	$ 4,846	$ 6,103
Property, plant and equipment at cost	6,379	7,414
Less accumulated depreciation	(3,006)	(3,234)
Property, plant and equipment (net)	3,373	4,180
Investments	2,564	69
Deferred income taxes	23	134
Other assets	444	363
Total assets	$11,250	$10,849

NOTES TO FINANCIAL STATEMENTS

Investments

At year-end 1998, equity investments primarily consisted of 28,933,092 Micron common shares, along with several other publicly traded investments. Debt investments consisted of 6.5% Micron convertible and subordinated notes. The convertible note (convertible into 12,333,358 Micron common shares at $60 per share) and the subordinated note have face amounts of $740 million and $210 million. The notes, which mature in 2005, have a weighted-average imputed interest rate of 8.7%. The Micron securities were received in 1998 in connection with TI's sale of its memory business.

TI Ventures is an externally managed venture fund which invests in the development of new markets. As of year-end 1998, it had invested in 14 companies focused on next-generation applications of digital signal processors.

Other investments consist of mutual funds that are acquired to generate returns that offset changes in certain liabilities related to deferred compensation arrangements. The mutual funds hold a variety of debt and equity investments.

Following is information on the investments:

(Millions of Dollars)	Fair Value	Unrealized Gains	Unrealized (Losses)	Net	Cost
1998					
Equity investments	$1,516	$643	$(51)	$592	$ 924
Debt investments	978	139	—	139	839
TI ventures	37	5	—	5	32
Other investments	33	5	(5)	—	33
Total	$2,564	$792	$(56)	$736	$1,828
1997					
Equity investments	$ 53	$ 50	$(36)	$ 14	$ 39
TI ventures	10	—	—	—	10
Other investments	6	5	—	5	1
Total	$ 69	$ 55	$(36)	$ 19	$ 50

Investments are stated at fair value, which is based on market quotes, current interest rates or management estimates, as appropriate. Adjustments to fair value of the equity and debt investments, which are classified as available-for-sale, are recorded as an increase or decrease in stockholders' equity. Adjustments to fair value of the venture fund are recorded in other income (expense) net. Adjustments to fair value of the other investments, which are classified as trading, are recorded in operating expense. Cost or amortized cost, as appropriate, was determined on a specific identification basis. Proceeds from sales of equity and debt investments were zero in 1998, $26 million in 1997 and zero in 1996. There were no gross realized gains or losses from sales of equity and debt investments in 1998 and 1996, and there was a $16 million gain in 1997.

Cost

L.B. FOSTER COMPANY (DEC)

(in thousands)	1998	1997
Total current assets	$ 85,217	$ 96,248
Property, plant and equipment at cost	20,445	20,775
Property held for resale	615	615
Other assets:		
Goodwill and intangibles	5,666	4,484
Investments	1,693	1,693
Other assets	5,798	3,154
Total other assets	13,157	9,331
Total assets	$119,434	$126,969

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Other Assets and Investments

At December 31, 1998 and 1997, other assets include notes receivable and accrued interest totaling $2,445,000 and $2,258,000, respectively, from investors in the Dakota, Minnesota & Eastern Railroad Corporation (DM&E). The Company also holds investments in the stock of the DM&E, which is recorded at its historical cost of $1,693,000, comprised of, $193,000 of DM&E Common Stock and $1,500,000 of DM&E's Series B Preferred Stock and Common Stock warrants. In January 1999, the Company invested an additional $6,000,000 in DM&E Series C Preferred Stock (see Note 21, Other Subsequent Events). Although the market value of the investments in DM&E stock are not readily determinable, management believes the fair value of this investment exceeds its carrying amount.

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. 67 survey companies made 77 fair value disclosures. 22 disclosures stated that fair value approximated the carrying amounts of the receivables; 36 disclosures stated that discounted cash flows were used to estimate fair value; and 13 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

	1998	1997	1996	1995
Caption Title				
Notes Receivable	27	38	26	26
Long-Term Receivables	32	31	31	33
Other	28	28	29	40
Receivables combined with other investments, deposits, etc.	29	23	31	28
Total Presentations	**116**	**120**	**117**	**127**
Number of Companies				
Presenting noncurrent receivables	100	116	110	120
Not presenting noncurrent receivables	500	484	490	480
Total Companies	**600**	**600**	**600**	**600**

ANACOMP, INC. (SEP)

(Dollars in thousands)	1998	1997
Total current assets	$145,695	$159,882
Property and equipment, net	41,749	29,063
Long-term receivables, net of current portion	9,002	6,587
Excess of purchase price over net assets of businesses acquired and other intangibles, net	120,814	17,800
Reorganization value in excess of identifiable assets, net	88,230	163,856
Other assets	15,663	14,763
	$421,153	$391,951

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 Long-Term Receivables

	September 30,	
(Dollars in thousands)	1998	1997
Long-term receivables:		
Lease contracts receivable	$13,219	$8,785
Other	1,424	1,449
	14,643	10,234
Less current portion	(5,641)	(3,647)
	$ 9,002	$6,587

Lease contracts receivable result from customer leases of products under agreements which qualify as sales-type leases. Annual future lease payments to be received under sales-type leases are as follows:

(Dollars in thousands)	Year Ended September 30,
1999	$ 6,702
2000	4,602
2001	2,485
2002	816
2003	551
	15,156
Less deferred interest	(1,937)
	$13,219

BAXTER INTERNATIONAL (DEC)

(in millions)	1998	1997
Total current assets	$ 4,651	$3,870
Property, plant and equipment, net	2,673	2,360
Other assets:		
Goodwill and other intangibles	1,817	1,622
Insurance receivables	378	409
Other	566	446
Total other assets	2,761	2,477
Total assets	$10,085	$8,707

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Financial Instruments and Risk Management

Fair Values of Financial Instruments

	Carrying amounts		Approximate fair values	
as of December 31 (in millions)	1998	1997	1998	1997
Assets:				
Long-term insurance and other receivables	$ 408	$ 439	$ 351	$ 369
Investments in affiliates	120	180	116	192
Liabilities:				
Notes payable to banks	156	102	156	102
Short-term borrowings classified as long term	1,459	1,172	1,462	1,173
Other long-term debt and lease obligations	1,752	1,505	1,854	1,625
Foreign exchange hedges—asset (liability)	(113)	23	(151)	25
Long-term litigation liabilities	246	210	217	191

Although the company's litigation remains unresolved by final orders or settlement agreements in some cases, the estimated fair values of insurance and other receivables and long-term litigation liabilities were computed by discounting the expected cash flows based on currently available information.

LOUISIANA-PACIFIC CORPORATION (DEC)

(Dollar amounts in millions)	1998	1997
Total current assets	$ 612.1	$ 596.8
Timber and timberlands, at cost less cost of timber harvested	499.0	634.2
Property, plant and equipment, at cost:		
Land, land improvements and logging roads, net of road amortization	150.4	185.6
Buildings	246.6	262.5
Machinery and equipment	1,663.2	1,876.3
Construction in progress	26.3	109.5
	2,086.5	2,433.9
Less accumulated depreciation	(1,173.2)	(1,242.1)
Net property, plant and equipment	913.3	1,191.8
Goodwill, net of amortization	60.0	77.6
Notes receivable from asset sales	403.8	49.9
Other assets	30.9	28.1
Total assets	$2,519.1	$2,578.4

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Notes Receivable

Notes receivable from asset sales are related to transactions which occurred during 1997 and 1998. These notes provide collateral for L-P's limited recourse notes payable (see Note 4 to the financial statements).

In 1997, the Company received $49.9 million in notes from a third party. The notes are due in principal payments of $20 million in 2008, $20 million in 2009, and $9.9 million in 2012. Interest is to be received in semi-annual installments with rates varying from 5.62% to 7.5%.

In 1998, L-P received $353.9 million in notes from a third party. The notes are due in principal payments of $70.8 million in 2006, $54.3 million in 2008, $115.1 million in 2010, $91.4 million in 2013 and $22.3 million in 2018. The weighted average interest rate of the notes is 7%.

L-P believes that the carrying value of these notes approximates fair value at December 31, 1997 and believes the fair value at December 31, 1998 is approximately $410 million.

QUALCOMM INCORPORATED (SEP)

(in thousands)	1998	1997
Total current assets	$1,537,220	$1,549,595
Property, plant and equipment, net	609,682	425,090
Investments	—	11,786
Finance receivables, net	287,751	—
Other assets	132,060	188,209
Total assets	$2,566,713	$2,274,680

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Finance Receivables

Finance receivables result from sales under arrangements in which the Company has agreed to provide customers with long-term interest bearing debt financing for the purchase of equipment and/or service. Such financing is generally collaterialized by the related equipment. Finance receivables at September 30 were as follows (in thousands):

	September 30, 1998	1997
Finance receivables	$348,907	$111,501
Allowance for doubtful receivables	(4,955)	—
	343,952	111,501
Current maturities	56,201	111,501
Noncurrent finance receivables, net	$287,751	$ —

In March 1998, the Company agreed to defer up to $100 million of contract payments, with interest accruing at 5¾% capitalized quarterly, as customer financing under its development contract with Globalstar L.P. ("Globalstar"). Financed amounts outstanding as of January 1, 2000 will be repaid in eight equal quarterly installments commencing as of that date, with final payment due October 1, 2001, accompanied by all then unpaid accrued interest. At September 30, 1998, contract payments of approximately $89.7 million were outstanding for Globalstar as interest bearing financed amounts. Subject to terms and conditions, Globalstar is entitled to defer $4.2 million from each future monthly development contract payment until the $100 million limit is reached.

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.

At September 30, 1998, the fair value of finance receivables approximates $336 million. The recorded amount of finance receivables at September 30, 1997 approximates fair value. The fair value of finance receivables is estimated by discounting the future cash flows using current interest rates at which similar financing would be provided to similar customers for the same remaining maturities.

Maturities of finance receivables at September 30, 1998 are as follows (in thousands):

Fiscal Year Ending September 30,	
1999	$ 56,201
2000	79,437
2001	87,808
2002	55,881
2003	30,696
Thereafter	38,884
	$348,907

Vendor Finance Commitments

Unfunded commitments to extended long-term financing under sales arrangements other than Globalstar at September 30, 1998 aggregated approximately $489 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.

TENNECO INC. (DEC)

(in millions)	1998	1997
Total current assets	$2,157	$2,115
Other assets:		
Long-term notes receivable, net	46	49
Goodwill and intangibles, net	1,613	1,577
Deferred income taxes	37	55
Pension assets	843	747
Other	467	334
	3,006	2,762
Plant, property, and equipment, at cost	5,737	5,284
Less—Accumulated depreciation, depletion, and amortization	2,109	1,829
	3,628	3,455
	$8,791	$8,332

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Notes Receivable and Allowance for Doubtful Accounts

Short and long-term notes receivable of $88 million and $60 million were outstanding at December 31, 1998 and 1997, respectively.

At December 31, 1998 and 1997, the short and long-term allowance for doubtful accounts on accounts and notes receivable was $55 million and $35 million, respectively.

6 (In Part): Financial Instruments

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, 1998 and 1997, respectively, Tenneco's aggregate customer and long-term receivable balance was concentrated by segment as follows: Automotive, 61% and 63%, respectively, Specialty Packaging, 32% and 26%, respectively, and Paperboard Packaging, 7% and 11%, respectively.

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 1998, 16 survey companies disclosed an amount for intangible assets acquired prior to the effective date of *Opinion No. 17* and 117 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 follows.

TABLE 2-17: INTANGIBLE ASSETS

	Number of Companies			
	1998	1997	1996	1995
Goodwill recognized in a business combination	453	439	421	402
Trademarks, brand names, copyrights	96	83	67	57
Patents, patent rights	73	74	70	72
Licenses, franchises, memberships	34	28	23	24
Technology	34	23	21	14
Noncompete covenants	28	25	20	24
Customer lists	20	17	15	15
Other-described	53	29	28	42

TABLE 2-18: AMORTIZATION PERIOD-1998

	Number of Companies						
	Goodwill	Trademarks	Patents	Licenses	Technology	Noncompete	Lists
Period							
40	166	22	2	6	1	1	0
"Not exceeding 40"	94	10	3	2	0	0	2
25-30	37	2	2	0	2	0	1
20	27	3	1	2	0	0	1
10-15	30	1	2	1	2	1	2
Legal/estimated life	51	28	41	11	10	17	3
Other	117	30	22	12	19	19	11

Goodwill

THE BLACK & DECKER CORPORATION (DEC)

(Millions of dollars)	1998	1997
Total current assets	$1,751.8	$2,078.8
Property, plant, and equipment	727.6	915.1
Goodwill	768.7	1,877.3
Other assets	604.4	489.5
	$3,852.5	$5,360.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Goodwill and Other Intangibles

Goodwill and other intangibles are amortized on the straight-line method. Goodwill is amortized principally over a 40-year period.

As more fully described in Note 2, effective January 1, 1998, the Corporation changed its method for measuring and recognizing an impairment of goodwill from an undiscounted cash flow aproach to a discounted cash flow approach.

2 (In Part): Strategic Repositioning

Overview

A comprehensive strategic repositioning plan, designed to intensify focus on core operations and improve operating performance, was approved by the Corporation's Board of Directors on January 26, 1998. The plan includes the following components: (i) the divestiture of the household products business in North America, Latin America, and Australia, the recreational products business, and the glass container-forming and inspection equipment business; (ii) the repurchase of up to 10% of the Corporation's outstanding common stock over a two-year period; and (iii) a restructuring of the Corporation's remaining businesses. Also on January 26, 1998, the Board of Directors elected to authorize a change in the basis upon which the Corporation evaluates goodwill for impairment.

Change in Accounting for Goodwill

On a periodic basis through December 31, 1997, the Corporation estimated the future undiscounted cash flows of the businesses to which goodwill related in order to determine that the carrying value of the goodwill had not been impaired.

As a consequence of the strategic repositioning plan, the Corporation elected to change its method of measuring goodwill impairment from an undiscounted cash flow approach to a discounted cash flow approach effective January 1, 1998. On a periodic basis, the Corporation estimates the future discounted cash flows of the businesses to which goodwill relates. When such estimate of the future discounted cash flows, net of the carrying amount of tangible net assets, is less than the carrying amount of goodwill, the difference will be charged to operations. For purposes of determining the future discounted cash flows of the businesses to which goodwill relates, the Corporation, based upon historical results, current projections, and internal earnings targets, determines the projected future operating cash flows, net of income tax payments, of the individual businesses. These projected future cash flows are then discounted at a rate corresponding to the Corporation's estimated cost of capital, which also is the hurdle rate use by the Corporation in making investment decisions. Future discounted cash flows for the recreational products business, the glass container-forming and inspection equipment business, and the household products business in North America, Latin America, and Australia included an estimate of the proceeds from the sale of such businesses, net of associated selling expenses and taxes. The Corporation believes that measurement of the value of goodwill through a discounted cash flow approach is preferable in that such a measurement facilitates the timely identification of impairment of the carrying value of investments in businesses and provides a more current and, with respect to the businesses to be sold, more realistic valuation than the undiscounted approach.

In connection with the Corporation's change in accounting policy with respect to measurement of goodwill impairment, $900.0 million of goodwill was written off through a charge to operations during the first quarter of 1998. That goodwill write-off represented a per-share net loss of $9.80 both on a basic and diluted basis for 1998. The write-off of goodwill related to the Building Products segment and the Fastening and Assembly Systems segment and included a $40.0 million write-down of goodwill associated with one of the divested businesses, and represented the amount necessary to write-down the carrying values of goodwill for those businesses to the Corporation's best estimate, as of January 1, 1998, of those businesses' future discounted cash flows using the methodology described in the preceding paragraph. This change represents a change in accounting principle which is indistinguishable from a change in estimate.

6. Goodwill

In connection with the Corporation's change in accounting policy with respect to measurement of goodwill impairment discussed in Notes 1 and 2, goodwill in the amount of $900.0 million was written off through a charge to operations in 1998, and has been reflected in the Consolidated Statement of Earnings as "Write-off of goodwill." That write-off, which relates to goodwill associated with the Building Products segment, the Fastening and Assembly Systems segment, and includes a $40.0 million write-down of goodwill associated with one of the divested businesses, represents the amount necessary to write-down the carrying values of goodwill for those businesses to the Corporation's best estimate, as of January 1, 1998, of those businesses' future discounted cash flows using the methodology described in Note 2.

In addition, goodwill related to the Corporation's household products, glass container-forming and inspection equipment, and recreational products businesses was written off in connection with the divestitures of those businesses during 1998.

Goodwill amortization was $25.2 million in 1998, $63.3 million in 1997, and $66.3 million in 1996. Goodwill at the end of each year, in millions of dollars, was as follows:

	1998	1997
Goodwill	$1,300.9	$2,499.9
Less accumulated amortization	532.2	622.6
	$ 768.7	$1,877.3

HARCOURT GENERAL, INC. (OCT)

(in thousands)	1998	1997
Total property and equipment, net	$ 645,213	$ 593,892
Other assets:		
Prepublication costs, net	252,831	201,953
Goodwill, net	1,614,369	1,130,671
Other intangible assets, net	183,431	213,086
Other	104,215	109,292
Total other assets	$2,154,846	$1,655,002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Goodwill and Other Intangible Assets

Amortization of goodwill and publishing rights is provided using the straight-line method over their estimated useful lives, ranging from 10 to 40 years. Acquired intangible assets consist of course libraries, customer leads and contracts, and existing technology, and are amortized using accelerated methods over estimated useful lives, ranging from one to five years. Trademarks are amortized over their estimated useful lives, ranging from 30 to 40 years using the straight-line method.

5. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consisted of the following:

October 31 (in thousands)	1998	1997
Goodwill	$1,844,011	$1,301,715
Accumulated amortization	(229,642)	(171,044)
Goodwill, net	$1,614,369	$1,130,671
Publishing rights	$ 249,551	$ 249,551
Acquired intangible assets	36,500	36,500
Trademarks	88,300	73,000
Other	72,638	58,630
	446,989	417,681
Accumulated amortization	(263,558)	(204,595)
Other intangibles, net	$ 183,431	$ 213,086

As of October 31, 1998, goodwill consists of approximately $923.3 million amortized over 40 years, $425.1 million over 30 years and $495.6 million over periods of 25 years or less. As of October 31, 1997, goodwill consists of approximately $858.7 million amortized over 40 years and $443.0 million over periods of 25 years or less. Amortization expense was $108.3 million in 1998, $124.0 million in 1997 and $25.2 million in 1996.

QUANEX CORPORATION (OCT)

(in thousands)	1998	1997
Total current assets	$209,812	$186,896
Property, plant and equipment, net	395,054	379,071
Net assets of discontinued operations	—	13,554
Goodwill, net	52,281	91,496
Other assets	17,141	14,688
	$674,288	$685,705

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Long-Lived Assets

Goodwill represents the excess of the purchase price over the fair value of acquired companies and is being amortized on a straight line basis over forty years for the goodwill resulting from the acquisition of Nichols Homeshield in 1989, and over twenty-five years for the goodwill resulting from the acquisitons of Piper Impact, Inc. in 1996, Piper Impact Europe B.V. in 1997 and Nichols Aluminum-Alabama, Inc. in 1998 (See Note 2). At October 31, 1998 and 1997, accumulated amortization was $9,255,000, and $10,398,000, respectively. During the fourth quarter of 1998, the balance of goodwill associated with Piper Impact was written off in accordance with Statement of Financial Accounting Standard No. 121. (See Note 4)

During 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of." The statement established accounting standards related to the impairment of long-lived assets, such as property, plan, equipment and intangibles. The company adopted SFAS No. 121 in fiscal 1997. The Company evaluates any possible impairment of long-lived assets using estimates of undiscounted future cash flows. (See Note 4 — regarding the impact of this statement.)

4. Piper Impact Impairment Disclosure

During the year ended October 31, 1998, the Company recorded a restructuring charge of $58.5 million related to its subsidiary, Piper Impact.

Components of this special charge include $51.2 million for goodwill impairment; $6.7 million for impairment of property, plant and equipment; and $600 thousand for severance benefits to be paid to employees of the Park City, Utah plant. Piper Impact experienced significant changes in market conditions and the relationship with its major customer in fiscal 1998, which led to substantial declines in sale and operating cash flow. Management began an evaluation of the operations of Piper Impact in August 1998. As a result of this evaluation, in September 1998, management approved a plan to close the Park City, Utah facility and move its production to the New Albany, Mississippi facility.

Due to the significance of the changes discussed above and the decision to close one of the acquired production facilities, management performed an evaluation of the recoverability of all of the assets of Piper Impact, excluding the new steel plant, as described in Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." Management concluded from the results of this evaluation that a significant impairment of intangible as well as long-lived assets had occurred. An impairment charge was required because estimated fair value was less than the carrying value of the assets.

Considerable management judgment is necessary to estimate fair value. Accordingly, actual results could vary significantly from management's estimates.

The one-time restructuring charge resulted in an after-tax impact on net income of $38 million or $2.68 per share.

SAFEWAY INC. (DEC)

(in millions)	1998	1997
Total property, net	$5,182.6	$4,115.3
Goodwill, net of accumulated amortization of $211.0 and $157.0	3,348.0	1,824.7
Prepaid pension costs	369.6	341.4
Investment in unconsolidated affiliate	115.2	97.7
Other assets	54.3	85.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill

Goodwill was $3.3 billion at year-end 1998 and $1.8 billion at year-end 1997, and is being amortized on a straight-line basis over its estimated useful life. If it became probable that the projected future undiscounted cash flows of acquired assets were less than the carrying value of the goodwill, Safeway would recognize an impairment loss in accordance with the provisions of SFAS No. 121.

Goodwill amortization was $56.3 million in 1998, $41.8 million in 1997 and $10.4 million in 1996. Goodwill and related amortization has increased due to the Vons Merger and Dominick's Acquisition as discussed in Note B.

THE TIMKEN COMPANY (DEC)

(Thousands of dollars)	1998	1997
Other assets:		
Costs in excess of net assets of acquired businesses, net of amortization, 1998-$28,936; 1997-$23,448	$150,140	$139,409
Deferred income taxes	20,409	26,605
Miscellaneous receivables and other assets	52,520	60,161
Deferred charges and prepaid expenses	27,086	24,688
Total other assets	$250,155	$250,863

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Costs in Excess of Net Assets of Acquired Businesses

Costs in excess of net assets of acquired businesses (goodwill) are amortized on the straight-line method over 25 years for businesses acquired after 1991 and over 40 years for those acquired before 1991. The carrying value of goodwill is reviewed on a quarterly basis for recoverability based on the undiscounted cash flows of the businesses acquired over the remaining amortization period. Should the review indicate that goodwill is not recoverable, the company's carrying value of the goodwill would be reduced by the estimated shortfall of the cash flows. In addition, the company assesses long-lived assets for impairment under Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of." Under those rules, goodwill associated with assets acquired in a purchase business combination is included in impairment evaluations when events or circumstances exist that indicate the carrying amount of those assets may not be recoverable. No reduction of goodwill for impairment was necessary in 1998 or in previous years.

Trademarks

BOSTON SCIENTIFIC CORPORATION (DEC)

(in thousands)	1998	1997
Total current assets	$1,266,627	$1,020,484
Property, plant and equipment, net	679,882	498,967
Other assets:		
Excess of cost over net assets acquired, net	876,843	100,382
Technology—core and developed, net	606,475	70,694
Patents, trademarks and other intangibles, net	330,217	142,270
Deferred income taxes	69,346	
Investments	34,058	66,239
Other assets	29,263	25,234
	$3,892,711	$1,924,270

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Intangible Assets

Intangible assets are amortized using the straight-line method over the following lives: Patents and trademarks (3 - 20 years); Licenses (2 - 20 years); Core and developed technology (3 - 25 years); Excess of cost over net assets acquired (15 - 40 years); Other intangibles (various).

The Company examines the carrying value of its excess of cost over net assets acquired and other intangible assets to determine whether there are any impairment losses. If indicators of impairment were present in intangible assets used in operations, and future cash flows were not expected to be sufficient to recover the assets' carrying amount, an impairment loss would be charged to expense in the period identified. No event has been identified that would indicate an impairment of the value of material intangible assets recorded in the accompanying consolidated financial statements.

B (In Part): Other Balance Sheet Information

Components of other selected captions in the Consolidated Balance Sheets at December 31 consisted of:

(in thousands)	1998	1997
Excess Of Cost Over Net Assets Acquired		
Excess of cost over net assets acquired	$897,805	$115,638
Less accumulated amortization	20,962	15,256
	$876,843	$100,382
Technology—Core And Developed		
Core technology	$420,960	
Developed technology	219,985	$ 89,004
	640,945	89,004
Less accumulated amortization	34,470	18,310
	$606,475	$ 70,694
Patents, Trademarks And Other Intangibles		
Patents and trademarks	$273,364	$129,610
Licenses	66,404	58,040
Other intangibles	76,069	13,768
	415,837	201,418
Less accumulated amortization	85,620	59,148
	$330,217	$142,270

JOHNSON & JOHNSON (DEC)

(Dollars in millions)	1998	1997
Total current assets	$11,132	$10,563
Marketable securities, non-current	416	385
Property, plant and equipment, net	6,240	5,810
Intangible assets, net (Notes 1 and 5)	7,209	3,261
Deferred taxes on income	102	332
Other assets	1,112	1,102
Total assets	$26,211	$21,453

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Intangible Assets

The excess of the cost over the fair value of net assets of purchased businesses is recorded as goodwill and is amortized on a straight-line basis over periods of 40 years or less. The cost of other acquired intangibles is amortized on a straight-line basis over their estimated useful lives. The Company continually evaluates the carrying value of goodwill and other intangible assets. Any impairments would be recognzied when the expected future operating cash flows derived from such intangible assets is less than their carrying value.

5 Intangible Assets

At the end of 1998 and 1997, the gross and net amounts of intangible asset were:

(Dollars in millions)	1998	1997
Goodwill—gross	$4,112	$2,198
Less accumulated amortization	329	241
Goodwill—net	$3,783	$1,957
Patents & trademarks—gross	$1,634	$1,074
Less accumulated amortization	343	262
Patents and trademarks—net	$1,291	$ 812
Other intangibles—gross	$2,296	$ 613
Less accumulated amortization	161	121
Other intangibles—net	$2,135	492
Total intangible assets—gross	$8,042	$3,885
Less accumulated amortization	833	624
Total intangible assets—net	$7,209	$3,261

The weighted average amortization periods for goodwill, patents and trademarks and other intangibles are 32 years, 21 years and 18 years, respectively.

Patents

FIRST BRANDS CORPORATION (JUN)

(Dollars in thousands)	1998	1997
Total current assets	$ 307,832	$ 319,421
Property, plant and equipment (net of accumulated depreciation of $160,529 and $141,691)	419,755	377,128
Patents, trademarks, proprietary technology and other intangibles (net of accumulated amortization of $204,916 and $192,631) (Notes 1 and 7)	284,849	310,095
Deferred charges and other assets (net of accumulated amortization of $52,687 and $52,029)	47,765	40,137
Total assets	$1,060,201	$1,046,781

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Patents, Trademarks, Propritary Technology and Other Intangibles

Patents, trademarks, proprietaty technology and other intangibles are carried at cost less accumulated amortization which is calculated on a straight-line basis over the estimated useful lives of the assets, not to exceed 40 years.

7 Patents, Trademarks, Proprietary Technology and Other Intangibles

The Company periodically reviews the carrying value of intangible assets to determine whether the carrying amount of an asset is recoverable. The primary indicators of recoverability are current or forecasted profitability of the related acquired business, measured as profit before interest and amortization of the related intangible assets compared to their carrying values. For the three-year periods ended June 30, 1998, 1997 and 1996 there were no material adjustments to the carrying values of intangible assets resulting from these evaluations.

Patents, trademarks, proprietary technology and other intangibles as of June 30, 1998 and 1997 consisted of:

(in thousands)	1998	1997	Useful Lives
Trademarks	$117,201	$116,866	40 years
Patents, proprietary technology, and other intangibles	163,371	162,658	10-17 years
Excess of cost over net assets acquired	209,193	223,202	40 years
	489,765	502,726	
Less: accumulated amortization	(204,916)	(192,631)	
	$284,849	$310,095	

Licenses

AT&T CORP. (DEC)

(Dollars in millions)	1998	1997
Total current assets	$14,118	$16,777
Property, plant and equipment-net	26,903	24,203
Licensing costs, net of accumulated amortization of $1,266 and $1,076	7,948	8,368
Investments	4,434	3,866
Long-term receivables	670	1,794
Prepaid pension costs	2,074	2,156
Other assets	3,403	2,830
Net assets of discontinued operations	—	1,101
Total assets	$59,550	$61,095

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Licensing Costs

Licensing costs are costs incurred to develop or acquire cellular, personal communications services (PCS) and messaging licenses. Generally, amortization begins with the commencement of service to customers and is computed using the straight-line method over a period of 40 years.

2 (In Part): Supplementary Financial Information

Supplementary Income Statement Information

For the years ended December 31,	1998	1997	1996
Included in depreciation and amortization			
Amortization of licensing costs	$192	$163	$170
Amortization of goodwill	76	62	55

MEREDITH CORPORATION (JUN)

(in thousands)	1998	1997
Total current assets	$ 246,801	$337,208
Property, plant and equipment:		
Land and improvements	16,110	5,049
Buildings and improvements	81,126	50,109
Machinery and equipment	156,280	108,442
Leasehold improvements	7,540	7,407
Construction in progress	6,432	22,263
Total property, plant and equipment	267,488	193,270
Less accumulated depreciation	(116,407)	(103,087)
Net property, plant and equipment	151,081	90,183
Subscription acquisition costs	36,941	32,703
Other assets	33,808	27,458
Goodwill and other intangibles (at original cost less accumulated amortization of $97,716 in 1998 and $77,696 in 1997)	597,931	273,349
Total assets	$1,066,562	$760,901

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

j. Goodwill and Other Intangibles

Goodwill and other intangibles represent the excess of the purchase price over the estimated fair values of tangible assets acquired in the purchases of businesses. The values of goodwill and other intangibles have been determined by independent appraisals. As of June 30, 1998, the unamortized portion of these assets primarily consisted of television FCC licenses ($263.8 million), goodwill ($170.1 million), and television network affiliation agreements ($143.3 million). Virtually all of these assets were acquired subsequent to October 31, 1970, and are being amortized by the straight-line method over the following periods: 40 years for television FCC licenses; 20 to 40 years for goodwill; and 15 to 40 years for network affiliation agreements. The company evaluates the recoverability of its intangible assets as current events or circumstances warrant to determine whether adjustments are needed to carrying values. Such evaluation may be based on projected income and cash flows on an undiscounted basis from the underlying business or from operations of related businesses. Other economic and market variables are also considered in any evaluation.

Technology

MALLINCKRODT INC. (JUN)

(in millions)	1998	1997
Total current assets	$1,173.3	$1,605.4
Investments and other noncurrent assets, less allowances of $5.8 in 1998 and $8.1 in 1997	154.5	145.1
Property, plant and equipment, net	894.9	741.3
Goodwill, net	899.5	222.5
Technology, net	364.3	24.4
Other intangible assets, net	282.1	144.4
Net noncurrent assets of discontinued operations	12.4	91.5
Deferred income taxes	4.6	.8
Total assets	$3,785.6	$2,975.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Intangible Assets

The cost of product line or business acquisitions accounted for using the purchase method is allocated first to identifiable assets and liabilities based on estimated fair values. The excess of cost over identifiable assets and liabilities is recorded as goodwill.

Goodwill is amortized on a straight-line basis over 4 to 40 years (weighed average life of 28 years). Technology is amortized on a straight-line basis over 15 to 25 years (weighted average life of 16 years). Other intangible assets, consisting primarily of trademarks, trade names, and manufacturing and distribution agreements, are amortized primarily on a straight-line basis over 3 to 40 years (weighted average life of 20 years).

The carrying amounts of intangible assets and goodwill are reviewed if facts and circumstances suggest that they may be impaired. If this review indicates that the carrying amounts of intangible assets and goodwill will not be recoverable, as determined based on the estimated undiscounted cash flows of the entity acquired over the remaining amortization period, the carrying amounts of the intangible assets and goodwill are reduced by the estimated shortfall of cash flows. In addition, intangible assets and goodwill associated with assets acquired in a purchase business combination are included in impairment evaluations when event and circumstances exist that indicate the carrying amount of those assets may not be recoverable.

8 Intangible Assets

At June 30, (in millions)	1998	1997
Goodwill	$989.4	$280.5
Accumulated amortization	(89.9)	(58.0)
Goodwill, net	$899.5	$222.5
Technology	$390.4	$ 30.3
Accumulated amortization	(26.1)	(5.9)
Technology, net	$364.3	$ 24.4
Other intangible assets	$337.4	$187.2
Accumulated amortization	(55.3)	(42.8)
Other intangible assets, net	$282.1	$144.4

MICRON TECHNOLOGY, INC. (AUG)

(Dollars in millions)	1998	1997
Total current assets	$1,499.2	$1,972.4
Product and process technology, net	84.9	51.1
Property, plant and equipment, net	3,030.8	2,761.2
Other assets	73.4	66.6
Total assets	$4,688.3	$4,851.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All tabular dollar amounts are stated in millions)

Significant Accounting Policies (In Part)

Product and Process Technology

Costs related to the conceptual formulation and design of products and processes are expensed as research and development. Costs incurred to establish patents and acquire product and process technology are capitalized. Capitalized costs are amortized on the straight-line method over the shorter of the estimated useful life of the technology, the patent term or the agreement, ranging up to 10 years. The Company has royalty-bearing license agreements that allow it to manufacture and sell semiconductor memory devices, PC hardware and software.

Supplemental Balance Sheet Information

Product and Process Technology		
Product and process technology, at cost	$161.7	$108.1
Less accumulated amortization	(76.8)	(57.0)
	$ 84.9	$ 51.1

Amortization of capitalized product and process technology costs was $23.1 million in 1998; $11.4 million in 1997; and $13.6 million in 1996.

Covenants Not to Compete

CHOCK FULL O'NUTS CORPORATION (JUL)

	1998	1997
Total current assets	$110,985,404	$127,548,954
Property, plant and equipment, at cost		
Land	3,127,640	3,114,889
Buildings and improvements	15,161,611	14,805,429
Leaseholds and leasehold improvements	2,304,715	2,526,691
Machinery and equipment	84,778,461	78,162,457
	105,372,427	98,609,466
Less allowances for depreciation and amortization	56,346,824	49,933,489
	49,025,603	48,675,977
Real estate held for development or sale, at cost	2,175,344	7,635,427
Other assets and deferred charges, net—Note 10(b)	23,223,366	23,799,057
Excess of cost over net assets acquired, net	15,773,875	9,670,551
	$201,183,592	$217,329,966

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Other Intangibles

Other intangibles consist principally of trademarks, covenants not to compete and customer lists. Such items are being amortized on a straight-line basis over periods of 40, 5 and 7.5 years, respectively. See Note 10(b). The Company evaluates any impairment of these assets on a basis similar to goodwill.

10 (In Part): Other Items

(b) Other assets and deferred charges consist of (in thousands):

July 31,	1998	1997
Deferred financing costs	$ 2,051	$ 2,460
Non-compete agreements, net	854	1,424
Trademarks, net	5,062	5,207
Customer lists, net	2,359	3,512
Due from co-packer	2,574	1,711
Prepaid pension expense	4,730	3,645
Other	5,593	5,840
	$23,223	$23,799

Customer Lists

W.W. GRAINGER, INC. (DEC)

(in thousands of dollars)	1998	1997
Total current assets	$1,206,365	$1,182,988
Property, buildings, and equipment		
Land	135,636	133,213
Buildings, structures, and improvements	662,236	583,823
Furniture, fixtures, machinery, and equipment	411,295	370,122
	1,209,167	1,087,158
Less accumulated depreciation and amortization	548,639	494,245
Property, buildings, and equipment—net	660,528	592,913
Deferred income taxes	3,187	—
Other assets		
Goodwill	177,355	187,963
Customer lists and other intangibles	89,573	89,699
	266,928	277,662
Less accumulated amortization	86,296	70,814
	180,632	206,848
Capitalized software—net	33,280	970
Sundry	19,910	14,102
Other assets—net	233,822	221,920
Total assets	$2,103,902	$1,997,821

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Other Assets

Included in other assets are intangibles such as customer lists and goodwill. Customer lists are amortized on a straight-line basis over periods of five to sixteen years. Goodwill represents the cost in excess of net assets of acquired companies and is amortized on a straight-line basis over periods of five to forty years. The Company's goodwill is predominately denominated in Canadian dollars and accordingly, the changes in the asset balance are due to foreign exchange rate fluctuations.

Reorganization Value in Excess of Amounts Allocable to Identifiable Assets

ANACOMP, INC. (SEP)

(Dollars in thousands)	1998	1997
Total current assets	$145,695	$159,882
Property and equipment, net	41,749	29,063
Long-term receivables, net of current portion	9,002	6,587
Excess of purchase price over net assets of businesses acquired and other intangibles, net	120,814	17,800
Reorganization value in excess of identifiable assets, net	88,230	163,856
Other assets	15,663	14,763
	$421,153	$391,951

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Reorganization Value in Excess of Amounts Allocated to Identifiable Assets

As more fully discussed in Note 3, the Company has "reorganization value in excess of amounts allocated to identifiable assets" of $88.2 million net of accumulated amortization of $177.0 million at September 30, 1998. This asset is being amortized over a 3.5 year period beginning May 31, 1996. The carrying value of the Reorganization Asset will be periodically reviewed if the facts and circumstances suggest that it may be impaired. The Company will measure the impairment based upon future cash flows of the Company over the remaining amortization period.

3 (In Part): Fresh Start Reporting and Bankruptcy Reorganization

As of May 31, 1996, the Company adopted Fresh Start Reporting in accordance with the American Institute of Certified Public Accountant's Statement of Position 90-7 "Financial Reporting by Entities in Reorganizations under the Bankruptcy Code" ("SOP 90-7"). Fresh Start Reporting resulted in material changes to the Consolidated Balance Sheet, including valuation of assets, intangible assets (including goodwill) and liabilities at fair market value and valuation of equity based on the appraised reorganization value of the ongoing business. The net result of the valuation of identifiable assets, the recognition of liabilities at fair market value and the valuation of equity was the Reorganized Company recognizing an asset "Reorganization Value in excess of identifiable assets" totaling $267.5 million as of May 31, 1996.

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 on pages 244-246.

TABLE 2-19: OTHER NONCURRENT ASSETS

	Number of Companies			
	1998	**1997**	**1996**	**1995**
Deferred income taxes	177	177	172	185
Prepaid pension costs	88	101	101	97
Software	65	53	47	35
Debt issue costs	55	48	48	48
Property held for sale	41	43	36	63
Segregated cash or securities	38	34	33	35
Cash surrender value of life insurance	24	29	25	22
Assets leased to others	11	20	14	16
Estimated insurance recoveries	10	13	—	—
Start-up costs	5	12	12	13
Assets of nonhomogeneous operations	10	9	15	16
Other identified noncurrent assets	43	40	45	50

Deferred Income Taxes

AULT INCORPORATED (MAY)

	1998	1997
Current assets:		
Cash and cash equivalents	$5,934,794	$3,677,089
Investment in trading securities	866,174	848,699
Trade receivables, less allowance for doubtful accounts 1998 $31,000; 1997 $55,000	6,254,920	8,895,864
Inventories	6,616,359	7,261,927
Prepaid and other expenses	617,921	660,400
Deferred taxes (Note 4)	74,000	123,000
Total current assets	20,364,168	21,466,979
Other assets:		
Other receivable, less allowance of $65,000 in 1997	199,209	196,677
Patent, less amortization in 1998 of $39,330	142,197	178,503
Deferred taxes (Note 4)	192,000	558,000
Other	40,908	126,179
	574,314	1,059,359
Property, equipment, and leasehold improvements, at cost		
Land	875,699	875,198
Building	812,867	796,354
Machinery and equipment	5,969,052	5,571,665
Office furniture and equipment	734,299	519,418
Data processing equipment	1,493,463	1,014,964
Leasehold improvements	977,998	656,429
	10,863,378	9,434,028
Less accumulated depreciation	6,384,546	5,865,905
	4,478,832	3,568,123
	$25,417,314	$26,094,461

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Income Taxes

Net deferred taxes consist of the following components as of May 31, 1998, and June 1, 1997:

	1998	1997
Deferred tax assets:		
Tax credit carryforwards	$107,000	$451,000
Loss carryforwards	17,000	28,000
Allowance for doubtful accounts	13,000	48,000
Inventory allowances	—	9,000
Accrued vacation	28,000	34,000
Accrued warranty	33,000	32,000
Equipment and leasehold improvements	68,000	107,000
	266,000	709,000
Less valuation allowance	—	28,000
	$266,000	$681,00

The components giving rise to the net deferred tax asset described above have been included in the accompanying consolidated balance sheet as of May 31, 1998, as follows:

Current assets	$ 74,000
Noncurrent assets	192,000

At June 1, 1997, the Company reduced the valuation allowance to reflect the deferred tax assets utilized in 1997 to reduce current income taxes and to recognize net deferred tax assets of $681,000 at June 1, 1997. The recognized deferred tax assets results from the expected utilization of net operating losses and tax credit carryforwards and reversal of certain temporary differences.

The Company has assessed its past earnings history and trends, budgeted sales, and expiration of dates of carryforwards and has determined that it is more likely than not that the $266,000 of deferred tax assets at May 31, 1998, will be realized.

NORTHWESTERN STEEL AND WIRE COMPANY (JUL)

(Dollar amount in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 36,930	$ 4,078
Receivables, less allowance of $1,175 and $1,375, respectively	52,057	67,228
Inventories	84,022	86,708
Income tax receivable	13	8,158
Deferred income taxes	14,147	13,442
Other assets	14,085	4,596
Total current assets	201,254	184,210
Plant and equipment, at cost, less accumulated depreciation of $166,196 and $148,659, respectively	152,460	158,004
Deferred income taxes	12,287	31,886
Deferred financing costs	1,990	3,212
Other assets	15,208	5,968
Total assets	$383,199	$383,280

NOTES TO FINANCIAL STATEMENTS
(Dollar amounts in thousands)

Income Taxes (In Part)

Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities for which income tax effects will be realized in future years. Deferred tax benefits of approximately $10,400 were recorded in fiscal year 1996 as a result of a reduction in the recorded valuation allowance. The basis for the reduction was the determination that the future profitability of the Company will more likely than not allow realization of certain deferred tax assets.

Although realization is not assured, management continues to believe that it is more likely than not that all of the deferred tax asset will be realized.

The types of temporary differences resulting from the difference between the tax bases of assets and liabilities and their financial reporting amounts that give rise to the deferred tax liabilities and the deferred tax assets and their approximate tax effects are as follows:

	1998		1997	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
Net operating loss	$17,251	$ 6,728	$ 62,594	$22,988
Retirement costs	42,289	16,493	59,466	23,192
Employee compensation	19,487	7,600	19,961	7,785
AMT carryforwards	5,365	5,365	1,486	1,486
Other	15,441	6,021	13,159	5,131
Total deferred tax asset	$99,833	$42,207	$156,666	$60,582
Property, plant and equipment	$40,445	$15,773	$ 39,112	$15,254
Total tax deferred tax liability	$40,445	$15,773	$ 39,112	$15,254
Net deferred tax asset	$59,388	$26,434	$117,554	$45,328

TEKTRONIX, INC. (MAY)

(in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 120,541	$ 142,726
Accounts receivable—net	346,342	305,832
Inventories	214,347	238,040
Other current assets	67,432	64,913
Total current assets	748,662	751,511
Property, plant and equipment—net	425,153	343,130
Deferred tax assets	25,102	12,540
Other long-term assets	177,893	209,560
Total assets	$1,376,810	$1,316,741

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes (In Part)

Net deferred tax assets and liabilities are included in the following consolidated balance sheet accounts:

(in thousands)	1998	1997
Other current assets	$52,434	$43,106
Deferred tax assets	25,102	12,540
Net deferred tax assets	$77,536	$55,646

The temporary differences and carryforwards that give rise to deferred tax assets and liabilities were as follows:

(in thousands)	1998	1997
Deferred tax assets:		
Reserves and other liabilities	$43,179	$41,858
Accrued postretirement benefits	16,022	17,502
Accumulated depreciation	9,162	9,918
Intangibles	8,271	—
AMT and foreign tax credit carryforwards	8,243	14,088
Restructuring costs and separation programs	7,463	—
Accrued pension liability	6,632	6,289
Net operating losses of non-U.S. subsidiaries	5,324	10,432
Gross deferred tax assets	104,296	100,087
Less valuation allowance	(2,600)	(3,105)
Deferred tax assets	101,696	96,982
Deferred tax liabilities:		
Software development costs	(19,167)	(17,464)
Unrealized gains on marketable equity securities	(4,993)	(22,092)
Unamortized LIFO reserve	—	(1,780)
Deferred tax liabilities	(24,160)	(41,336)
Net deferred tax assets	$77,536	$55,646

Prepaid Pension Cost

HERCULES INCORPORATED (DEC)

(Dollars in millions)	1998	1997
Current assets:		
Cash and cash equivalents	$ 68	$ 17
Accounts receivable, net	663	389
Inventories	416	234
Deferred income taxes	93	49
Total current assets	1,240	689
Property, plant, and equipment, net	1,438	687
Investments	51	615
Goodwill (net of accumulated amortization—1998, $28; 1997, $12)	2,356	41
Other intangible assets (net of accumulated amortization—1998, $22; 1997, $15)	192	3
Prepaid pension (Note 13)	218	216
Deferred charges and other assets	338	160
Total assets	$5,833	$2,411

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Pension and Other Postretirement Benefits

The company provides defined benefit pension and postretirement benefit plans to employees. The pension and postretirement benefit plans for BetzDearborn employees are included in the 1998 valuation. The following provides a reconciliation of benefit obligations, plan assets, and funded status of the plans.

(Dollars in millions)	Pension Benefits 1998	1997	Other Postretirement Benefits 1998	1997
Change in benefit obligation				
Benefit obligation at January 1	$1,114	$1,046	$ 141	$ 141
Service cost	20	17	1	1
Interest cost	83	78	10	10
Amendments	—	6	—	—
Assumption change	52	77	3	10
Divestiture	—	(4)	—	—
Acquisition	284	—	9	—
Translation difference	7	(13)	—	—
Actuarial loss	28	12	10	—
Benefits paid from plan assets	(89)	(105)	(2)	(2)
Benefits paid by Company	—	—	(18)	(19)
Benefit obligation at December 31	$1,499	$1,114	$ 154	$ 141
Change in plan assets				
Fair value of plan assets at January 1	$1,237	$1,168	$ 9	$ 9
Actual return on plan assets	182	187	1	2
Divestiture	—	(2)	—	—
Acquisition	256	—	—	—
Company contributions (refund)	(2)	4	—	—
Translation difference	6	(15)	—	—
Benefits paid from plan assets	(90)	(105)	(2)	(2)
Fair value of plan assets at December 31	$1,589	$1,237	$ 8	$ 9
Funded status of the plans	$ 90	$ 124	$(146)	$(132)
Unrecognized actuarial loss	89	93	34	22
Unrecognized prior service cost (benefit)	35	39	(44)	(50)
Unrecognized net transition obligation	(25)	(40)	—	—
Amount included in accrued expenses-other	—	—	20	21
Prepaid (accrued) benefit cost	$ 189	$ 216	$(136)	$(139)
Amounts recognized in the statement of financial position consist of:				
Prepaid benefit cost	$ 218	$ 216	$ —	$ —
Accrued benefit liability	(29)	—	(136)	(139)
	$ 189	$ 216	$(136)	$(139)

ELI LILLY AND COMPANY (DEC)

(Dollars in millions)	1998	1997
Total current assets	$ 5,406.8	$ 5,320.7
Other assets:		
Prepaid retirement (Note 12)	612.3	579.1
Investments	204.0	465.6
Goodwill and other intangibles, net of allowances for amortization of $171.4 (1998) and $119.3 (1997)	1,517.9	1,550.5
Sundry	758.2	559.8
	3,092.4	3,155.0
Property and Equipment	4,096.3	4,101.7
	$12,595.5	$12,577.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

12 (In Part): Retirement Benefits

The change in benefit obligation, change in plan assets, funded status and amounts recognized in the consolidated balance sheets at December 31 for the company's defined benefit pension and retiree health benefit plans were as follows:

	Defined Benefits Pension Plans		Retiree Health Benefits	
	1998	1997	1998	1997
Change in benefit obligation:				
Benefit obligation at beginning of year	$2,550.9	$2,303.5	$ 477.5	$ 412.1
Service cost	115.5	89.2	13.3	11.2
Interest cost	185.8	179.0	34.5	31.6
Actuarial loss	229.8	176.8	139.2	60.7
Benefits paid	(170.3)	(165.8)	(43.3)	(37.6)
Foreign current exchange rate changes and other adjustments	(12.9)	(31.8)	0.3	(0.5)
Benefit obligation at end of year	2,898.8	2,550.9	621.5	477.5
Change in plan assets:				
Fair value of plan assets at beginning of year	2,932.2	2,629.2	228.1	200.1
Actual return on plan assets	286.4	407.7	33.8	30.1
Employer contribution	28.1	65.7	33.9	35.5
Benefits paid	(170.3)	(165.8)	(43.3)	(37.6)
Foreign currency exchange rate changes and other adjustments	2.2	(13.6)	—	—
Fair value of plan assets at end of year	3,069.6	2,923.2	252.5	228.1
Funded status	170.8	372.3	(369.0)	(249.4)
Unrecognized net actuarial (gain) loss	202.7	(13.8)	254.9	134.2
Unrecognized prior service cost (benefit)	130.5	118.0	(0.6)	(3.1)
Unrecognized net obligation at January 1, 1986	2.6	3.0	—	—
Net amount recognized	$ 506.6	$ 479.5	$(114.7)	$(118.3)

	Defined Benefits Pension Plans		Retiree Health Benefits	
	1998	1997	1998	1997
Amounts recognized in the consolidated balance sheet consisted of:				
Prepaid benefit cost	$ 612.3	$ 579.1	$ —	$ —
Accrued benefit liability	(192.3)	(131.6)	(114.7)	(118.3)
Intangible asset	37.9	14.1	—	—
Accumulated other comprehensive income before income taxes	48.7	17.9	—	—
Net amount recognized	$ 506.6	$ 479.5	$(114.7)	$(118.3)

Software Development Costs

CERIDIAN CORPORATION (DEC)

(Dollars in millions)	1998	1997
Total current assets	$633.7	$720.1
Investments and advances	3.0	8.7
Property, plant and equipment, net	91.3	79.6
Goodwill and other intangibles, net	377.5	244.3
Software and development costs, net	26.1	9.7
Prepaid pension cost	103.4	96.7
Deferred income taxes, less current portion	53.4	81.9
Other noncurrent assets	1.3	2.3
Total assets	$1,289.7	$1,243.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

A (In Part): Accounting Policies

Software and Development Costs

Ceridian capitalizes purchased software which is ready for service and development costs for marketable software incurred from the time the preliminary project stage is completed until the software is ready for use. Under the provisions of SOP 98-1, Ceridian capitalizes costs associated with software developed or obtained for internal use when both the preliminary project stage is completed and Ceridian management has authorized further funding for the project which it deems probable will be completed and used to perform the function intended. Capitalized costs include only (1) external direct costs of materials and services consumed in developing or obtaining internal-use software, (2) payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use software project, and (3) interest costs incurred, when material, while developing internal-use software. Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose.

Research and development costs and other computer software maintenance costs related to software development are expensed as incurred. Software development costs are amortized using the straight-line method over a range of three to seven years, but not exceeding the expected life of the product.

The carrying value of software and development costs is regularly reviewed by Ceridian, and a loss is recognized when the value of estimated undiscounted cash flow benefit related to the asset falls below the unamortized cost.

E. Capital Assets

	December 31, 1998	1997
Property, plant and equipment		
Land	$ 1.2	$ 1.5
Machinery and equipment	189.8	185.7
Buildings and improvements	42.1	42.9
Construction in progress	4.0	4.3
	237.1	234.4
Accumulated depreciation	(145.8)	(154.8)
Property, plant and equipment, net	$ 91.3	$ 79.6
Goodwill and other intangibles		
Goodwill	$358.4	$228.7
Accumulated amortization	(36.4)	(38.7)
Goodwill, net	322.0	190.0
Other intangible assets	77.0	64.5
Accumulated amortization	(21.5)	(10.2)
Other intangible assets, net	55.5	54.3
Goodwill and other intangible assets, net	$377.5	$244.3
Software and development costs		
Purchased software	$ 31.9	$ 31.1
Software development costs	24.5	15.5
	56.4	46.6
Accumulated amortization	(30.3)	(36.9)
Software and development costs, net	$ 26.1	$ 9.7

	Years Ended December 31,		
Depreciation and amortization	1998	1997	1996
Depreciation and amortization of property, plant and equipment	$32.2	$33.3	$31.5
Amortization of goodwill	12.0	13.5	11.1
Amortization of other intangibles	10.1	7.6	6.3
Amortization of software and development costs	4.8	10.6	11.0
Pension credit	(7.9)	(6.6)	(6.1)
Total	$51.2	$58.4	$53.8

HUGHES SUPPLY, INC. (JAN)

(Dollars in thousands)	1999	1998
Total current assets	$ 796,719	$684,220
Property and equipment, net	127,632	108,068
Excess of cost over net assets acquired	181,622	153,775
Deferred income taxes	—	3,438
Other assets	17,540	16,241
	$1,123,513	$965,742

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

1 (In Part): Description of Business and Summary of Significant Accounting Policies

Other Assets

The Company capitalizes certain internal software development costs which are amortized by the straight-line method over the estimated useful lives of the software, not to exceed five years. At January 29, 1999 and January 30, 1998, unamortized software development costs were $9,474 and $8,357, respectively, net of accumulated amortization of $1,873 and $394, respectively. Amortization of capitalized internal software development costs totaled $1,680, $316 and $78 in fiscal 1999, 1998 and 1997, respectively.

SYBASE, INC. (DEC)

(in thousands)	1998	1997
Total current assets	$477,700	$475,661
Long-term cash investments	981	10,134
Property, equipment and improvements, net	101,433	149,661
Deferred income taxes	20,152	24,077
Capitalized software, net	35,773	44,208
Other assets	60,565	77,884
Total assets	$696,604	$781,625

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Capitalized Software

The Company capitalizes software development costs incurred subsequent to the internal release of the product for acceptance testing. Upon the general release of the product to customers, development costs for that product are amortized over periods not exceeding three years, based on the estimated economic life of the product. Capitalized software costs amounted to $77,134,000, $69,421,000 and $51,831,000 at December 31, 1998, 1997 and 1996, respectively, and related accumulated amortization was $41,361,000, $25,213,000 and $31,857,000, respectively. Software amortization charges included in cost of license fees were $91,531,000, $9,683,000 and $7,364,000, for 1998, 1997 and 1996, respectively.

Property Held For Sale

CONCORD FABRICS INC. (AUG)

	1998	1997
Total current assets	$60,515,431	$58,564,520
Property, plant and equipment, net	9,159,596	7,438,260
Property, plant and equipment held for sale, at estimated disposal value (Note 16)	1,352,319	1,936,969
Property and plant leased to others	1,737,052	1,889,212
Other assets	3,119,732	3,205,145
Total assets	$75,884,130	$73,034,106

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Property, Plant and Equipment Held For Sale

The Company decided to dispose of its Washington, Georgia dyeing and finishing plant and is actively searching for a buyer; manufacturing operations ceased October 6, 1995. At such time, the Company estimated the net realizable value of the facility and accrued expenses for an estimated disposition period.

In fiscal 1998, the Company reevaluated the facility and, accordingly, recorded a charge of $500,000 reflecting the estimated impairment in value. During fiscal 1997, the Company repaired the facility's roof at a cost of $130,000 which was charged to operations.

OWENS-ILLINOIS, INC. (DEC)

(Millions of dollars)	1998	1997
Total current assets	$2,177.1	$1,648.3
Other assets:		
Equity investments	195.3	87.7
Repair parts inventories	254.2	227.2
Prepaid pension	686.1	647.9
Insurance receivable for asbestos-related costs	212.8	239.3
Deposits, receivables, and other assets	383.7	294.4
Net assets held for sale	409.6	
Excess of purchase cost over net assets acquired, net of accumulated amortization of $405.3 ($328.3 in 1997)	3,314.9	1,294.9
Total other assets	$5,456.6	$2,791.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net Assets Held For Sale

In connection with the Acquisition, the Company has committed to sell Rockware. On March 15, 1999, the Company announced that it agreed to sell Rockware to a subsidiary of Ardagh plc, the Irish glass container manufacturer based in Dublin, Ireland, for total consideration of 240 million British pounds sterling (approximately $390 million). The transaction is subject to certain conditions and is expected to close by March 31, 1999. The accompanying Consolidated Results of Operations for the year ended December 31, 1998, exclude Rockware and related financing costs. Proceeds from the Rockware Sale will be used to reduce long-term debt. The carrying value at December 31, 1998 is based upon estimated future cash flows associated with the assets.

Segregated Funds

CISCO SYSTEMS, INC. (JUL)

(in thousands)	1998	1997
Total current assets	$3,761,924	$3,101,266
Investments	3,463,279	1,267,174
Restricted investments	553,780	363,216
Property and equipment, net	595,349	466,352
Other assets	542,373	253,976
Total assets	$8,916,705	$5,451,984

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Restricted Investments

Restricted investments consist of U.S. governmental obligations with maturities of more than one year. These investments are carried at fair value and are restricted as to withdrawal (see Note 7). Restricted investments are held in the Company's name and custodied with two major financial institutions.

7 (In Part): Commitments and Contingencies

Leases

The Company has entered into several agreements to lease 448 acres of land located in San Jose, California, where it has established its headquarters operations, and 45 acres of land located in Research Triangle Park, North Carolina, where it has expanded certain research and development and customer support activities. All of the leases have initial terms of five to seven years and options to renew for an additional three to five years, subject to certain conditions. At any time during the terms of these land leases, the Company may purchase the land. If the Company elects not to purchase the land at the end of each of the leases, the Company has guaranteed a residual value of $560 million.

The Company has also entered into agreements to lease certain buildings to be constructed on the land described above. The lessors of the buildings have committed to fund up to a maximum of $706 million (subject to reductions based on certain conditions in the respective leases) for the construction of the buildings, with the portion of the committed amount actually used to be determined by the Company. Rent obligations for the buildings commence on various dates and will expire at the same time as the land leases.

The Company has an option to renew the building leases for an additional three to five years, subject to certain conditions. The Company may, at its option, purchase the buildings during or at the ends of the terms of the leases at approximately the amount expended by the lessors to construct the buildings. If the Company does not exercise the purchase options by the ends of the leases, the Company will guarantee a residual value of the buildings as determined at the lease inception date of each agreement (approximately $323 million at July 25, 1998).

As part of the above lease transactions, the Company restricted $554 million of its investment securities as collateral for specified obligations of the lessor under the leases. These investment securities are restricted as to withdrawal and are managed by a third party subject to certain limitations under the Company's investment policy. In addition, the Company must maintain a minimum consolidated tangible net worth, as defined, of $2.8 billion.

JOHNS MANVILLE CORPORATION (DEC)

(in thousands of dollars)	1998	1997
Total current assets	$ 461,842	$ 571,485
Property, plant and equipment, at cost		
Land and improvements	55,747	50,189
Buildings	256,153	246,175
Machinery and equipment	1,243,593	1,141,106
	1,555,493	1,437,470
Less accumulated depreciation and depletion	691,335	639,711
Property, plant and equipment, net	864,158	797,759
Deferred tax assets	164,024	194,836
Goodwill	248,692	202,844
Acquisition deposit (Note 25)	227,300	
Other assets	241,169	213,610
Total assets	$2,207,185	$1,980,534

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25. Subsequent Event (Unaudited)

On January 1, 1999, the Company completed the acquisition of Hoechst's Spunbond/Monofilament operations. This acquisition will expand existing product lines of the Company's Engineered Products segment in North America and Europe. The cash payment for this acquisition, to be accounted for under the purchase method, will be $227.3 million (subject to certain post-closing adjustments), financed with borrowings from the Company's credit facilities. The acquisition borrowings, drawn during December 1998, are shown as the acquisition deposit on the Company's balance sheet. The allocation of the purchase price will be finalized during 1999 upon completion of asset valuations and determination of preacquisition contingencies and restructuring decisions.

Based on preliminary estimates, the cash payment has been allocated as follows:

	(In millions of dollars)
Current assets	$ 80
Noncurrent assets (including Goodwill)	174
Liabilities assumed	(27)
Cash payment	$227

The preliminary consolidated results of operations on a pro forma basis as if the operations had been acquired as of the beginning of 1998 and 1997 as follows:

In millions of dollars, except per share amounts	1998	1997
Net sales	$2,013	$1,898
Net income	191	162
Earnings per share—diluted	1.18	1.00

The estimated pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have occurred had the acquisition been completed as of the above dates, nor are they necessarily indicative of future results of operations.

Cash Value of Life Insurance

HARRAH'S ENTERTAINMENT, INC. (DEC)

(in thousands)	1998	1997
Total current assets	$ 279,343	$ 212,310
Land, buildings, riverboats and equipment		
Land and land improvements	323,692	218,703
Buildings, riverboats and improvements	1,624,346	1,334,279
Furniture, fixtures and equipment	711,966	600,358
	2,660,004	2,153,340
Less: accumulated depreciation	(789,847)	(675,286)
	1,870,157	1,478,054
Excess of purchase price over net assets of businesses acquired, net of amortization of $40,051 and $33,580	383,450	43,363
Investments in and advances to nonconsolidated affiliates	273,508	152,401
Deferred costs and other (Note 4)	479,874	119,378
	$3,286,332	$2,005,506

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

4 (In Part): Detail of Certain Balance Sheet Accounts

Deferred costs and other consisted of the following:

	1998	1997
Star City management contract, net of amortization of $1,976	$133,524	$ —
Trademark, net of amortization of $981	66,319	—
U.S. Treasury securities held for defeasance of debt	64,510	—
Cash surrender and value of life insurance (Note 13)	52,904	45,835
Deferred finance charges, net of amortziation of $16,453 and $11,471	21,913	6,056
Other	140,704	67,487
	$479,874	$119,378

13 (In Part): Employee Benefit Plans

Deferred Compensation Plans

The Company maintains deferred compensation plans under which certain employees may defer a portion of their compensation. Amounts deposited into these plans are unsecured liabilities of the Company and earn interest at rates approved by the Human Resources Committee of our Board of Directors. The total liability included in Deferred credits and other liabilities for these plans at December 31, 1998 and 1997, was $49.6 million and $46.7 million, respectively. In connection with the administration of one of these plans, we have purchased company-owned life insurance policies insuring the lives of certain directors, officers and key employees.

Forward Purchase Financing Agreements

THE CLOROX COMPANY (JUN)

(in thousands)	1998	1997
Total current assets	$ 798,700	$ 673,497
Property, plant and equipment—net	596,293	570,645
Brands, trademarks, patents and other intangibles—net	1,240,532	1,186,951
Investments in affiliates	84,449	93,004
Other assets	310,018	253,855
Total	$3,029,992	$2,777,952

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Forward Purchasing Financing Agreements

In connection with the financing of an acquisition in Argentina in 1996 and the acquisition of the *Brita* water systems business in Canada in 1995, the Company entered into forward purchase agreements with third parties whereby the Company has purchased preferred stock of certain of its foreign subsidiaries for future delivery from third parties who have the right to acquire this preferred stock according to the terms of certain subscription agreements. The forward purchases of the preferred stock are recorded as other assets and are being accreted to other income on a straight-line basis over the terms of the agreements. If the third parties fail to acquire the subsidiary preferred stock at maturity of the subscription agreements, the accreted amounts of the forward purchase agreement will be due to the Company.

6. Other Assets

The major components are (in thousands):

	1998	1997
Forward purchase financing agreements	$167,314	$156,919
Other	142,704	96,936
Total	$310,018	$253,855

Forward purchase financing agreements represent the cost to acquire preferred stock of certain foreign subsidiaries at various dates in the future. The difference between original cost and the third-party subscription price of the preferred stock is being accreted on a straight-line basis over five years. The amount of accretion included in other income was $10,395,000 in 1998 and 1997 and $5,341,000 in 1996.

Recoverable Environmental Costs

GENCORP INC. (NOV)

(Dollars in millions)	1998	1997
Total current assets	$ 529	$ 475
Investments and other assets	714	534
Property, plant and equipment, at cost		
Land	40	37
Buildings and improvements	309	279
Machinery and equipment	851	774
Construction in progress	38	31
	1,238	1,121
Accumulated depreciation	(738)	(711)
Net property, plant and equipment	500	410
Total assets	$1,743	$1,419

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Environmental Costs

The Company expenses, on a current basis, recurring costs associated with managing hazardous substances and pollution in ongoing operations. The Company accrues for costs associated with the remediation of environmental pollution when it becomes probable that a liability has been incurred and its proportionate share of the amount can be reasonably estimated. The Company recognizes amounts recoverable from insurance carriers, the U.S. Government or other third parties, when the collection of such amounts is probable. Pursuant to U.S. Government agreements or regulations, the Company will recover a substantial portion of its environmental costs for its aerospace and defense business segment through the establishment of prices of the Company's products and services sold to the U.S. Government. With the exception of applicable amounts representing current assets and liabilities, recoverable amounts and accrued costs are included in other assets and other long-term liabilities.

K. Investments and Other Assets

(Dollars in millions)	November 30 1998	1997
Expected recoveries from U.S. government and third parties for environmental remediation (excluding $16 million and $12 million classified as current)	$149	$168
Deferred taxes	137	151
Prepaid pension	127	116
Goodwill	166	37
Patents, licenses, trademarks and other intangibles	86	17
Other	49	45
Investments and other assets	$714	$534

Prepublication Costs

McGRAW-HILL COMPANIES, INC. (DEC)

(in thousands)	1998	1997
Total current assets	$1,428,761	$1,464,421
Prepublication costs (net of accumulated amortization: 1998—$607,574; 1997—$526,156) (Note 1)	358,429	326,251
Investments and other assets		
Investment in Rock-McGraw, Inc.—at equity	79,394	72,292
Prepaid pension expense	107,997	100,495
Other	189,991	167,701
Total investments and other assets	377,382	340,488
Property and equipment—at cost		
Land	12,867	18,823
Buildings and leasehold improvements	295,374	264,237
Equipment and furniture	606,564	555,154
Total property and equipment	914,805	838,214
Less—accumulated depreciation	550,781	564,584
Net property and equipment	364,024	273,630
Goodwill and other intangible assets—at cost (net of accumulated amortization: 1998—$493,610; 1997—$449,981)	1,259,548	1,308,284
	$3,788,144	$3,713,074

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Prepublication Costs

Prepublication costs, principally outside preparation costs, are amortized from the year of publication over their estimated useful lives, primarily three to five years, using either an accelerated or the straight-line method. It is the company's policy to evaluate the remaining lives and recoverability of such costs, which is often dependent upon program acceptance by state adoption authorities.

Deferred Restructuring Costs

LOCKHEED MARTIN CORPORATION (DEC)

(in millions)	1998	1997
Total current assets	$10,611	$10,105
Property, plant and equipment	3,513	3,669
Intangible assets related to contracts and programs acquired	1,418	1,566
Cost in excess of net assets acquired	9,521	9,856
Other assets	3,681	3,165
	$28,744	$28,361

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Restructuring and Other Charges

Under existing U.S. Government regulations, certain costs incurred for consolidation actions that can be demonstrated to result in savings in excess of the cost to implement can be deferred and amortized for government contracting purposes and included as allowable costs in future pricing of the Corporation's products and services. Included in other assets at December 31, 1998 is approximately $450 million of deferred costs that will be recognized in future sales and cost of sales.

Inventory

VIACOM INC. (DEC)

(in millions)	1998	1997
Total current assets	$ 5,064.5	$ 5,713.5
Property and equipment:		
Land	458.5	452.2
Buildings	1,636.8	1,544.4
Capital leases	671.7	655.6
Equipment and other	1,770.0	1,668.0
	4,537.0	4,320.2
Less accumulated depreciation and amortization	1,457.5	1,122.5
Net property and equipment	3,079.5	3,197.7
Inventory (Note 6)	2,470.8	2,650.6
Intangibles, at amortized cost	11,557.3	14,699.6
Other assets	1,441.0	2,027.3
	$23,613.1	$28,288.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Inventories

Inventories related to theatrical and television product (which include direct production costs, production overhead, acquisition costs, prints and certain exploitation costs) are stated at the lower of amortized cost or net realizable value. Inventories are amortized, and liabilities for residuals and participations are accrued, on an individual product basis based on the proportion that current revenues bear to the estimated remaining total lifetime revenues. Estimates for initial domestic syndication and basic cable revenues are not included in the estimated lifetime revenues of network series until such sales are probable. Estimates of total lifetime revenues and expenses are periodically reviewed. The costs of feature and television films are classified as current assets to the extent such costs are expected to be recovered through their respective primary markets, with the remainder classified as non-current. A portion of the cost to acquire Paramount and Spelling was allocated to theatrical and television inventories based upon estimated revenues from certain films less related costs of distribution and a reasonable profit allowance for the selling effort. The cost allocated to films is being amortized over their estimated economic lives not to exceed 20 years.

The Company estimates that approximately 70% of unamortized film costs (including amounts allocated under purchase accounting) at December 31, 1998 will be amortized within the next three years.

6. Inventories

Inventories consist of the following:

	December 31, 1998	1997
Precrecorded videocassettes	$ 381.9	$ 559.2
Videocassette rental inventory	404.1	722.8
Publishing:		
Finished goods	59.7	301.2
Work in process	6.9	30.3
Materials and supplies	2.5	23.3
Other	17.7	20.6
	872.8	1,657.4
Less current portion	468.7	934.8
	$ 404.1	$ 722.6
Theatrical and television inventory:		
Theatrical and television productions:		
Released	$1,800.4	$1,736.0
Completed, not released	35.9	17.8
In process and other	321.0	341.4
Program rights	1,246.2	1,150.7
	3,403.5	3,245.9
Less current portion	1,336.8	1,317.9
	$2,066.7	$1,928.0
Total current inventory	$1,805.5	$2,252.7
Total non-current inventory	$2,470.8	$2,650.6

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. 233 survey companies made 239 fair value disclosures for short-term debt. 194 disclosures stated that fair value approximated carrying amount; 22 disclosures stated that market quotes were used to estimate fair value; and 23 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

	1998	1997	1996	1995
Description				
Notes or loans				
Payee indicated	49	68	65	66
Payee not indicated	160	149	152	146
Short-term debt or borrowings	125	115	115	114
Commercial paper	65	60	69	60
Other	33	23	26	32
Total Presentations	**432**	**415**	**427**	**418**
Number of Companies				
Showing short-term debt	377	376	371	377
Not showing short-term debt	223	224	229	223
Total Companies	**600**	**600**	**600**	**600**

AMGEN INC. (DEC)

(in millions)	1998	1997
Current liabilities:		
Accounts payable	$121.6	$103.9
Commercial paper	99.7	—
Accrued liabilities	659.7	608.0
Current portion of long-term debt	6.0	30.0
Total current liabilities	$887.0	$741.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Debt

The Company has a commercial paper program which provides for unsecured short-term borrowings up to an aggregate of $200 million. As of December 31, 1998, commercial paper with a face amount of $100 million was outstanding. These borrowings had maturities of less than two months and had effective interest rates averaging 5.5%. No commercial paper was outstanding at December 31, 1997.

9 (In Part): Fair Values of Financial Instruments

The carrying amount of commercial paper approximated its fair value as of December 31, 1998. The fair values of debt securities at December 31, 1998 and 1997 were approximately $225 million and $276 million, respectively. The fair values of commercial paper and debt securities were estimated based on quoted market rates for instruments with similar terms and remaining maturities.

THE CLOROX COMPANY (JUN)

(in thousands)	1998	1997
Current liabilities:		
Accounts payable	$ 154,348	$143,360
Accrued liabilities	285,225	358,785
Short-term debt	768,616	369,973
Income taxes payable	15,370	17,049
Current maturities of long-term debt	1,517	3,551
Total current liabilities	$1,225,076	$892,718

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Debt

Short-term debt includes (in thousands):

	1998	1997
Commercial paper	$379,205	$225,167
Other	389,411	144,806
Total	$768,616	$369,973

In 1998 and 1997, the Company entered into agreements for the issuance of redeemable subsidiary preference shares to private investors. These shares have no voting rights and have a preference as to distributions. Simultaneous with the issuance of the shares, the Company and the private investors entered into a series of agreements that effectively enforce redemption of the shares and provide the private investors with no risk of ownership. The agreements are sterling-denominated and the Company has entered into swap agreements that cover both foreign currency and interest rate exposures. Dividend payments on the preference shares are classified as interest expense. The Company plans to redeem the preference shares issued in 1997 and 1998. The carrying value of these shares at June 30, 1998 was $195,540,000 and $192,000,000, respectively. The Company plans to redeem the preference shares in 1999; accordingly, such amounts have been classified as other short-term debt in 1998. Other short-term debt in 1997 includes $136,000,000 of subsidiary preference shares that were refinanced with commercial paper in July 1997.

Long-term debt includes (in thousands):

	1998	1997
8.8% Non-callable notes due August 2001	$200,000	$200,000
Redeemable subsidiary preference shares due April 2002 with a preferred dividend rate of 5.3%	—	195,540
Bank loans due through March 2001, at rates ranging from 6.5% to 7.9%	101,553	154,730
Other	14,707	15,656
Total	$316,260	$565,926

At June 30, 1998 and June 30, 1997, the Company had interest rate swaps that converted $100,000,000 of the 8.8% notes from a fixed to a floating rate resulting in effective borrowing rates of 8.3% in 1998 and 8.5% in 1997 and 1996.

The weighted average interest rate for short-term debt outstanding was 5.1%, 5.5% and $5.4% for 1998, 1997 and 1996, respectively. At June 30, 1998 and 1997, net of foreign currency swap agreements, the fair value of long-term debt was $332,200,000 and $585,500,000, respectively, and the fair value of short-term debt approximates the carrying value for those years.

The Company has a $350,000,000 credit agreement expiring on April 30, 2002, and two additional credit agreements for $100,000,000 each, which expire in December 1998 and January 1999, respectively. There are no borrowings under any of these agreements and they are available for general corporate purposes and for the support of additional commercial paper issuance. The credit agreements require maintenance of minimum net worth of $704,000,000.

Long-term debt repayments are scheduled to be $30,675,000, $70,878,000, $200,107,000, $1,600,000 and $13,000,000 in 2000, 2001, 2002, 2003 and 2004, respectively.

9. Financial Instruments

The carrying values of cash, short-term investments, accounts receivable and payable, forward purchase financing agreements and other financial instruments all approximate their fair values at June 30, 1998 and 1997. The Company has used market information for similar instruments and applied judgment in estimating fair values. Fair values of short-term and long-term debt are shown in Note 8.

FORTUNE BRANDS, INC.

(in millions)	1998	1997
Current liabilities:		
Notes payable to banks	$ 71.5	$ 36.8
Commercial paper	249.9	191.6
Current portion of long-term debt	183.3	176.2
Accounts payable	274.9	254.6
Accrued taxes	472.4	475.2
Accrued expenses and other liabilities	592.6	634.1
Total current liabilities	$1,844.6	$1,768.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Short-Term Borrowings and Credit Facilities

At December 31, 1998 and 1997, there were $321.4 million and $228.4 million of short-term borrowings outstanding, respectively, comprised of notes payable to banks and commercial paper. The weighted average interest rate on these borrowings was 5.3% and 5.7%, respectively.

At December 31, 1998 and 1997, there were $40.8 million and $26.4 million outstanding under committed bank credit agreements, which provide for unsecured borrowings of up to $56 million and $63 million, respectively, for general corporate purposes, including acquisitions.

In addition, the Company had uncommitted bank lines of credit, which provide for unsecured borrowings for working capital of up to $28 million of which $20.4 million was outstanding at year end.

See Note 13 for a description of the Company's use of financial instruments.

13. Financial Instruments

The estimated fair value of the Company's cash and cash equivalents, notes payable to banks and commercial paper, approximates the carrying amounts due principally to their short maturities.

MERCK & CO., INC. (DEC)

($ in millions)	1998	1997
Current liabilities:		
Accounts payable and accrued liablities	$3,682.1	$3,268.9
Loans payable and current portion of long-term debt	624.2	902.5
Income taxes payable	1,125.1	859.6
Dividends payable	637.4	537.6
Total current liabilities	$6,068.8	$5,568.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
($ in millions)

6 (In Part): Financial Instruments

Fair Value of Financial Instruments

Summarized below are the carrying values and fair values of the Company's financial instruments at December 31, 1998 and 1997. Fair values were estimated based on market prices, where available, or dealer quotes.

	1998		1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	$2,606.2	$2,606.2	$1,125.1	$1,125.1
Short-term investments	749.5	749.5	1,184.2	1,184.2
Long-term investments	3,607.7	3,604.3	2,533.4	2,531.8
Purchased currency options	170.2	137.5	54.6	144.1
Forward exchange contracts and currency swaps	72.8	72.8	197.0	197.0
Interest rate swaps	—	—	.1	.3
Liabilities				
Loans payable and current portion of long-term debt	$ 624.2	$ 654.7	$ 902.5	$ 900.5
Long-term debt	3,220.8	3,336.5	1,346.5	1,387.0
Forward exchange contracts and currency swap	86.1	86.1	22.0	22.0

8 (In Part): Loans Payable and Long-Term Debt

Loans payable at December 31, 1998 consisted primarily of $500.0 million of 5.8% notes due 2037 that are subject to repayment at par at the option of the holders beginning May 1999. Loans payable at December 31, 1997 consisted primarily of commercial paper borrowings of $439.6 million and the current portion of long-term debt of $345.8 million. The remainder in both years was principally borrowings by foreign subsidiaries. The weighted average interest rate for these borrowings was 6.6% and 6.4% at December 31, 1998 and 1997, respectively.

GATEWAY 2000, INC. (DEC)

(in thousands)	1997	1998
Current liabilities:		
Notes payable and current maturities of long-term obligations	$ 13,969	$ 11,415
Accounts payable	488,717	718,071
Accrued liabilities	271,250	415,265
Accrued royalties	159,418	167,873
Other current liabilities	70,552	117,050
Total current liabilities	$1,003,906	$1,429,674

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 157 companies stating that the carrying amount of trade payables approximated fair value. Such a disclosure is not required by *Statement of Financial Accounting Standards No. 107.*

Examples of trade accounts payable presentations follow.

TABLE 2-21: TRADE ACCOUNTS PAYABLE

	1998	1997	1996	1995
Accounts payable	442	445	442	435
Trade accounts payable	98	110	117	125
Accounts payable combined with accrued liabilities or accrued expenses	55	27	28	31
Other captions	5	18	13	9
Total Companies	**600**	**600**	**600**	**600**

ADOLPH COORS COMPANY (DEC)

(in thousands)	1998	1997
Current liabilities:		
Current portion of long-term debt	$ 40,000	$ 27,500
Accounts payable:		
Trade	132,193	113,864
Affiliates	11,706	18,072
Accrued salaries and vacations	54,584	58,257
Taxes, other than income taxes	48,332	52,805
Federal and state income taxes	10,130	13,660
Accrued expenses and other liabilities	86,967	74,988
Total current liabilities	$383,912	$359,146

EMPLOYEE-RELATED LIABILITIES

Table 2-22 shows the nature of employee related liabilities disclosed by the survey companies as current liabilities. Examples of employee related liability presentations and disclosures follow.

TABLE 2-22: EMPLOYEE RELATED LIABILITIES

	1998	1997	1996	1995
Description				
Salaries, wages, payrolls, commissions	295	295	295	292
Compensation	208	199	194	191
Benefits	62	64	63	64
Pension or profit-sharing contributions	53	65	71	95
Compensated absences	16	20	19	19
Other	41	41	35	33
Total Presentations	**675**	**684**	**677**	**694**
Number of Companies				
Disclosing employee related liabilities	511	506	500	509
Not disclosing	89	94	100	91
Total Companies	**600**	**600**	**600**	**600**

ABBOTT LABORATORIES (DEC)

(Dollars in thousands)	1998	1997
Current liabilities:		
Short-term borrowings and current portion of long-term debt	$1,759,076	$1,781,352
Trade accounts payable	1,056,641	1,001,058
Salaries, wages and commissions	374,262	332,914
Other accrued liabilities	1,378,707	1,406,132
Dividends payable	227,400	201,450
Income taxes payable	166,040	311,562
Total current liabilities	$4,962,126	$5,034,468

ADVO, INC. (SEP)

(in thousands)	1998	1997
Current liabilities:		
Current portion of long-term debt	$ 16,200	$ 10,125
Accounts payable	37,586	44,644
Accrued compensation and benefits	27,473	29,245
Customer advances	3,892	3,409
Federal and state income taxes payable	5,270	7,080
Accrued other expenses	20,628	21,080
Total current liabilities	$111,049	$115,583

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Accrued Compensation and Benefits

The composition of accrued compensation and benefits is as follows:

(in thousands)	Sept. 26, 1998	Sept. 27, 1997
Employee compensation	$14,874	$18,316
Workers' compensation	6,263	5,638
Employee withholding and other benefits	6,336	5,291
Total	$27,473	$29,245

KNAPE & VOGT MANUFACTURING COMPANY (JUN)

	1998	1997
Current liabilities:		
Accounts payable	$17,765,610	$ 5,976,683
Accruals:		
Income taxes	847,306	382,273
Taxes other than income	860,928	1,551,686
Compensation	3,067,186	2,460,426
Retirement plan contributions	769,978	740,666
Restructuring costs	828,932	—
Miscellaneous	657,320	1,116,385
Total current liabilities	$24,797,260	$12,228,119

STANDEX INTERNATIONAL CORPORATION (JUN)

	1998	1997
Current liabilities:		
Current portion of debt	$ 2,995,231	$ 2,029,708
Accounts payable	37,747,901	31,380,437
Accrued payroll and employee benefits	17,667,979	16,568,023
Income taxes	5,754,464	4,481,130
Other	22,121,209	15,680,749
Total current liabilities	$86,286,784	$70,140,047

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accrued Payroll and Employee Benefits

This current liability caption consists of (in thousands):

June 30	1998	1997
Payroll	$14,014	$12,644
Benefits	2,756	2,746
Taxes	898	1,178
Total	$17,668	$16,568

WINNEBAGO INDUSTRIES, INC. (AUG)

(Dollars in thousands)	1998	1997
Current liabilities:		
Current maturities of long-term debt	$ —	$ 695
Accounts payable, trade	24,461	20,471
Income taxes payable	12,623	—
Accrued expenses:		
Insurance	3,566	2,687
Product warranties	5,260	3,329
Vacation liability	3,343	3,012
Promotional	2,236	2,508
Other	11,113	8,524
Total current liabilities	$62,602	$41,226

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

	1998	1997	1996	1995
Income taxes	285	315	316	323
Taxes—type not specified	44	48	44	40
Federal and state income taxes	21	18	15	14
Federal income taxes	5	6	5	9
Federal, state, and foreign income taxes	23	10	9	8
Federal and foreign income taxes	5	7	8	7
U.S. and foreign income taxes	8	7	9	9
Other captions	18	17	19	15
No current income tax liability	191	172	175	175
Total Companies	**600**	**600**	**600**	**600**

WARNER-LAMBERT COMPANY (DEC)

(Dollars in millions)	1998	1997
Short-term debt	$ 256.3	$ 372.1
Accounts payable, trade	1,575.2	1,025.6
Accrued compensation	225.1	186.6
Other current liabilities	927.6	759.0
Federal, state and foreign income taxes	245.8	193.6
Total current liabilities	$3,230.0	$2,536.9

U.S. INDUSTRIES, INC. (SEP)

(in millions)	1998	1997
Current liabilities:		
Notes payable	$ 15	$ 4
Current maturities of long-term debt	4	41
Trade accounts payable	264	189
Accrued expenses and other liabilities	313	344
Income taxes payable	40	72
Total current liabilities	$636	$650

BEMIS COMPANY, INC. (DEC)

(In thousands of dollars)	1998	1997
Current liabilities:		
Current portion of long-term debt	$ 2,946	$ 2,173
Short-term borrowings	3,553	2,105
Accounts payable	193,088	195,346
Accrued liabilities:		
Salaries and wages	31,629	34,892
Income taxes	2,927	8,445
Other taxes	8,645	8,226
Total current liabilities	$242,788	$251,187

INGRAM MICRO INC. (DEC)

(Dollars in 000s)	1998	1997
Current liabilities:		
Accounts payable	$3,306,045	$2,415,001
Accrued expenses	254,627	292,515
Current maturities of long-term debt	38,978	21,869
Total current liabilities	$3,599,650	$2,729,385

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. 139 survey companies made 160 fair value disclosures for the current amount of long-term debt, 26 disclosures stated that fair value approximated carrying amount; 58 disclosures stated that market quotes were used to estimate fair value; and 76 disclosures stated that discounted cash flows were used to estimate fair value.

TABLE 2-24: CURRENT AMOUNT OF LONG-TERM DEBT

	Number of Companies			
	1998	**1997**	**1996**	**1995**
Current portion of long-term debt	232	220	220	224
Current maturities of long-term debt	173	180	179	195
Long-term debt due or payable within one year	42	45	38	43
Current installment of long-term debt	23	24	22	25
Current amount of long-term leases	48	36	43	47
Other captions	6	14	15	9

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			
	1998	**1997**	**1996**	**1995**
Interest	112	110	119	124
Taxes other than federal income taxes	107	116	123	122
Estimated costs related to discontinued operations	93	87	92	108
Deferred revenue	74	69	67	58
Dividends payable	69	69	71	75
Insurance	64	63	71	78
Warranties	64	66	67	54
Advertising	57	56	51	45
Environmental costs	55	49	49	51
Customer advances, deposits	52	50	56	54
Deferred taxes	47	39	47	46
Billings on uncompleted contracts	21	16	23	28
Due to affiliated companies	19	21	15	24
Royalties	18	15	15	11
Litigation	17	16	14	20
Other—described	92	91	85	118

Taxes Other Than Federal Income Taxes

IBP, INC. (DEC)

(in thousands)	1998	1997
Current liabilities:		
Accounts payable and accrued expenses (Note D)	$565,517	$569,641
Notes payable to banks	140,967	192,010
Federal and state income taxes	152,122	106,375
Deferred income taxes	1,818	4,266
Other	5,388	4,526
Total current liabilities	$865,812	$876,818

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Columnar amounts in thousands)

D. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses are comprised of the following:

	Dec. 26, 1998	Dec. 27, 1997
Accounts payable, principally trade creditors	$220,972	$219,449
Checks in process of clearance	94,888	126,279
Accrued expenses:		
Employee compensation	74,728	73,724
Employee benefits	34,771	34,733
Property and other taxes	24,809	25,886
Marketing costs	14,352	13,808
Other	100,997	75,762
	249,657	223,913
	$565,517	$569,641

THE MAY DEPARTMENT STORES COMPANY (JAN)

(Dollars in millions)	1999	1998
Current liabilities:		
Current maturities of long-term debt	$ 98	$ 233
Accounts payable	1,017	842
Accrued expenses	755	640
Income taxes payable	189	151
Total current liabilities	$2,059	$1,866

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accrued Expenses

Accrued expenses consisted of:

(Dollars in millions)	Jan. 30, 1999	Jan. 31, 1998
Insurance costs	$179	$164
Salaries, wages, and employee benefits	127	112
Sales, use, and other taxes	107	97
Interest and rent expense	96	92
Advertising and other operating expenses	79	65
Construction costs	51	34
Store closings and real estate-related expenses	45	38
Other	71	38
Total	$755	$640

THE PENN TRAFFIC COMPANY (JAN)

(In thousands of dollars)	1999	1998
Current liabilities:		
Current portion of obligations under capital leases	$ 11,516	$ 13,518
Current maturities of long-term debt	1,267,813	4,429
Trade accounts and drafts payable	134,432	149,389
Payroll and other accrued liabilities	81,867	79,763
Accrued interest expense	42,783	35,335
Payroll taxes and other taxes payable	15,420	19,208
Deferred income taxes	—	16,671
	$1,553,831	$318,313

Costs/Liabilities Related to Discontinued Operations

BOSTON SCIENTIFIC CORPORATION (DEC)

(in thousands)	1998	1997
Current liabilities:		
Commercial paper	$1,016,163	$423,250
Bank obligations	11,324	23,958
Accounts payable	108,597	98,878
Accrued expenses	245,022	161,236
Acquisition-related obligations	139,623	—
Accrual for restructuring and merger-related charges	71,231	68,358
Income taxes payable	18,821	11,436
Other current liabilities	8,877	6,292
Total current liabilities	$1,619,658	$793,408

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

M. Restructuring and Merger-Related Charges

The Company is in the process of implementing a rationalization plan established after acquiring Schneider. The rationalization plan takes into consideration duplicate capacity and opportunities for further leveraging of cost and technology platforms. The Company's actions approved and committed to in the fourth quarter of 1998 will result in the displacement in 1999 of approximately 2,000 current positions, over half of which are manufacturing positions. The Company has decided to close five Schneider facilities, as well as transition the manufacturing of selected Boston Scientific product lines to different sites. The Company estimates that the costs associated with these activities will be approximately $62 million, most of which represent severance and related costs. Approximately $36 million of the total has been capitalized as part of the purchase price of Schneider. The remaining $26 million ($17 million, net of tax) has been charged to operations. The rationalization plan also resulted in the decision to expand, not close, a facility originally provided for in a 1997 merger-related charge; thus, in the fourth quarter, the Company reversed $21 million ($14 million, net of tax) of previously recorded merger-related charges. The reversal also includes estimated reductions in contractual commitment payments, associated legal costs and other asset write-downs originally provided for as a 1997 merger charge. In the second quarter of 1998, the Company reorganized certain U.S. sales organizations differently than was originally contemplated at the time of the Target acquisition. As a result, the Company reversed $20 million ($13 million, net of tax) of 1997 merger-related charges.

At December 31, 1998, the Company had an accrual for restructuring and merger-related charges of $89 million, which is comprised of $50 million of accrued severance and related costs associated with integrating Schneider and streamlining manufacturing operations, $16 million related to the cost of cancelling contractual commitments recorded in connection with the Schneider acquisition and $23 million of accruals remaining for 1997 and prior mergers (primarily costs associated with rationalized facilities).

During 1997, the Company recorded merger-related charges of $146 million ($106 million, net of tax) primarily related to the Company's acquisition of Target. At December 31, 1995, the Company's accrual for restructuring and merger-related charges was $136 million. During 1996, the Company recorded merger-related charges of $32 million ($29 million, net of tax) related primarily to the Company's acquisition of EPT. Charges utilized in 1996 were approximately $102 million.

The restructuring and merger-related charges were determined based on formal plans approved by the Company's management using the best information available to it at the time. The amounts the Company may ultimately incur may change as the balance of the Company's initiative to integrate the businesses related to these mergers and acquisitions is executed.

The activity impacting the accrual for restructuring and merger-related charges during 1998 and 1997, net of reclassifications made by management based on available information, is summarized in the table below:

(in thousands)	Balance at December 31, 1996	Charges to Operations in 1997	Charges Utilized in 1997	Purchase Price Adjustments in 1998	Charges to Operations in 1998	Charges Utilized in 1998	Change in Estimates	Balance at December 31, 1998
Facilities	$18,897	$ 8,193	$ (7,101)	$ —	$ —	$ (4,901)	$ (4,243)	$10,845
Workforce reductions	25,897	24,655	(25,310)	35,611	14,102	(14,428)	(15,921)	44,606
Contractual commitments	8,156	52,673	(31,495)	16,580	855	(20,965)	(7,704)	18,100
Asset write-downs	6,248	27,602	(18,048)	—	9,027	(6,709)	(7,563)	10,557
Direct transaction and other costs	6,359	32,768	(27,836)	—	2,016	(2,712)	(5,583)	5,012
Total	$65,557	$145,891	$(109,790)	$52,191	$26,000	$(49,715)	$(41,014)	$89,120

The December 31, 1998 accrual for restructuring and merger-related charges is classified within the balance sheet as follows:

(in thousands)	
Accrual for restructuring and merger-related charges	$71,231
Property, plant and equipment, net	13,848
Other long-term liabilities	4,041
	$89,120

As of December 31, 1998, the Company's cash obligations required to complete the balance of the Company's initiatives to integrate businesses related to its mergers and acquisitions and announced rationalization strategy are estimated to be approximately $70 million. Further, the Company has outstanding $140 million of acquisition-related cash obligations. Substantially all of these cash outlays will occur during 1999.

THE PERKIN-ELMER CORPORATION (JUN)

(Dollar amounts in thousands)	1998	1997
Current liabilities:		
Loans payable	$ 12,099	$ 29,916
Accounts payable	165,289	131,413
Accrued salaries and wages	48,999	48,183
Accrued taxes on income	79,860	98,307
Other accrued expenses	201,898	186,771
Total current liabilities	$508,145	$494,590

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Additional Information

Selected Accounts

The following table provides the major components of selected accounts of the Consolidated Statements of Financial Position:

(Dollar amounts in millions)	1998	1997
Other accrued expenses		
Deferred service contract revenues	$ 54.8	$ 45.1
Accrued pension liabilities	17.5	17.9
Restructuring provisions	31.3	33.3
Other	98.3	90.5
Total other accrued expenses	$201.9	$186.8

Deferred Revenue

ALBERTSON'S, INC. (JAN)

(Dollars in thousands)	1999	1998
Current liabilities:		
Accounts payable	$ 873,956	$ 742,557
Salaries and related liabilities	171,706	149,898
Taxes other than income taxes	76,923	80,842
Income taxes	47,142	37,657
Self-insurance	73,066	69,982
Unearned income	64,418	46,069
Other	53,282	52,395
Current maturities of long-term debt	6,991	86,511
Current portion of capitalized lease obligations	11,347	9,608
Total current liabilities	$1,378,831	$1,275,519

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

Summary of Significant Accounting Policies (In Part)

Unearned Income

Unearned income consists primarily of buying and promotional allowances received from vendors in connection with the Company's buying and merchandising activities. These funds are recognized as revenue when earned by purchasing specified amounts of product or promoting certain products.

MICROSOFT CORPORATION (JUN)

(in millions)	1997	1998
Current liabilities:		
Accounts payable	$ 721	$ 759
Accrued compensation	336	359
Income taxes payable	466	915
Unearned revenue	1,418	2,888
Other	669	809
Total current liabilities	$3,610	$5,730

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unearned Revenue

Microsoft believes that Internet technologies are integral to its products and has committed to integrating these technologies, such as its browser software, Microsoft Internet Explorer, into existing products at no additional cost to its customers. Given this strategy and other commitments such as telephone support, Internet-based technical support, and unspecified product enhancements, Microsoft recognizes approximately 20% of Windows operating systems OEM revenue and approximately 35% of retail versions revenue over the product life cycles, currently estimated at two years. The unearned portion of revenue from Windows operating systems was $860 million and $1.19 billion at June 30, 1997 and 1998.

Since Office 97 is also tightly integrated with the Internet, and in the view of subsequent delivery of new Internet technologies, enhancements, and other support, a ratable revenue recognition policy was implemented for Office 97. Approximately 20% of Office 97 revenue is recognized ratably over the estimated 18-month product life cycle. Unearned revenue associated with Office 97 totaled $300 million and $770 million at June 30, 1997 and 1998.

Unearned revenue also includes maintenance and other subscription contracts, including organization license agreements.

THE STANDARD REGISTER COMPANY (DEC)

(Dollars in thousands)	1998	1997
Current liabilities:		
Current portion of long-term debt	$ 525	$ —
Accounts payable	29,967	25,296
Dividends payable	6,251	5,968
Accrued compensation	44,406	34,817
Income taxes payable	1,335	1,155
Customer deposits	3,138	21,003
Deferred service contract income	8,404	7,222
Accrued restructuring	14,843	—
Other current liabilities	21,487	11,558
Total current liabilities	$130,356	$107,019

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

The Company generally recognizes product and related services revenue at the time of shipment to the customer. Under contractual arrangements with some customers, custom forms which are stored for future delivery are recognized as revenue when manufacturing is complete and the order is invoiced. Revenue from equipment service contracts is recognized ratably over the term of the contract.

Dividend

HARSCO CORPORATION (DEC)

(in thousands)	1998	1997
Current liabilities:		
Short-term borrowings	$ 46,766	$ 22,847
Current maturities of long-term debt	7,841	3,630
Accounts payable	142,681	120,148
Accrued compensation	43,938	42,652
Income taxes	42,908	30,572
Dividends payable	9,506	10,335
Other current liabilities	181,182	142,308
Total current liabilities	$474,822	$372,492

Insurance

ABM INDUSTRIES INCORPORATED (OCT)

(In thousands of dollars)	1997	1998
Current portion of long-term debt	$ 1,393	$ 865
Bank overdraft	12,975	2,475
Trade accounts payable	34,555	34,992
Income taxes payable	1,364	5,527
Accrued liabilities:		
Compensation	35,965	40,914
Taxes—other than income	12,609	15,887
Insurance claims	25,479	29,254
Other	29,419	27,910
Total current liabilities	$153,759	$157,824

CURTISS-WRIGHT CORPORATION (DEC)

(in thousands)	1998	1997
Current liabilities:		
Current portion of long-term debt	$20,523	$ —
Accounts payable	13,433	9,900
Accrued expenses	17,254	14,640
Income taxes payable	5,052	4,845
Other current liabilities	11,548	9,244
Total current liabilities	$67,810	$38,629

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Accrued Expenses and Other Current Liabilities

Accrued expenses at December 31 consist of the following:

(in thousands)	1998	1997
Accrued compensation	$ 5,967	$ 5,878
Accrued taxes other than income taxes	1,108	1,357
Accrued insurance	1,662	1,659
All other	8,517	5,746
Total accrued expenses	$17,254	$14,640

Product Warranties

DONALDSON COMPANY, INC. (JUL)

(Thousands of dollars)	1998	1997
Current liabilities:		
Short-term borrowings	$ 45,491	$ 42,027
Current maturities of long-term debt	405	647
Trade accounts payable	59,368	68,317
Accrued employee compensation and related taxes	26,837	28,760
Income taxes payable	6,565	2,738
Warranty and customer support	22,691	28,156
Other current liabilities	6,135	5,652
Total current liabilities	$167,492	$176,297

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Product Warranties

The Company provides for estimated warranty costs and accrues for specific items at the time their existence is known and the amounts are determinable.

HURCO COMPANIES, INC. (OCT)

(Dollars in thousands)	1998	1997
Current liabilities:		
Accounts payable	$13,235	$ 7,448
Accounts payable-related parties	2,556	1,798
Accrued expenses	7,157	6,886
Accrued warranty expenses	1,060	1,452
Current portion of long-term debt	1,786	1,786
Total current liabilities	$25,794	$19,370

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Product Warranty

Expected future product warranty expense is recorded when the product is sold.

Advertising

HORMEL FOODS CORPORATION (OCT)

(in thousands)	1998	1997
Current liabilities:		
Accounts payable	$119,836	$120,385
Accrued expenses	33,699	34,564
Accrued marketing expenses	26,140	21,543
Employee compensation	54,314	46,275
Taxes, other than federal income taxes	14,599	16,524
Dividends payable	11,774	11,980
Federal income taxes	1,172	4,712
Current maturities of long-term debt	6,117	4,595
Total current liabilities	$267,651	$260,578

PRIMEDIA INC. (DEC)

(Dollars in thousands)	1998	1997
Current liabilities:		
Accounts payable	$118,637	$ 95,546
Accrued interest payable	20,451	13,622
Accrued expenses and other—Note 10	223,801	204,770
Deferred revenues	197,131	140,474
Current maturities of long-term debt	21,167	14,333
Total current liabilities	$581,187	$468,745

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

10. Accrued Expenses and Other

Accrued expenses and other current liabilities consist of the following:

December 31,	1998	1997
Payroll, commissions and related employee benefits	$ 68,350	$ 53,494
Systems costs	1,357	2,066
Rent and lease liabilities	33,028	27,247
Retail display costs and allowances	14,042	10,407
Promotion costs	3,569	2,739
Royalties	7,053	8,367
Circulation costs	5,253	6,037
Professional fees	10,877	12,319
Taxes	17,290	18,528
Customer advances	1,448	946
Deferred purchase price	10,853	16,204
Other	50,681	46,416
	$223,801	$204,770

Environmental Costs

JOSTENS INC. (DEC)

(in thousands)	1998	1997
Current liabilities:		
Notes payable	$ 93,922	$ 49,974
Accounts payable	23,682	30,553
Employee compensation	27,560	19,446
Commissions payable	22,131	19,222
Customer deposits	92,092	98,659
Income taxes	4,713	11,098
Other accrued liabilities	23,679	17,281
Total current liabilities	$287,779	$246,233

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Commitments and Contingencies

Environmental

As part of its environmental management program, the Company is involved in various environmental remediation activities. As sites are identified and assessed in this program, the Company determines potential environmental liability. Factors considered in assessing liability include, among others, the following: whether the Company had been designated as a potentially responsible party, the number of other potentially responsible parties designated at the site, the stage of the proceedings and available environmental technology. As of January 2, 1999, the Company had identified three sites requiring further investigation. However, the Company has not been designated as a potentially responsible party at any site.

Management has assessed the likelihood that a loss has been incurred at one of its sites as probable and, based on findings included in remediation reports and discussions with legal counsel, estimated the potential loss at January 2, 1999, to range from $3 million to $4.2 million. As of January 2, 1999, $4.2 million had been accrued and is included with "other accrued liabilities" on the consolidated balance sheets. While Jostens may have a right of contribution or reimbursement under insurance policies, amounts recoverable from other entities with respect to a particular site are not considered until recoveries are deemed probable. No assets for potential recoveries were established as of January 2, 1999.

Advances/Deposits

CIRCUS CIRCUS ENTERPRISES, INC. (JAN)

(in thousands)	1999	1998
Current liabilities:		
Current portion of long-term debt	$ 3,481	$ 3,071
Accounts and contracts payable		
Trade	23,745	22,103
Construction	75,030	40,670
Accrued liabilities		
Salaries, wages and vacations	40,006	36,107
Progressive jackpots	8,889	7,511
Advance room deposits	8,195	6,217
Interest payable	27,767	17,828
Other	44,460	33,451
Total current liabilities	$231,573	$166,958

HONEYWELL INC. (DEC)

(Dollars in millions)	1998	1997
Current liabilities:		
Short-term debt	$ 178.9	$ 146.4
Accounts payable	676.6	634.2
Customer advances	340.2	269.7
Accrued compensation and benefit costs	280.0	271.2
Accrued income taxes	334.4	344.2
Deferred income taxes	18.0	11.3
Other accrued liabilities	624.6	641.9
Total current liabilities	$2,452.7	$2,318.9

Deferred Taxes

ALLEN TELECOM INC. (DEC)

(Amounts in thousands)	1998	1997
Current assets:		
Cash and cash equivalents	$ 19,900	$ 30,775
Accounts receivable, less allowance for doubtful accounts—1998, $3,189; 1997, $1,934	83,739	105,714
Inventories	84,735	93,768
Current assets of discontinued emissions testing business	848	1,034
Deferred income taxes	7,989	7,244
Other current assets	5,752	3,501
Total current assets	202,963	242,036
Property, plant and equipment, net	61,582	60,543
Other assets:		
Excess of cost over net assets of businesses acquired	131,939	126,923
Assets of discontinued emissions testing business	24,950	32,329
Deferred income taxes	16,186	—
Other	27,965	52,602
Total assets	$465,585	$514,433
Current liabilities:		
Notes payable and current maturities of long-term obligations	$ 11,556	$ 6,119
Accounts payable	25,501	75,195
Accrued expenses (including accrued wages and commissions—1998, $14,108; 1997, $13,980)	29,998	35,261
Income taxes payable	837	13,197
Deferred income taxes	1,606	1,249
Total current liabilities	69,498	131,021
Long-term debt	128,677	97,915
Deferred income taxes	429	6,818
Other liabilities	16,900	17,857
Total liabilities	$215,504	$253,611

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

Deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end.

7 (In Part): Income Taxes

The components of deferred tax assets (liabilities) are comprised of the following as of December 31, 1998 and 1997 (amounts in thousands):

	1998	1997
Gross deferred tax assets:		
Inventory	$ 5,718	$ 4,854
Bad debt allowances	3,506	1,448
Pensions and deferred compensation	1,605	2,419
Tax credit carryforwards	2,546	1,575
Plant consolidation	4,405	1,095
Product warranty claims	543	1,735
Net operating loss carryforwards	11,512	3,116
Unremitted foreign earnings	4,747	—
Other	1,181	1,332
	35,763	17,574
Gross deferred tax liabilities:		
Intangible assets	(1,808)	(3,455)
Depreciation	(1,370)	(2,686)
Unrealized appreciation on investment securities	—	(4,027)
Deferred start-up costs	(1,850)	(2,309)
Other	(8,595)	(5,920)
	(13,623)	(18,397)
Net deferred tax assets (liabilities)	$22,140	$ (823)

Royalties

ENESCO GROUP, INC. (DEC)

(in thousands)	1998	1997
Current liabilities:		
Notes and loans payable	$ 7,900	$ 8,388
Accounts payable	25,373	43,576
Federal, state and foreign taxes on income	56,614	66,245
Accrued expenses—		
Payroll and commissions	5,385	5,396
Royalties	6,826	6,767
Postretirement benefits	5,280	5,008
Other	23,453	23,472
Total current liabilities	$130,831	$158,852

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Commitments and Contingencies

The Company has entered into various licensing agreements requiring royalty payments ranging from 1.5% to 18% of specified product sales. Royalty expenses which are charged to cost of sales under these licensing agreements totaled $31,700,000 in 1998, $32,600,000 in 1997 and $34,000,000 in 1996. Pursuant to the various licensing agreements, the future minimum guaranteed royalty payments are $17,000,000 in 1999, $16,000,000 in 2000 and $400,000 in 2001.

Litigation

CROWN CORK & SEAL COMPANY, INC. (DEC)

(in millions)	1998	1997
Current liabilities:		
Short-term debt	$2,331	$1,385
Current portion of long-term debt	135	399
Accounts payable and accrued liabilities—Note G	2,181	2,237
United States and foreign income taxes	63	28
Total current liabilities	4,710	4,049
Long-term debt, excluding current maturities	3,188	3,301
Other non-current liabilities—Note H	609	432
Postretirement and pension liabilities	707	712
Minority interests	280	283

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

G. Accounts Payable and Accrued Liabilities

	1998	1997
Trade accounts payable	$1,315	$1,343
Interest	63	66
Salaries, wages and other employee benefits	261	255
Environmental	3	4
Litigation	42	—
Restructuring	128	152
Deferred taxes	85	83
Other	284	334
	$2,181	$2,237

Miscellaneous current receivables include $37 for recoveries related to litigation.

H. Other Non-Current Liabilities

	1998	1997
Postemployment benefits	$ 45	$ 37
Environmental	15	35
Litigation	129	—
Deferred taxes	356	305
Other	64	55
	$609	$432

Other non-current assets include $21 and $19 at December 31, 1998 and 1997, respectively, for estimated recoveries related to environmental liabilities.

K. Commitments and Contingent Liabilities

The Company has various commitments to purchase materials and supplies as part of the ordinary conduct of business. Such commitments are not at prices in excess of current market. The Company's basic raw materials for its products are tinplate, aluminum and resins, all of which are purchased from multiple sources. The Company is subject to material fluctuations in the cost of these raw materials and has periodically adjusted its selling prices to reflect these movements. There can be no assurance, however, that the Company will be able to recover fully any increases or fluctuations in raw material costs from its customers.

The Company is one of a number of defendants in a substantial number of lawsuits filed by persons alleging bodily injury as a result of exposure to asbestos. This litigation arose from the insulation operations in the United States of a company in which the Company acquired a majority interest in 1963. That company sold this insulation business less than three months later.

Prior to 1998, the amounts paid to asbestos litigation claimants were covered by a fund of $80 made available to the Company under a 1985 settlement with carriers insuring the Company through 1976, when the Company became self-insured. From 1985 through 1997, the Company disposed of approximately 70,000 cases for amounts which aggregated approximately one-half of the original fund.

Until the fourth quarter of 1998 the Company considered that the fund was adequate and that the likelihood of exposure for this litigation in excess of the amount of the fund was remote. This view was based on the Company's analysis of its potential exposure, the balance available under the 1985 settlement, historical trends and actual settlement ranges.

A change in Texas law, which limits out-of-state plaintiff filings in that state, and which will therefore be favorable in the long-term, caused, along with other factors, an unexpected increase in claims activity. This, along with several larger group settlements, caused the Company to reevaluate its position.

As a consequence, the Company has provided a charge of $78 after taxes (or $.59 per share) to supplement the remaining fund and cover estimated liability claims pending or to be filed through 2003.

The liability recorded for asbestos claims constitutes management's best estimate of such costs for pending and future claims. Because of the uncertainties related to this kind of litigation, the Company believes it is not possible to estimate the number of personal injury claims that may be filed after 2003. The Company believes, however, that the number of claims against it will slow significantly in the future as time elapses since 1963. The Company cautions, however, that inherent in its estimate of liabilities are expected trends in claim severity, frequency and other factors which may vary as claims are filed and settled or otherwise disposed of. Accordingly, these matters, if resolved in a manner different from the estimate, could have a material effect on the operating results or cash flows in future periods. While it is not possible to predict with certainty the ultimate outcome of these lawsuits and contingencies, the Company believes, after consultation with counsel, that resolution of these matters is not expected to have a material adverse effect on the Company's financial position or liquidity.

The Company is also subject to various other lawsuits and claims with respect to matters such as governmental and environmental regulations and other actions arising out of the normal course of business. While the impact on future financial results is not subject to reasonable estimation because considerable uncertainty exists, management believes, after consulting with counsel, that the ultimate liabilities resulting from such lawsuits and claims will not materially affect the consolidated results, liquidity or financial position of the Company.

Contract Losses

DELUXE CORPORATION (DEC)

(Dollars in thousands)	1998	1997
Current liabilities:		
Accounts payable	$ 53,555	$ 73,516
Accrued liablities:		
Wages, including vacation pay	60,540	62,513
Employee profit sharing and pension	41,762	40,517
Accrued income taxes	33,087	31,960
Accrued rebates	34,712	36,708
Accrued contract/relationship losses	35,356	—
Other	185,022	129,263
Long-term debt due within one year	7,332	7,078
Total current liabilities	$451,366	$381,555

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Accrued Contract/Relationship Losses

During the third quarter of 1998, the Company recorded a charge of $36.4 million to reserve for expected future losses on existing long-term contracts and relationships of the Deluxe Government Services segment. This charge is reflected in cost of sales in the 1998 consolidated statement of income. This segment provides electronic benefits transfer services to state governments. Due to a continuing strong economy, record low unemployment and welfare reform, the actual transaction volumes and expected future revenues of this business are well below original expectations. Additionally, actual and expected future telecommunications, installation, help desk and other costs are significantly higher than originally anticipated, resulting in expected future losses on the existing electronic benefits transfer contracts and relationships of this business.

Additional Purchase Price Accrual

EKCO GROUP, INC. (DEC)

(Amounts in thousands)	1998	1997
Current liabilities:		
Current portion of debt	$ 1,750	$ —
Accounts payable	18,132	14,040
Accrued expenses	33,542	29,290
Income taxes	5,665	6,344
Total current liabilities	$59,089	$49,674

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisition of Aspen Pet Products, Inc.

In January 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, 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 $25.0 million in cash (including $450,000 of expenses incurred in connection with the acquisition) and refinanced APP's outstanding bank debt of approximately $9.1 million. In addition, if Aspen achieves certain predetermined financial results during fiscal 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) for each such year exceeds the Base Profit Amount (as defined). For Fiscal 1998 the additional consideration payment was approximately $1.0 million, which was included in goodwill at January 3, 1999. This amount which was accrued at January 3, 1999 will be paid in 1999. The Acquisition has been accounted for under the purchase method of accounting and goodwill of approximately $24.7 million is being amortized over 40 years. In connection with the Acquisition, goodwill was determined as follows:

(Amounts in thousands)	
Cash paid, net of cash acquired	$24,159
Additional purchase price accrued but not yet paid	1,047
Liabilities assumed	12,130
Fair value of tangible assets acquired, net of cash acquired	(12,643)
Goodwill	$24,693

6. Accrued Expenses

Accrued expenses consisted of the following:

(Amounts in thousands)	Jan. 3, 1999	Dec. 28, 1997
Payroll	$ 1,790	$ 2,464
Compensated absences	1,702	1,651
Sales and promotional allowances	11,014	9,470
Additional purchase price liability for Aspen	1,046	—
Interest and non-income taxes	4,096	4,168
Insurance	2,912	3,241
Professional fees	952	575
Provision for environmental matters	1,732	1,738
Other	8,298	5,983
	$33,542	$29,290

Estimated Costs to Perform Under a Government Directive

STEWART & STEVENSON SERVICES, INC. (JAN)

(Dollars in thousands)	1999	1998
Current liabilities:		
Notes payable	$ 17,468	$ 35,000
Accounts payable	83,127	92,728
Accrued payrolls and incentives	17,123	18,693
Income tax	2,931	88,862
Current portion of long-term debt	69,488	226,000
Other accrued liabilities	95,349	100,819
Total current liabilities	$285,486	$562,102

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

13 (In Part): Supplemental Financial Data

Other accrued liabilities consist of the following:

	Fiscal 1998	Fiscal 1997
Estimated cost to perform under a government directive	$40,000	$ —
Estimated obligation to perform under a debt guarantee	22,600	—
Estimated purchase price adjustment on sale of GTO	—	52,250
Estimated retained liabilities of GTO	—	28,026
Other	32,749	20,543
	$95,349	$100,819

Medical Costs

UNITEDHEALTH GROUP (DEC)

(in millions)	1998	1997
Current liabilities:		
Medical costs payable	$2,780	$1,565
Other policy liabilities	714	235
Accounts payable and accrued liabilities	739	495
Short-term debt	459	—
Accrued operational realignment and other charges	236	—
Unearned premiums	414	275
Total current liabilities	$5,342	$2,570

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Medical Costs and Medical Costs Payable

Medical costs include claims paid, claims adjudicated but not yet paid, estimates for claims received but not yet adjudicated, and estimates for claims incurred but not yet received.

The estimates of medical costs and medical costs payable are developed using actuarial methods based upon historical data for payment patterns, cost trends, product mix, seasonality, utilization of health care services and other relevant factors including product changes. The estimates are subject to change as actuarial methods change or as underlying facts, upon which estimates are based, change. We did not change our actuarial methods during 1998, 1997 or 1996. The impact of any changes in estimates is included in the determination of earnings in the period of change. Management believes that the amount of medical costs payable is adequate to cover the Company's liability for unpaid claims as of December 31, 1998.

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.

506 survey companies made 670 fair value disclosures. 112 disclosures stated that fair value approximated the carrying amount of the long-term debt; 239 disclosures stated that market or broker quotes were used to estimate fair value; 297 disclosures stated that discounted cash flows were used to estimate fair value; and 22 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 on pages 239-243.

TABLE 2-26: LONG-TERM DEBT

	Number of Companies			
	1998	1997	1996	1995
Unsecured				
Notes	430	428	422	430
Debentures	162	163	164	165
Commercial paper	83	86	86	76
Loans	78	78	78	89
ESOP loans	47	55	55	59
Collateralized				
Capitalized leases	298	299	287	291
Notes or loans	84	81	92	84
Mortgages	53	64	73	88
Convertible				
Debentures	30	30	45	54
Notes	34	26	27	20

ALBERTSON'S, INC. (JAN)

(Dollars in thousands)	1999	1998
Total current liabilities	$1,378,831	$1,275,519
Long-term debt	1,527,432	989,650
Capitalized lease obligations	157,102	140,957
Other long-term liabilities and deferred credits	360,149	393,008

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

Indebtedness

Long-term debt consisted of the following:

	1999	1998
Commercial paper	$ 326,425	$ 283,304
Bank line	173,834	—
Unsecured medium-term notes issued in 1998	317,000	—
Unsecured medium-term notes issued in 1997	200,000	200,000
Unsecured 7.75% debentures due June 2026	200,000	200,000
Unsecured 6.375% notes due June 2000	200,000	200,000
Unsecured medium-term notes issued in 1993	89,650	175,075
Industrial revenue bonds	13,515	14,230
Mortgage notes and other unsecured notes payable	13,999	3,552
	1,534,423	1,076,161
Current maturities	(6,991)	(86,511)
	$1,527,432	$ 989,650

The Company has in place a $600 million commercial paper program. Interest rates on the outstanding commercial paper borrowings as of January 28, 1999, ranged from 4.82% to 4.93% with an effective weighted average rate of 4.86%. Interest rates on amounts drawn against bank line borrowings outstanding as of January 28, 1999, ranged from 5.38% to 5.41% with an effective weighted average rate of 5.40%. The Company has established the necessary credit facilities, through its revolving credit agreement, to refinance the commercial paper and bank line borrowings on a long-term basis. These borrowings have been classified as non-current because it is the Company's intent to refinance these obligations on a long-term basis.

During 1998 the Company issued a total of $317 million in medium-term notes under a $500 million shelf registration statement filed with the Securities and Exchange Commission (SEC) in December 1997. Medium-term notes of $84 million issued in February 1998 mature at various dates between February 2013 and February 2028, with interest paid semiannually at rates ranging from 6.34% and 6.57%. Medium-term notes of $77 million issued in April 1998 mature in April 2028, with interest paid semiannually at rates ranging from 6.10% to 6.53%. Medium-term notes of $156 million issued in June 1998 mature in June 2028, with interest paid semiannually at a rate of 6.63%. The weighted average interest rate on these notes outstanding at January 28, 1999, was 6.49%.

In July 1997 the Company issued $200 million of medium-term notes under a shelf registration statement filed with the SEC in May 1996. The notes mature at various dates between July 2007 and July 2027. Interest is paid semiannually at rates ranging from 6.56% to 7.15%. The weighted average interest rate on these notes outstanding at January 28, 1999, was 6.81%.

In June 1996 the Company issued $200 million of 7.75% debentures under a shelf registration statement filed with the SEC in May 1996. Interest is paid semiannually.

In June 1995 the Company issued $200 million of 6.375% notes under a shelf registration statement filed with the SEC in 1992. Interest is paid semiannually.

The medium-term notes issued in 1993 mature in March 2000. Interest is paid semiannually at rates ranging from 6.03% to 6.28%. The weighted average interest rate on these notes outstanding at January 28, 1999, was 6.14%.

The industrial revenue bonds are payable in varying annual installments through 2011, with interest paid semiannually at rates ranging from 4.60% to 6.95%. The weighted average interest rate on these amounts outstanding at January 28, 1999, was 6.00%.

The Company has pledged real estate with a cost of $10.8 million as collateral for a mortgage note which is payable semiannually, including interest at a rate of 16.5%. The note is payable from 1999 to 2013.

The scheduled maturities of long-term debt outstanding at January 28, 1999, are summarized as follows: $7.0 million in 1999, $295.3 million in 2000, $501.7 million in 2001, $1.7 million in 2002, $1.9 million in 2003 and $726.8 million thereafter. Medium-term notes of $30 million due July 2027 contain a put option which would require the Company to repay the notes in July 2007 if the holder of the note so elects by giving the Company a 60-day notice. Medium-term notes of $50 million due April 2028 contain a put option which would require the Company to repay the notes in April 2008 if the holder of the note so elects by giving the Company a 60-day notice.

The Company has in place a revolving credit agreement with several banks, whereby the Company may borrow principal amounts up to $600 million at varying interest rates any time prior to December 17, 2001. The agreement contains certain covenants, the most restrictive of which requires the Company to maintain consolidated tangible net worth, as defined, of at least $750 million.

In addition to amounts available under the revolving credit agreement, the Company had lines of credit from banks at prevailing interest rates for $635 million at January 28, 1999 (of which $175 million was drawn). The cash balances maintained at these banks are not legally restricted. There were no amounts outstanding under the Company's lines of credit as of January 29, 1998, or January 30, 1997.

The Company filed a shelf registration statement with the SEC, which became effective in February 1999, to authorize the issuance of up to $2.5 billion in debt securities. The remaining authorization of $183 million under the 1997 shelf registration statement was rolled into the 1999 shelf registration statement. The Company intends to use the net proceeds of any securities sold pursuant to the 1999 shelf registration statement for general corporate purposes, including retirement of debt, working capital, acquisitions and other business opportunities.

Net interest expense was as follows:

	1998	1997	1996
Debt	$ 87,946	$66,418	$48,534
Capitalized leases	18,132	16,629	15,168
Capitalized interest	(9,142)	(8,683)	(6,378)
Interest expense	96,936	74,364	57,324
Net bank service charges	10,138	8,199	7,245
	$107,074	$82,563	$64,569

Financial Instruments

Financial instruments with off-balance-sheet risk to the Company include lease guarantees whereby the Company is contingently liable as a guarantor of certain leases that were assigned to third parties in connection with various store closures. Minimum rentals guaranteed under assigned leases are $6.1 million in fiscal 1999 and aggregate $44.9 million for the remaining lease terms, which expire at various dates through 2028. The Company believes the likelihood of a significant loss from these agreements is remote because of the wide dispersion among third parties and remedies available to the Company should the primary party fail to perform under the agreements.

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of cash equivalents and receivables. The Company limits the amount of credit exposure to each individual financial institution and places its temporary cash into investments of high credit quality. Concentrations of credit risk with respect to receivables are limited due to their dispersion across various companies and geographies.

The estimated fair values of cash and cash equivalents, accounts receivable, accounts payable, short-term debt and commercial paper borrowings approximate their carrying amounts. The estimated fair values and carrying amounts of long-term debt borrowings (excluding commercial paper) were as follows (in millions):

	1999	1998
Fair value	$1,284.9	$833.8
Carrying amount	1,208.0	792.9

Substantially all of these fair values were determined from quoted market prices. The Company has not determined the fair value of lease guarantees due to the inherent difficulty in evaluating the credit worthiness of each tenant.

DEAN FOODS COMPANY (MAY)

(in thousands)	1998	1997
Total current liabilities	$352,914	$293,895
Long-term obligations	558,233	208,931

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands unless otherwise noted)

4. Borrowing Arrangements

Long-term obligations, less installments due within one year, are summarized below:

	1998	1997
Senior note, 6.75%, maturing in 2005	$ 99,293	$ 99,192
Senior note, 6.9%, maturing in 2017	147,650	—
Revolving credit agreement, maturing in 2003 (average 6.0%)	210,000	—
Installment note, 9.64%, maturing in equal amounts of $6,500 through 2005	45,500	52,000
Installment note, 10.1%	—	24,500
Industrial revenue bonds, maturing in varying amounts through 2021:		
Fixed rate, 7.4%	1,900	2,238
Floating rate, 3.85% to 6.2% (average 4.13%)	39,355	33,575
Capitalized lease obligations, 6.1% to 9.75%, maturing in various installments through 2011	20,464	8,956
Other obligations, maturing in varying amounts through 2004, 6.0% to 10.0% (average 6.42%)	3,085	1,127
	567,247	221,588
Less: Installments due within one year	9,014	12,657
Total long-term obligations	$558,233	$208,931

In fiscal 1998, the Company entered into a $500 million Revolving Credit Agreement maturing in 2003. The borrowings under the Credit Agreement are unsecured and for which the Company presently pays a facility fee of 0.07%. Borrowings under the Credit Agreement bear interest, at the Company's option, at either fixed or variable rates linked to the Company's overall public debt credit rating. During fiscal 1998, the maximum borrowings under the Credit Agreement were $210.0 million; average borrowings were $14.9 million at a weighted average interest rate of 6.0%. At May 31, 1998, there were $210.0 million of direct borrowings outstanding under this facility.

The Company has $50 million in committed short-term lines of credit available for borrowing needs. Lending banks are compensated on a fee basis for the credit lines. During 1998, maximum borrowings under the Company's committed and uncommitted lines of credit were $150.0 million; average borrowings for the year were $29.3 million at a weighted average interest rate of 5.8%. At May 31, 1998, the Company had $12.0 million outstanding from uncommitted short-term lines of credit.

In October 1997, the Company issued $150 million of 6.9% Notes due 2017. The net proceeds were used to repay existing short-term indebtedness under the bank credit facilities and for acquisitions.

At May 31, 1998, the most restrictive provisions of the Company's borrowing arrangements, as included in the Installment Note, were as follows: tangible net worth of at least $175 million, working capital of at least $60 million, and a current ratio of at least 1.25 were required to be maintained; approximately $36 million of retained earnings was unrestricted for the payment of cash dividends and repurchase of common stock; and the Company's ratio of Funded Indebtedness to Consolidated Total Capitalization (the definition of which reduces Shareholders' Equity by consolidated intangible assets), the "Indebtedness Ratio," cannot exceed 65%. As a result of fiscal 1998 acquisition activity, the Company's Indebtedness Ratio was 65.4% for the period ended May 31, 1998. The Company received waivers from its Installment Note lenders addressing the deficiency. The Company was in compliance with all other debt covenants as of May 31, 1998. The Company has received the necessary waivers from its lenders to permit the sale of its Vegetables segment.

Maturities of long-term obligations during each of the years 2000 through 2003 are $9,079, $11,974, $10,226 and $219,124, respectively.

Certain land, buildings and machinery and equipment having a net carrying value of approximately $23 million were mortgaged or otherwise encumbered against long-term debt of $21 million at May 31, 1998.

The fair value of the Company's long-term debt was determined using valuation techniques that considered cash flows discounted at current market rates and management's best estimate for instruments without quoted market prices. At May 31, 1998 and May 25, 1997 the fair value of long-term debt is estimated to be $579.0 million and $227.4 million, respectively.

HAMPTON INDUSTRIES, INC. (DEC)

	1998	1997
Total current liabilities	$30,768,058	$15,114,109
Deferred income tax liabilities	1,401,916	996,793
Long-term debt (Note F)	302,420	4,110,015
Retirement plan obligations	3,988,847	3,913,480
	$36,461,241	$24,134,397

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Fair Value of Financial Instruments

For financial instruments including cash, accounts receivable and payable, accruals, notes payable—banks and current maturities of long-term debt, it was assumed that the carrying amount approximated fair value because of their short maturity.

The carrying amount of the non-current portion of mortgage notes due through the year 2000, all of which bear interest at floating rates, are also assumed to approximate their fair values.

F. Long-Term Debt

	1998	1997
Revolving credit facility (i)	$14,707,881	$ 5,108,241
Capitalized lease obligations (ii)	1,250,016	1,583,347
Mortgage note, due quarterly to 2000 (ii)	2,860,000	3,120,000
Other	407,623	—
	19,225,520	9,811,588
Less amount due in one year	18,923,100	5,701,573
	$ 302,420	$ 4,110,015
Annual maturities of debt are as follows:		
1999		$18,923,100
2000		73,320
Thereafter		229,100
		$19,225,520

(i) On May 3, 1996, the Company entered into a credit facility with BNY Financial Corporation, as Agent ("Existing Facility"). The Existing Facility provides for a maximum line of credit of $100,000,000, which includes both direct loans and letters of credit. The initial proceeds of the Existing Facility were used to repay the outstanding indebtedness under the Company's previously existing bank line of credit.

Availability under the Existing Facility is based on a formula of eligible accounts receivable and eligible inventory and provides for a seasonal overadvance of up to $13,500,000 within the $100,000,000 maximum line of credit. Direct borrowings bear interest at the London Interbank Offered Rate, plus the applicable margin (as defined in the Existing Facility) or the Prime Rate, at the option of the Company. Borrowings are collateralized by accounts receivable, inventory and general intangibles of the Company and its subsidiaries and the Existing Facility expires in May 1999. Amounts outstanding at December 26, 1998 have been classified as short term since the facility expires on May 3, 1999.

The Existing Facility contains financial covenants, including but not limited to, tangible net worth and interest coverage, restricts fixed asset purchases and does not allow for the payment of cash dividends. The Company is not required to maintain compensating balances, however, it is required to pay a fee of ¼% of 1% per annum on the unused portion of the total facility and certain other administrative costs.

On January 29, 1999, the Company entered into an agreement with the Chase Manhattan Bank, as agent for a new credit facility ("New Facility"). It is anticipated that this New Facility will close on May 3, 1999 at the time the Existing Facility expires. The term of the New Facility is for a period of three years and provides for a line of credit of $80,000,000. However, at the Company's option, the line may be increased to $100,000,000 during the period of May 1 through October 31 of each year. Direct borrowings will bear interest at the London Interbank Offered Rate, plus the applicable margin (as defined) or the Prime Rate, at the option of the Company. Borrowings will be collateralized by accounts receivable, inventory and general intangibles of the Company. The New Facility will contain financial covenants, including but not limited to a restriction on the payment of dividends, minimum levels of earnings, maintenance of certain ratios and a monthly measure of credit usage as compared to a formula based on collateral. Seasonal overadvances of up to $10,000,000 will be allowed.

At December 26, 1998 the Company did not meet the Minimum tangible net worth, Fixed charge coverage ratio and the minimum E.B.I.T.D.A. covenants of its Existing Facility. A waiver for these violations was received on March 11, 1999. Management is confident that the new credit facility will close on or before May 3, 1999, when the existing credit facility expires. Management believes that the line of credit that will become available under the New Facility, together with the cash expected to be generated from operations, will be adequate to meet the Company's financing needs for the foreseeable future.

(ii) The mortgage notes and capitalized lease obligations are collateralized by building and property having a carrying value at December 26, 1998 of approximately $5,190,078. The effective interest rate on the aggregate amount of capitalized leases at December 26, 1998 was 6%. The effective interest rate on the mortgage note due in 2000 at December 26, 1998 was 7.41%.

At December 26, 1998, letters of credit amounting to approximately $18,644,539 were outstanding which relate to purchase commitments issued to foreign suppliers of approximately $29,364,169.

THE LUBRIZOL CORPORATION (DEC)

(In thousands of dollars)	1998	1997
Total current liabilities	$270,028	$261,930
Long-term debt	390,394	182,165
Postretirement health care obligation	106,641	105,962
Noncurrent liabilities	48,950	42,878
Deferred income taxes	58,106	53,909
Total liabilities	$874,119	$646,844

NOTES TO FINANCIAL STATEMENTS
(In thousands of dollars unless otherwise indicated)

4 (In Part): Short-Term and Long-Term Debt

	1998	1997
Long-term debt consists of:		
5.875% notes, due 2008	$200,000	$ —
7.25% debentures, due 2025	100,000	100,000
Debt supported by long-term banking arrangements:		
Commercial paper at weighted average rates of 5.6% and 6.4%	50,000	35,000
6.5% Marine terminal refunding revenue bonds, due 2000	18,375	18,375
Term loans:		
Dollar denominated, at 5.0% to 9.0%, due 2000-2003	4,204	5,544
Yen denominated, at 2.0% to 3.8%, due 1999-2003	18,656	19,450
Deutsche mark denominated, at 4.1% to 6.0%, due 1999-2004	19,648	14,460
French franc denominated, at 3.5% to 5.0%, due 1999-2008	645	366
	411,528	193,195
Less current portion	(21,134)	(11,030)
	$390,394	$182,165
Short-term debt consists of:		
Commercial paper at weighted average rates of 5.6% and 6.4%	$ 5,300	$ 18,900
Other short-term debt at weighted average rates of 2.8% and 1.4%	12,492	8,165
Current portion of long-term debt	21,134	11,030
	$ 38,926	$ 38,095

In November 1998, the Company issued notes having an aggregate principal amount of $200 million. The notes are unsecured, senior obligations of the Company that mature on December 1, 2008, and bear interest at 5.875% per annum, payable semi-annually on June 1 and December 1 of each year, commencing June 1, 1999. The notes have no sinking fund requirement but are redeemable, in whole or in part, at the option of the Company. The Company incurred debt issuance costs aggregating $10.5 million, including a loss of $6.5 million related to closed Treasury rate lock agreements originally entered into as a hedge against changes in interest rates relative to the anticipated issuance of these notes. Debt issuance costs are deferred and then amortized as a component of interest expense over the term of the notes. Including debt issuance costs, these notes have an effective annualized interest rate of 6.6% to the Company.

The Company issued debentures in June 1995 having an aggregate principal amount of $100 million. These debentures are unsecured, senior obligations of the Company that mature on June 15, 2025, and bear interest at an annualized rate of 7.25% payable semi-annually on June 15 and December 15 of each year. The debentures are not redeemable prior to maturity and are not subject to any sinking fund requirements.

Effective July 1, 1998, the Company increased its committed revolving credit facilities from $75 million to $300 million. One-half of the aggregate amount of these facilities expires on June 30, 1999, and the remainder expires on June 30, 2003, subject in each case to annual extension provisions. These facilities, which were unused at December 31, 1998, permit the Company to borrow at or below the U.S. prime rate. These facilities also permit the Company to refinance beyond one year $150 million of debt, which by its terms is due within one year. As permitted by these and previously existing credit facilities, the Company classified as long-term at each balance sheet date the portion of commercial paper borrowings expected to remain outstanding throughout the following year and the amount due under the Marine Terminal Refunding Revenue Bonds, whose bondholders have the right to put the bonds back to the company.

Amounts due on long-term debt are $21.1 million in 1999, $25.3 million in 2000, $1.7 million in 2001, $.7 million in 2002, $62.0 million in 2003 and $300.7 million thereafter.

The Company has an interest rate swap agreement that effectively coverts variable rate interest payable on $18.4 million of Marine Terminal Refunding Revenue Bonds due July 1, 2000, to a fixed rate of 6.5%. The Company also has interest rate swap agreements, which expire in March 2005, that exchange variable rate interest obligations on a notional principal amount of $50 million for a fixed payment obligation of 7.6% (see Note 14).

14 (In Part): Financial Instruments

The Company has various financial instruments, including cash and short-term investments, investments in nonconsolidated companies, foreign currency forward contracts, interest rate swaps and short- and long-term debt. The Company has determined the estimated fair value of these financial instruments by using available market information and generally accepted valuation methodologies. The use of different market assumptions or estimation methodologies could have a material effect on the estimated fair value amounts. The estimated fair value of the Company's debt instruments at December 31, 1998, approximates $437.1 million compared with the carrying value of $429.3 million. The Company believes the carrying values of its other financial instruments approximate their fair values, except for certain interest rate swap agreements discussed below. The Company uses derivative financial instruments only to manage well-defined foreign currency and interest rate risks. The Company does not use derivative financial instruments for trading purposes.

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The Company is exposed to market risk from changes in interest rates. The Company's policy is to manage interest rate cost using a mix of fixed and variable rate debt. To manage this mix in a cost-efficient manner, the Company may enter into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed upon notional principal amount. The Company has entered into interest rate swap agreements to convert variable rate debt to fixed rates (see Note 4). Interest payments receivable and payable under the terms of the interest rate swap agreements are accrued over the period to which the payment relates and the net difference is treated as an adjustment of interest expense related to the underlying liability. Changes in the underlying market value of the remaining swap payments are recognized in income when the underlying liability being hedged is extinguished or partially extinguished to a level less than the notional amount of the interest rate swaps. Consequently, market value losses of $1.0 million and $1.1 million were accrued in 1997 and 1996, respectively, and no amount was accrued in 1998. The company would have paid approximately $7.7 million, including accrued interest of $.9 million, if it had terminated these interest rate swap agreements at December 31, 1998.

MET-PRO CORPORATION (JAN)

	1999	1998
Total current liabilities	$14,387,868	$11,267,545
Long-term debt	11,941,954	2,242,047
Other non-current liabilities	328,838	249,037
Deferred income taxes	304,874	384,782
Total liabilities	$26,963,534	$14,143,411

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Fair Value of Financial Instruments

Debt

The fair value and carrying amount of long-term debt was as follows:

	January 31, 1999	1998
Fair value	$13,891,334	$3,714,500
Carrying amount	14,067,047	3,684,011

Valuations for long-term debt are determined based on borrowing rates currently available to the Company for loans with similar terms and maturities.

7 (In Part): Debt

Long-term Debt

Long-term debt consisted of the following:

	January 31, 1999	1998
Note payable, bank, payable in quarterly installments of $300,000, plus interest at a fixed rate swap of 5.98%, maturing October, 2008	$11,700,000	$ —
Notes payable, bank, payable in quarterly installments of $87,500, plus interest at a fixed rate of 7.51%, maturing September, 2001	962,500	1,512,500
Notes payable, bank, payable in quarterly installments of $87,500, plus interest at a variable rate ranging from 6.25% to 6.59%, maturing September, 2001	962,500	1,512,500
Notes payable, acquisition escrow accounts, balloon payments in the amounts of $50,000 and $75,000 due on April 8, 1999 and June 11, 1999, plus interest at a fixed rate of 5.90%	125,000	250,000
Mortgage note payable, collateralized by property, payable in $10,267 monthly installments (including principal and interest), at a fixed interest rate of 8.50%, maturing January, 2002	317,047	409,011
	14,067,047	3,684,011
Less current portion	2,125,093	1,441,964
	$11,941,954	$2,242,047

The above notes are subject to certain covenants, including maintenance of prescribed amounts of leverage and fixed charge coverage ratios.

Maturities of long-term debt were as follows:

Year Ending January 31,	
2000	$ 2,125,093
2001	2,008,940
2002	1,833,014
2003	1,200,000
2004	1,200,000
Thereafter	5,700,000
	$14,067,047

Interest expense was $398,051, $325,718 and $300,170 for the years ended in 1999, 1998 and 1997, respectively.

MONSANTO COMPANY (DEC)

(Dollars in millions)	1998	1997
Total current liabilities	$4,052	$3,539
Long-term debt	6,259	1,979
Postretirement liabilities	848	735
Other liabilities	579	417

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular dollars in millions)

Long-Term Debt

Long-term debt (exclusive of current maturities) was:

	1998	1997
Industrial revenue bond obligations, 5.5% average rate at Dec. 31, 1998, due 1999 to 2028	$ 337	$ 338
Medium-term notes, 7.5% average rate at Dec. 31, 1998, due 2000 to 2005	165	90
Commercial paper	1,000	625
6% notes due 2000	150	150
7.09% and 8.13% amortizing ESOP[1] notes and debentures due 2000 and 2006, guaranteed by the company	91	101
$5^3/_8$% notes due 2001	498	—
Adjustable conversion-rate equity security units due 2003	700	—
Variable-rate notes due 2003	575	—
5.75% notes due 2005	596	—
$5^7/_8$% notes due 2008	199	—
$8^7/_8$% debentures due 2009	99	99
5.6% yen note due 2016	86	77
6.5% debentures due 2018	496	—
8.7% debentures due 2021	100	100
8.2% debentures due 2025	150	150
6.75% debentures due 2027	198	198
6.6% debentures due 2028	694	—
Other	125	51
Total	$6,259	$1,979

[1] ESOP stands for employee stock ownership plan.

Maturities and sinking-fund requirements on long-term debt, excluding commercial paper, are $66 million in 1999, $208 million in 2000, $561 million in 2001, $92 million in 2002, and $1.3 billion in 2003. The weighted average maturity of long-term debt as of Dec. 31, 1998, was approximately 11 years.

Commercial paper balances of $1.0 billion and $625 million as of Dec. 31, 1998 and 1997, respectively, were classified as long-term debt. Monsanto has the ability and intent to renew these obligations beyond 1999.

In November 1998, the Company issued 17,500,000 units of 6.5 percent Adjustable Conversion-rate Equity Security (ACES) units at a stated value of $40 per unit, for an aggregate initial offering price of $700 million. Each unit consists of a purchase contract for the Company's common stock and a junior subordinated deferrable debenture. Under the purchase contracts, in November 2001, the unit holders will purchase for $40 not more than one share and not less than 0.8197 of one share of the Company's common stock per unit, depending on the average trading price of the common stock during a specified period in November 2001. In addition, the Company pays quarterly deferrable contract fees to the unit holders at 0.55 percent of the stated amount. The junior subordinated deferrable debentures have a principal amount equal to the stated amount of the units and an interest rate of 5.95 percent. They mature in 2003.

Interest-rate swap agreements are used to reduce interest rate risks and to manage interest expense. By entering into these agreements, the Company changes the fixed/variable interest-rate mix of its debt portfolio. As of Dec. 31, 1998, Monsanto was party to interest-rate swap agreements with an aggregate notional principal amount of $145 million related to existing debt. The agreements effectively convert floating-rate debt into fixed-rate debt. This reduces the Company's risk of incurring higher interest costs in periods of rising interest rates. Monsanto is subject to loss if the counterparties to these agreements do not perform. *Interest differentials to be paid or received because of swap agreements are reflected as an adjustment to interest expense over the related debt period.*

Fair Values of Financial Instruments

The estimated fair values of Monsanto's financial instruments were:

	1998		1997	
	Recorded Amount	Fair Value	Recorded Amount	Fair Value
Long-term debt	$6,259	$6,579	$1,979	$2,053

The recorded amounts of cash, trade receivables, investments in securities, discounted receivables, third-party guarantees, commodity futures contracts, currency forward contracts and swaps, accounts payable, interest-rate swaps, and short-term debt approximate their fair values.

Fair values are estimated by the use of quoted market prices, estimates obtained from brokers, and other appropriate valuation techniques based on information available as of year-end. The fair-value estimates do not necessarily reflect the values Monsanto could realize in the current market.

SCI SYSTEMS, INC. (JUN)

(In thousands of dollars)	1998	1997
Total current liabilities	$726,535	$793,832
Deferred income taxes	10,659	9,901
Noncurrent pension liability	3,000	5,133
Deferred compensation	16,075	12,015
Long-term debt—Note B		
Industrial revenue bonds	21,215	21,310
Long-term notes	136,414	150,801
Convertible subordinated notes	282,873	282,197
Total long-term debt	$440,502	$454,308

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B. Long-Term Debt

Industrial Revenue Bonds

The Company is obligated by lease or guarantee for $21,676,000 at June 30, 1998, ($21,707,000 at June 30, 1997, and $21,738,000 at June 30, 1996) of industrial revenue bonds maturing through the year 2015. The majority of such borrowings currently bear variable interest ranging between 3.61% and 6.96%, and are secured by related properties or irrevocable letters of credit.

Long-term Notes

The Company is obligated under mortgages and notes maturing through the year 2006 amounting to $38,574,000 at June 30, 1998, ($56,535,000 at June 30, 1997, and $41,791,000 at June 30, 1996). Substantially all of the notes bear variable interest rates ranging between 2.97% and 6.41% at June 30, 1998. $22,625,000 of the June 30, 1998's balance is collateralized by the related properties.

In July 1996 the Company borrowed $100,000,000 under a Senior Note agreement with a group of institutional lenders. The Notes bear interest at 7.59%, and are payable in six annual installments of $16,667,000 beginning in July 2001. The interest rate may be adjusted upwards by .75% if the Company fails to meet certain financial ratios.

The Company has a credit facility with a group of domestic and international banks, consisting of a $260 million revolving credit line and a $150 million commercial paper agreement. The initial renewal date for this facility is December 8, 2002. Borrowings under the revolving credit line, at the Company's option, bear interest at a rate based upon either a defined Base Rate or the London Interbank Offered Rate (LIBOR) plus or minus applicable margins. The agreement allows the Company to enhance the marketability of its commercial paper with an irrevocable letter of credit in order to borrow at rates generally below revolving credit rates. Conversion privileges are provided in the event of nonsalability of commercial paper. At June 30, 1998, 1997 and 1996, no amounts were outstanding under the facility. Under the credit agreement, the Company must maintain certain financial ratios and meet certain balance sheet tests. Under the most restrictive provision of the credit agreement, $117,929,000 of June 30, 1998's retained earnings are available for the payment of cash dividends. A commitment fee of 0.25% is paid on the unused revolving credit amount. No compensating balances are required under the facility.

Short-term borrowings may be drawn under the credit agreement. Because of the Company's ability and intent to refinance such borrowings, total borrowings under the agreement and other short-term borrowings expected to be refinanced, including commercial paper, may be classified as long-term.

The Company has an asset securitization agreement under which up to $200,000,000 of certain accounts receivable can be sold with limited recourse. As funds are collected, additional eligible receivables may be sold to bring the outstanding balance to the desired level. At June 30, 1998, no receivables were sold under the agreement compared with $35,998,000 at June 30, 1997, and $190,000,000 at June 30, 1996. A commitment fee of 0.25% was paid in 1998 on the unused portion.

Unused credit facilities and commitments at June 30, 1998, approximated $660 million.

Convertible Subordinated Notes

In May 1996 the Company issued $287,500,000 of 5% Convertible Subordinated Notes due May 1, 2006. The Notes are convertible into Common Stock at $24.38 per share and are redeemable beginning in May 1999.

Deferred charges netted against total year end long-term debt were $5,866,000 in 1998, $7,040,000 in 1997, and $7,291,000 in 1996.

Debt, Lease, and Rental Payments

Long-term debt maturities for the next five fiscal years are: $2,213,000 in 1999; $4,693,000 in 2000; $3,709,000 in 2001; $19,126,000 in 2002; and $19,126,000 in 2003. While the Company leases certain real property in its operations, annual rental expense and future commitments are not material to its operations.

D. Fair Value of Financial Instruments

June 30, 1998's estimated fair values of the financial instruments represented by cash and cash equivalents approximated their recorded values. Convertible Subordinated Notes had a year end trading price of 161.70 in 1998, 145.25 in 1997, and 105 in 1996 on the Private Offerings, Resale and Trading through Automated Linkages ("PORTAL") Market. All other debt instruments' fair value is estimated to approximate their recorded value, as their applicable interest rates approximate current market rates.

SPECTRUM CONTROL, INC. (NOV)

(Dollar amounts in thousands)	1998	1997
Total current liabilities	$5,760	$5,956
Long-term debt (Note 7)	2,500	3,330
Deferred income taxes	2,105	1,225

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, accounts payable, and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities. The interest rates on substantially all of the Company's bank borrowings are adjusted regularly to reflect current market rates. Accordingly, the carrying amounts of the Company's short-term and long-term borrowings also approximate fair value. The Company utilizes letters of credit to collateralize certain long-term borrowings. The letters of credit reflect fair value as a condition of their underlying purpose and are subject to fees competitively determined in the marketplace.

7. Long-Term Debt

Long-term debt consists of the following:

(Dollars in thousands)	November 30, 1998	1997
Industrial development authority notes at variable interest rate (3.40% at November 30, 1998 and 4.00% at November 30, 1997) (1)	$2,100	$2,300
Industrial development authority notes at variable interest rate (3.81% at November 30, 1998 and 4.23% at November 30, 1997) (2)	1,100	1,500
Industrial development authority notes and related bank mortgage notes at interest rates ranging from 4.00% to 7.75%, collateralized by certain land and buildings, and requiring monthly principal and interest payments of $13,000 through the year 1999	130	273
Total	3,330	4,073
Less current portion	830	743
Long-term debt	$2,500	$3,330

(1) The industrial development authority notes are collateralized by certain land, building and equipment and an irrevocable letter of credit issued by the Company, through its principal lending institution. The notes bear interest at approximately 50% of the prevailing prime rate and require annual principal payments ranging from $200,000 to $300,000 through the year 2007.

(2) The industrial development authority notes are collateralized by an irrevocable letter of credit issued by the Company, through its principal lending institution. The notes bear interest at approximately 50% of the prevailing prime rate and require annual principal payments of $400,000 through the year 2000 with a final principal payment of $300,000 due in the year 2001.

Each of the above irrevocable letters of credit is collateralized by substantially all of the Company's tangible and intangible assets. The aggregate maturities of all long-term debt during each of the five years ending November 30, 2003, are $830,000, $600,000, $500,000, $300,000, and $200,000, respectively.

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

	1998	1997	1996	1995
Disclosing credit agreements	444	552	546	547
Not disclosing credit agreements	56	48	54	53
Total Companies	**600**	**600**	**600**	**600**

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

9 (In Part): Financing Arrangements and Derivative Financial Instruments

Long Term Debt and Financing Arrangements

The Company is a party to two revolving credit facility agreements, each with 23 domestic and international banks, consisting of a $700 million five year revolving credit facility and a $300 million 364-day revolving credit facility. The $700 million facility provides that the Company may borrow at any time until July 13, 2003, when the commitment terminates and any outstanding loans mature. The Company pays a commitment fee ranging from 7.5 to 15 basis points on the entire amount of the commitment (whether or not borrowed) and a usage fee on amounts borrowed (other than on a competitive bid or prime rate basis) ranging from 15 to 30 basis points. These fees may fluctuate within these ranges quarterly based upon the Company's performance as measured by defined ranges of leverage. During 1998 commitment and usage fees were 10 and 20 basis points, respectively. The $300 million 364-day credit facility agreement provides that the Company may borrow until July 12, 1999, on which date the facility commitment terminates, except as it may be extended on a bank by bank basis. If a bank does not extend its commitment if requested to do so, the Company may obtain from such bank a two year term loan up to the amount of such bank's commitment. The Company pays a commitment fee of 8 basis points on the entire amount of the commitment (whether or not borrowed) and a usage fee of 22 basis points on amounts borrowed (other than on a competitive bid or prime rate basis). Under both the five year and the 364-day facilities, the Company may obtain loans bearing interest at reserve adjusted LIBOR or a defined certificate of deposit rate, plus in each case the applicable usage fee. In addition, the Company may obtain loans based on the prime rate or at a rate determined on a competitive bid basis. The facility agreements each contain certain covenants which, among other things, require the Company to maintain at the end of each fiscal quarter a minimum consolidated net worth and a defined minimum interest coverage ratio. In addition, the facility agreements establish a limit on the aggregate amount of consolidated debt the Company and its subsidiaries may incur. There were no borrowings outstanding under these agreements at December 31, 1998.

INTERNATIONAL PAPER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Debt and Lines of Credit

At December 31, 1998, the Company had unused bank lines of credit of approximately $4.1 billion. The lines generally provide for interest at market rates plus a margin based on the Company's current bond rating. The principal line, which is cancelable only if the Company's bond rating drops below investment grade, provides for $750 million of credit through January 2000, and has a facility fee of .10% that is payable quarterly. A non-U.S. subsidiary of the Company also has two principal lines of credit that support its commercial paper programs. A $600 million line of credit matures in April 2002 and has a .15% facility fee that is payable quarterly, and a 250 million New Zealand dollar line of credit matures in February 2002 and has a .13% facility fee that is payable quarterly.

SCHLUMBERGER LIMITED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Lines of Credit

At December 31, 1998, the Company's principal US subsidiary has an available unused Revolving Credit Agreement with a syndicate of banks. The Agreement provides that the subsidiary may borrow up to $1 billion until August 2003 at money market-based rates. Additionally, the Company's principal US subsidiary has available an unused five-year syndicated capital lease facility whereby it can finance up to $550 million for the construction and subsequent capital lease of two drilling rigs at money market-based rates. At December 31, 1998, the Company and its subsidiaries also had available unused lines of credit of approximately $630 million.

UNIFI, INC. (JUN)

(Amounts in thousands)	1998	1997
Total current liabilities	$159,313	$163,553
Long-term debt and other liabilities	463,967	255,799
Deferred income taxes	62,970	50,820
Minority interests	16,357	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Long-Term Debt and Other Liabilities

A summary of long-term debt follows:

(Amounts in thousands)	June 28, 1998	June 29, 1997
Bonds payable	$248,038	$ —
Revolving credit facility	180,000	230,000
Sale-leaseback obligation	3,444	26,988
Other bank debt and other obligations	48,719	—
Total debt	480,201	256,988
Current maturities	16,234	1,189
Total long-term debt and other liabilities	$463,967	$255,799

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The Company entered a $400 million revolving credit facility dated April 15, 1996, with a group of financial institutions that extends through April 15, 2001. The rate of interest charged is adjusted quarterly based on a pricing grid which is a function of the ratio of the Company's debt to earnings before income taxes, depreciation, amortization and other non-cash charges. The credit facility provides the Company the option of borrowing at a spread over the base rate (as defined) for base rate loans or the Adjusted London Interbank Offered Rate (LIBOR) for Eurodollar loans. In accordance with the pricing grid, the Company pays a quarterly facility fee ranging from 0.090%—0.150% of the total amount available under the revolving credit facility. The weighted average interest rates for fiscal years 1998 and 1997, were 5.89% and 5.75%, respectively. At June 28, 1998, and June 29, 1997, the interest rates on the outstanding balances were 5.92% and 5.87%, respectively. As a result of the variable nature of the credit facility's interest rate, the fair value of the Company's revolving credit debt approximates its carrying value.

The revolving credit facility also provides the Company the option to borrow funds competitively from the individual lenders, at their discretion, provided that the sum of the competitive bid loans and the aggregate funds committed under the revolving credit facility do not exceed the total committed amount. The revolving credit facility allows the Company to reduce the outstanding commitment in whole or in part upon satisfactory notice up to an amount no less than the sum of the aggregate competitive bid loans and the total committed loans. Any such partial termination is permanent. The Company may also elect to prepay loans in whole or in part. Amounts paid in accordance with this provision may be re-borrowed.

The terms of the revolving credit facility contain, among other provisions, requirements for maintaining certain net worth and other financial ratios and specific limits or restrictions on additional indebtedness, liens and merger activity. Provisions under this agreement are not considered restrictive to normal operations.

UST INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revolving Credit Agreements

The Company has two revolving credit agreements totaling $350 million with various banks. The terms of the agreements provide for a five-year revolving credit facility in the amount of $262.5 million, which expires in November 2001, and a 364-day revolving credit facility, renewed in November 1998 in the amount of $87.5 million, which expires in November 1999. The Company may borrow funds and elect to pay interest under the "Base Rate," "Competitive Bid" or "Eurodollar" interest rate provisions of the agreements. Principal repayments are optional during the revolving credit periods. The agreements require facility fees which are not significant, as well as maintenance of certain financial ratios.

At December 31, 1998, the Company had $100 million outstanding under commercial paper borrowings, all of which was classified as long-term debt. The Company's revolving credit agreements support these borrowings which are intended to be refinanced on a long-term basis, either through continued commercial paper borrowings or its revolving credit facilities. Commercial paper borrowings at December 31, 1998 had a weighted-average interest rate of 5.9 percent. At December 31, 1997 the Company had $110 million outstanding under commercial paper borrowings, of which $100 million was classified as long-term debt. Commercial paper borrowings at December 31, 1997 had a weighted-average interest rate of 5.8 percent.

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. 40 survey companies reported lessor leases.

Examples of long-term lease presentations and disclosures follows.

TABLE 2-28: LONG-TERM LEASES

	Number of Companies			
	1998	1997	1996	1995
Information Disclosed as to Noncapitalized Leases				
Rental expenses				
Basic	486	519	508	499
Contingent	52	50	53	56
Sublease	63	67	73	79
Minimum rental payments				
Schedule of	501	505	505	505
Classified by major categories of property	6	15	15	23
Information Disclosed as to Capitalized Leases				
Minimum lease payments	107	112	118	123
Imputed interest	94	99	106	104
Leased assets by major classifications	29	43	29	37
Executory costs	7	15	20	20
Number of Companies				
Capitalized and noncapitalized leases	207	249	269	264
Noncapitalized leases only	324	283	255	255
Capitalized leases only	10	15	18	27
No leases disclosed	59	53	58	54
Total Companies	**600**	**600**	**600**	**600**

Lessee—Capital Leases

ARMSTRONG WORLD INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leases

The company rents certain real estate and equipment. Several leases include options for renewal or purchase and contain clauses for payment of real estate taxes and insurance. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases. Rental expense was $26.1 million in 1998, $15.5 million in 1997, and $13.1 million in 1996.

Triangle Pacific leases a plant and related equipment in Beverly, West Virginia. The lease agreement contains a purchase option of $1 until 2018. As a result, the present value of the remaining future minimum lease payments is recorded as a capitalized lease asset and related capitalized lease obligation. Assets under this capital lease as included in the Consolidated Balance Sheets are as follows:

(millions)	1998	1997
Land	$ 3.8	$—
Building	4.5	—
Machinery and equipment	21.5	—
Total assets	$29.8	$—
Less accumulated amortization	4.8	—
Net assets	$25.0	$—

Future minimum payments at December 31, 1998, by year and in the aggregate, under the Triangle Pacific lease and other operating leases having noncancelable lease terms in excess of one year were as follows:

Scheduled minimum lease payments (millions)	Capital leases	Operating leases
1999	$ 2.0	$ 9.7
2000	4.2	8.0
2001	0.8	4.6
2002	0.8	3.1
2003	2.2	2.2
Thereafter	3.3	13.8
Total	$13.3	$41.4

H.B. FULLER COMPANY (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

10. Lease Commitments

Assets under capital leases are summarized as follows:

	1998	1997
Land	$2,194	$2,824
Buildings and improvements	4,776	5,365
	6,970	8,189
Accumulated depreciation	(3,817)	(2,512)
Net assets under capital leases	$3,153	$5,677

The following are the minimum lease payments that will have to be made in each of the years indicated based on capital and operating leases in effect as of November 28, 1998:

	Capital	Operating
Fiscal year:		
1999	$ 833	$ 8,157
2000	489	5,412
2001	431	4,216
2002	187	2,203
2003	—	2,111
Later years	—	3,158
Total minimum lease payments	1,940	$25,257
Amount representing interest	(195)	
Present value of minimum lease payments	$1,745	

Rental expense for all operating leases charged against earnings amounted to $14,818, $14,166, and $13,385 in 1998, 1997 and 1996, respectively.

HON INDUSTRIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leases

The Company leases certain warehouse and plant facilities and equipment. Commitments for minimum rentals under noncancellable leases at the end of 1998 are as follows:

(in thousands)	Capitalized Leases	Operating Leases
1999	$ 4,210	$ 9,915
2000	3,757	8,048
2001	2,398	6,569
2002	1,078	5,269
2003	211	3,896
Thereafter	1,646	4,036
Total minimum lease payments	13,300	$37,733
Less amount representing interest	2,611	
Present value of net minimum lease payments, including current maturities of $3,195,000	$10,689	

Property, plant, and equipment at year-end include the following amounts for capitalized leases:

(in thousands)	1998	1997	1996
Buildings	$ 3,299	$ 3,299	$ 3,299
Machinery and equipment	15,805	15,805	8,419
	$19,104	$19,104	$11,718
Less alllowances for depreciation	8,978	6,139	4,854
	$10,126	$12,965	$ 6,864

Rent expense for the years 1998, 1997, and 1996 amounted to approximately $10,150,000, $7,555,000, and $6,788,000, respectively. The Company has operating leases for office and production facilities with annual rentals totaling $578,000 with the former owners of a business acquired in 1996. These individuals continue as officers of a subsidiary of the Company following the merger. Contingent rent expense under both capitalized and operating leases (generally based on mileage of transportation equipment) amounted to $596,000, $581,000, and $353,000 for the years 1998, 1997, and 1996, respectively.

THE KROGER CO. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts are in thousands.)

Leases

The Company operates primarily in leased facilities. Lease terms generally range from 10 to 25 years with options to renew at varying terms. Certain of the leases provide for contingent payments based on a percent of sales.

Rent expense (under operating leases) consists of:

	1998	1997	1996
Minimum rentals	$347,977	$321,782	$291,256
Contingent payments	10,277	9,230	10,373
	$358,254	$331,012	$301,629

Assets recorded under capital leases consists of:

(in thousands)	1998	1997
Distribution and manufacturing facilities	$ 30,382	$ 30,382
Store facilities	267,218	242,529
Less accumulated amortization	(132,952)	(123,891)
	$164,648	$149,020

Minimum annual rentals for the five years subsequent to 1998 and in the aggregate are:

	Capital Leases	Operating Leases
1999	$ 36,806	$ 347,646
2000	35,863	325,112
2001	34,805	305,141
2002	33,743	287,334
2003	31,641	270,513
Thereafter	287,977	2,337,555
	460,835	$3,873,301
Less estimated executory costs included in capital leases	16,414	
Net minimum lease payments under capital leases	444,421	
Less amount representing interest	230,438	
Present value of net minimum lease payments under capital leases	$213,983	

Lessee—Operating Leases

BRUNSWICK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Leases

The Company has various lease agreements for offices, branches, factories, distribution and service facilities, certain Company-operated bowling centers and certain personal property. These obligations extend through 2032. Most leases contain renewal options and some contain purchase options. Many leases for Company-operated bowling centers contain escalation clauses, and many provide for contingent rentals based on percentages of gross revenue. No leases contain restrictions on the Company's activities concerning dividends, additional debt or further leasing. Rent expense consisted of the following:

(in millions)	1998	1997	1996
Basic expense	$42.8	$35.2	$29.6
Contingent expense	0.9	1.1	0.4
Sublease income	(1.7)	(0.9)	(1.1)
Rent expense, net	$42.0	$35.4	$28.9

Future minimum rental payments at December 31, 1998, under agreements classified as operating leases with noncancelable terms in excess of one year, are as follows:

(in millions)	
1999	$ 25.8
2000	22.9
2001	20.2
2002	19.3
2003	18.2
Thereafter	42.2
Total (not reduced by minimum sublease rentals of $5.4 million)	$148.6

CHOCK FULL O'NUTS CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Leases

The Company and subsidiaries lease manufacturing plants, warehouses, office space and Quikava locations and related premises. Leases which provide for payment of property taxes, utilities and certain other expenses, expire on various dates through 2009 and contain renewal options. As of July 31, 1998, the Company's obligation for future minimum rental payments, assuming the exercise of renewal options, aggregated $17,674,000. Payments required in the following five fiscal years amount to $4,654,000 (1999), $3,983,000 (2000), $2,747,000 (2001), $1,577,000 (2002) and $1,115,000 (2003). Rental expense charged to continuing operations under operating leases for the years ended July 31, 1998, 1997 and 1996 was $4,531,000, $4,751,000 and $4,150,000, respectively.

As of July 31, 1998, future minimum rental payments due from tenants under sub-leases of retail facilities and related premises aggregated $16,313,000. Amounts receivable in the following five fiscal years amount to $2,000,000 (1999), $2,014,000 (2000), $1,954,000 (2001), $1,820,000 (2002) and $1,778,000 (2003).

CIRCUIT CITY STORES, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Lease Commitments

The Company conducts a substantial portion of its business in leased premises. The Company's lease obligations are based upon contractual minimum rates. For certain locations, amounts in excess of these minimum rates are payable based upon specified percentages of sales. Rental expense and sublease income for all operating leases are summarized as follows:

	Years Ended February 28 or 29		
(Amounts in thousands)	1998	1997	1996
Minimum rentals	$248,383	$184,618	$148,082
Rentals based on sales volume	730	2,322	2,871
Sublease income	(12,879)	(11,121)	(9,996)
Net	$236,234	$175,819	$140,957

The Company computes rent based on a percentage of sales volumes in excess of defined amounts in certain store locations. Most of the Company's other leases are fixed-dollar rental commitments, with many containing rent escalations based on the Consumer Price Index. Most provide that the Company pay taxes, maintenance, insurance and certain other operating expenses applicable to the premises.

The initial term of real property leases will expire within the next 25 years; however, most of the leases have options providing for additional lease terms of five to 25 years at terms similar to the initial terms.

Future minimum fixed lease obligations, excluding taxes, insurance and other costs payable directly by the Company, as of February 28, 1998, were:

(Amounts in thousands) Fiscal	Capital Leases	Operating Lease Commitments	Operating Sublease Income
1999	$ 1,579	$ 256,698	$ (13,177)
2000	1,662	254,200	(12,159)
2001	1,681	252,328	(11,509)
2002	1,725	249,110	(11,120)
2003	1,726	245,605	(10,123)
After 2003	18,232	2,859,083	(48,150)
Total minimum lease payments	26,605	$4,117,024	$(106,238)
Less amounts representing interest	13,677		
Present value of net minimum capital lease payments	$12,928		

In fiscal 1998, the Company entered into sale-leaseback transactions with unrelated parties at an aggregate selling price of $218,768,000 ($201,694,000 in fiscal 1997 and $183,900,000 in fiscal 1996). The Company does not have continuing involvement under the sale-leaseback transactions.

KMART CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

7. Leases

Kmart conducts operations primarily in leased facilities. Kmart store leases are generally for terms of 25 years with multiple five-year renewal options which allow the Company the option to extend the life of the lease up to 50 years beyond the initial noncancelable term.

In certain Kmart leased facilities, selling space has been sublet to other retailers, including Olan Mills, Inc.; Penske Auto Centers, Inc.; and the Meldisco subsidiaries of FTS.

As of January 27, 1999	Minimum Lease Commitments Capital	Operating
Fiscal Year:		
1999	$271	$597
2000	256	586
2001	245	579
2002	236	567
2003	224	540
Later years	1,825	6,888
Total minimum lease payments	3,057	9,757
Less–minimum sublease income	—	(3,074)
Net minimum lease payments	3,057	$6,683
Less:		
Estimated executory costs	(846)	
Amount representing interest	(1,033)	
	1,178	
Current	(87)	
Long-term	$1,091	

Rent Expense	1998	1997	1996
Minimum rentals	$711	$673	$642
Percentage rentals	40	39	36
Less—sublease rentals	(227)	(234)	(236)
Total	$524	$478	$442

USX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Leases

Future minimum commitments for capital leases (including sale-leasebacks accounted for as financings) and for operating leases having remaining noncancelable lease terms in excess of one year are as follows:

(in millions)	Capital Leases	Operating Leases
1999	$10	$229
2000	11	293
2001	11	200
2002	11	116
2003	11	82
Later years	117	208
Sublease rentals	—	(16)
Total minimum lease payments	171	$1,112
Less imputed interest costs	(76)	
Present value of net minimum lease payments included in long-term debt	$95	

Operating lease rental expense from continuing operations:

(in millions)	1998	1997	1996
Minimum rental	$293	$237	$227
Contingent rental	29	25	15
Sublease rentals	(8)	(8)	(8)
Net rental expense	$314	$254	$234

USX leases a wide variety of facilities and equipment under operating leases, including land and building space, office equipment, production facilities and transportation equipment. Most long-term leases include renewal options and, in certain leases, purchase options. In the event of a change in control of USX, as defined in the agreements, or certain other circumstances, operating lease obligations totaling $115 million may be declared immediately due and payable.

Lessor Leases

DANA CORPORATION (DEC)

(in millions)	1997	1998
Current assets:		
Cash and cash equivalents	$ 422.7	$ 230.2
Accounts receivable:		
Trade, less allowance for doubtful accounts of $33.9—1997 and $40.5—1998	1,439.4	1,616.9
Other	148.5	193.8
Loans receivable, current	89.8	83.9
Investment in leases, current	254.3	16.7
Inventories	1,575.3	1,731.6
Other current assets	355.3	463.9
Total current assets	4,285.3	4,337.0
Investments and other assets	1,373.3	1,644.8
Investment in leases	1,075.8	851.9
Property, plant and equipment, net	2,776.7	3,303.8
Total assets	$9,511.1	$10,137.5

NOTES TO FINANCIAL STATEMENTS
(In millions)

1 (In Part): Summary of Significant Accounting Policies

Lease Financing

Lease financing consists of direct financing leases, leveraged leases and equipment on operating leases. Income on direct financing leases is recognized by a method which produces a constant periodic rate of return on the outstanding investment in the lease. Income on leveraged leases is recognized by a method which produces a constant rate of return on the outstanding net investment in the lease, net of the related deferred tax liability, in the years in which the net investment is positive. Initial direct costs are deferred and amortized using the interest method over the lease period. Equipment under operating leases is recorded at cost, net of accumulated depreciation. Income from operating leases is recognized ratably over the term of the leases.

Allowance for Losses on Lease Financing

Provisions for losses on lease financing receivables are determined on the basis of loss experience and assessment of inherent risk. Resulting adjustments to the allowance for losses are made to adjust the net investment in lease financing to an estimated collectible amount. Income recognition is generally discontinued on accounts which are contractually past due and where no payment activity has occurred within 120 days. Accounts are charged against the allowance for losses when determined to be uncollectible. Accounts for which equipment repossession has commenced as the primary means of recovery are classified within other assets at their estimated realizable value.

18 (In Part): Composition of Certain Balance Sheet Amounts

The following items comprise the net amounts indicated in the respective balance sheet captions:

	December 31 1997	1998
Investment in Leases		
Direct financing leases	$ 665.8	$117.5
Leveraged leases	655.3	702.6
Property on operating leases, net of accumulated depreciation	61.6	81.2
Allowance for credit losses	(52.6)	(32.7)
	1,330.1	868.6
Less: current portion	254.3	16.7
	$1,075.8	$851.9

The components of the net investment in direct financing leases are as follows:

	December 31 1997	1998
Total minimum lease payments	$743.7	$137.7
Residual values	89.5	34.8
Deferred initial direct costs	15.5	2.3
	848.7	174.8
Less: unearned income	182.9	57.3
	$665.8	$117.5

The components of the net investment in leveraged leases are as follows:

	December 31 1997	1998
Rentals receivable	$5,280.4	$5,464.6
Residual values	865.2	755.3
Nonrecourse debt service	(4,629.1)	(4,627.2)
Unearned income	(849.0)	(878.6)
Deferred investment tax credit	(12.2)	(11.5)
	655.3	702.6
Less: deferred taxes arising from leveraged leases	303.7	337.3
	$ 351.6	$ 365.3

The following is a schedule, by year, of total minimum lease payments receivable on direct financing leases as of December 31, 1998:

Year Ending December 31:	
1999	$ 23.9
2000	21.8
2001	18.5
2002	14.6
2003	11.5
Later years	47.4
Total minimum lease payments receiveable	$137.7

GENERAL MOTORS CORPORATION (DEC)

(Dollars in millions)	1998	1997
Financing and Insurance Operations		
Cash and cash equivalents	$ 146	$ 577
Investments in securities	8,748	7,896
Finance receivables—net	70,436	58,289
Investment in leases and other receivables (Note 7)	32,798	28,523
Other assets	18,807	12,799
Net receivable from automotive, electronics and other operations	816	—
Total financing and insurance operations assets	$131,751	$108,084

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Equipment on Operating Leases

The Corporation has significant investments in the residual values of its leasing portfolios. The residual values represent the estimate of the values of the assets at the end of the lease contracts and are initially recorded based on appraisals and estimates. Realization of the residual values is dependent on the Corporation's future ability to market the vehicles under then prevailing market conditions. Management reviews residual values periodically to determine that recorded amounts are appropriate. Included in equipment on operating leases and other assets for Automotive, Electronics and Other Operations was the following (in millions):

December 31,	1998	1997
Equipment on operating leases	$9,064	$8,312
Less accumulated depreciation	(935)	(992)
Net book value	$8,129	$7,320

Equipment on operating leases included in investment in leases and other receivables for Financing and Insurance Operations was as follows (in millions):

December 31,	1998	1997
Equipment on operating leases	$35,804	$33,364
Less accumulated depreciation	(6,817)	(6,994)
Net book value	$28,987	$26,370

The lease payments to be received related to equipment on operating leases maturing in each of the five years following December 31, 1998 are as follows: Automotive, Electronics and Other Operations—1999—$5.5 billion; 2000—$490 million; 2001—$478 million; 2002—$463 million; and 2003—$441 million; Financing and Insurance Operations—1999—$6.1 billion; 2000—$4.1 billion; 2001—$1.6 billion; 2002—$161 million; and 2003—$8 million.

HEWLETT-PACKARD COMPANY (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Financing Receivables and Investment in Operating Leases

Financing receivables represent sales-type and direct-financing leases and installment sales resulting from the marketing of the company's and complementary third-party products. These receivables typically have terms from two to five years and are usually collateralized by a security interest in the underlying assets. The components of financing receivables, net, which are included in financing receivables and long-term investments and other assets at October 31, are:

(in millions)	1998	1997
Gross financing receivables	$3,446	$2,478
Unearned income	(340)	(253)
Financing receivables, net	3,106	2,225
Less current portion	(1,520)	(1,123)
Amounts due after one year, net	$1,586	$1,102

Contractual maturities of the company's gross financing receivables at October 31, 1998 are $1,721 million in 1999, $1,025 million in 2000, $572 million in 2001, $102 million in 2002 and $26 million thereafter. Actual cash collections may differ primarily due to customer early buy-outs and refinancings.

The company also leases its products to customers under operating leases. Equipment on operating leases was $1,377 million and $1,138 million at October 31, 1998 and 1997, respectively, and is included in machinery and equipment. Accumulated depreciation on equipment on operating leases was $606 million and $489 million at October 31, 1998 and 1997, respectively. Minimum future rentals on noncancelable operating leases with original terms of one year or longer are $608 million in 1999, $319 million in 2000, $117 million in 2001, $34 million in 2002 and $7 million thereafter.

SUPERVALU INC. (FEB)

(in thousands)	1998	1997
Total current assets	$1,612,060	$1,600,799
Long-term notes receivable	83,401	45,588
Long-term investment in direct financing leases	95,291	84,350

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leases (In Part)

Direct Financing Leases

Under direct financing capital leases, the company leases buildings on behalf of independent retailers with terms ranging from 5 to 25 years. Future minimum rentals to be received under direct financing leases and future minimum obligations under the related capital leases in effect at February 28, 1998 are as follows:

(in thousands) Fiscal Year	Direct Financing Lease Receivables	Capital Lease Obligations
1999	$18,678	$17,357
2000	16,830	15,668
2001	14,855	13,840
2002	13,998	13,069
2003	12,921	12,082
Later	100,012	94,140
Total minimum lease payments	177,294	166,156
Less unearned income	73,106	—
Less interest	—	65,239
Present value of net minimum lease payments	104,188	100,917
Less current portion	8,897	9,096
Long-term portion	$95,291	$91,821

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			
	1998	**1997**	**1996**	**1995**
Deferred income taxes	394	401	411	408
Minority interest	155	148	147	143
Liabilities of nonhomogeneous operations	14	11	13	14
Employee liabilities				
Benefits	231	235	239	252
Pension accruals	133	130	133	156
Deferred compensation, bonus, etc.	55	58	54	58
Other—described	15	22	13	12
Estimated losses or expenses				
Environmental	57	59	62	55
Discontinued operations	32	30	30	46
Insurance	28	25	23	24
Warranties	10	9	9	8
Put options/warrants	10	7	10	—
Other—described	53	59	57	46
Deferred credits				
Deferred profit on sales	17	14	11	15
Payments received prior to rendering service	6	7	5	6
Other—described	25	18	14	21

Deferred Income Taxes

ROCK-TENN COMPANY (SEP)

(in thousands)	1998	1997
Total current liabilities	$152,480	$152,145
Long-term debt due after one year	464,876	492,340
Deferred income taxes (Note 7)	82,248	78,288
Other long-term items	14,462	19,701

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Income Taxes

The Company accounts for income taxes under the liability method which requires the recognition of deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. The recognition of future tax benefits is required to the extent that realization of such benefits is more likely than not.

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The tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities consist of the following (in thousands):

	September 30, 1998	1997
Deferred income tax assets:		
Accruals and allowances	$ 9,092	$10,077
Other	5,955	4,002
Total	15,047	14,079
Deferred income tax liabilities:		
Property, plant and equipment	77,266	74,281
Deductible intangibles	2,343	2,533
Inventory and other	17,686	15,553
Total	97,295	92,367
Net deferred income tax liability	$82,248	$78,288

The Company has not recorded any valuation allowances for deferred income tax assets.

ROHM AND HAAS COMPANY (DEC)

(Millions of dollars)	1998	1997
Current assets:		
Cash and cash equivalents	$ 16	$ 40
Accounts receivable, net	711	755
Inventories	427	459
Prepaid expenses and other assets	133	143
Total current assets	1,287	1,397
Investments in and advances to unconsolidated subsidiaries and affiliates	142	197
Land, buildings and equipment, net	1,908	2,008
Other assets, net	311	298
	$3,648	$3,900

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	1998	1997
Current liabilities:		
Notes payable	$172	$97
Accounts payable and accrued liabilities	653	669
Federal, foreign and other income taxes payable	50	84
Total current liabilities	875	850
Long-term debt	409	509
Deferred income taxes	168	126
Employee benefits payable	432	410
Other liabilities	184	130
Minority interest	19	78

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Income Taxes

Deferred income taxes reflect temporary differences between the valuation of assets and liabilities for financial and tax reporting. Details at December 31, 1998 and 1997, were:

(Millions of dollars)	1998	1997*
Deferred tax assets related to:		
Compensation and benefit programs	$213	$203
Accruals for waste disposal site remediation	47	54
Inventories	29	33
All other	52	66
Valuation allowance	(3)	(4)
Total deferred tax assets	$338	$352
Deferred tax liabilities related to:		
Tax depreciation in excess of book depreciation	$300	$312
Pension	80	69
All other	23	8
Total deferred tax liabilities	$403	$389
Net deferred tax liability	$ 65	$ 37

* Restated to conform to current year presentation.

Deferred taxes, which are classified into a net current and noncurrent balance by tax jurisdiction, are presented in the balance sheet as follows:

(Millions of dollars)	1998	1997
Prepaid expenses and other assets	$ 94	$ 87
Other assets, net	10	3
Accounts payable and accrued liabilities	1	1
Non-current deferred income tax liabilities	168	126
Net deferred tax liability	$ 65	$ 37

The valuation allowance was reduced by $1 million in 1998 and 1997 due to usage of tax credit carryforwards and net operating loss carryforwards.

TEXAS INSTRUMENTS INCORPORATED (DEC)

(Millions of dollars)	1998	1997
Current assets:		
Cash and cash equivalents	$ 540	$ 1,015
Short-term investments	1,709	2,005
Accounts receivable, less allowance for losses of $97 million in 1998 and $73 million in 1997	1,343	1,705
Inventories	596	742
Prepaid expenses	75	59
Deferred income taxes	583	577
Total current assets	4,846	6,103
Property, plant and equipment at cost	6,379	7,414
Less accumulated depreciation	(3,006)	(3,234)
Property, plant and equipment (net)	3,373	4,180
Investments	2,564	69
Deferred income taxes	23	134
Other assets	444	363
Total assets	$11,250	$10,849
Current liabilities:		
Loans payable and current portion long-term debt	$ 267	$ 71
Accounts payable and accrued expenses	1,582	2,082
Income taxes payable	193	154
Accrued retirement and profit sharing contributions	154	189
Total current liabilities	2,196	2,496
Long-term debt	1,027	1,286
Accrued retirement costs	895	731
Deferred income taxes	381	288
Deferred credits and other liabilities	224	134

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes (In Part)

The primary components of deferred income tax assets and liabilities at December 31 were as follows:

(Millions of dollars)	1998	1997
Deferred income tax assets:		
Accrued retirement costs (pension and retiree health care)	$322	$221
Inventories and related reserves	242	216
Accrued expenses	251	195
Loss and credit carryforwards	49	80
Other	59	210
	923	922
Less valuation allowance	(173)	(121)
	750	801
Deferred income tax liabilities:		
Investments	(256)	(5)
Property, plant and equipment	(104)	(165)
International earnings	(19)	(38)
Other	(146)	(170)
	(525)	(378)
Net deferred income tax asset	$225	$423

As of December 31, 1998 and 1997, the net deferred income tax asset of $225 million and $423 million was presented in the balance sheet, based on tax jurisdiction, as deferred income tax assets of $606 million and $711 million and deferred income tax liabilities of $381 million and $288 million. The valuation allowance shown above reflects the company's ongoing assessment regarding the realizability of certain non-U.S. deferred income tax assets. The balance of the deferred income tax assets is considered realizable based on carryback potential, existing taxable temporary differences and expectation of future income levels comparable to recent results. Such future income levels are not assured because of the nature of the company's businesses, which are generally characterized by rapidly changing technology and intense competition.

Minority Interest

BEMIS COMPANY, INC. (DEC)

(in thousands of dollars)	1998	1997
Total current liabilities	$242,788	$251,187
Long-term debt, less current portion	371,363	316,791
Deferred taxes	76,204	64,066
Other liabilities and deferred credits	54,655	56,876
Total liabilities	745,010	688,920
Minority interest	37,237	33,762

CISCO SYSTEMS, INC. (JUL)

(in thousands)	1998	1997
Total current liabilities	$1,766,980	$1,120,109
Commitments and contingencies		
Minority interest	43,107	42,253

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Minority Interest

Minority interest represents the preferred stockholders' proportionate share of the equity of Nihon Cisco Systems, K.K. At July 25, 1998, the Company owned all issued and outstanding common stock, amounting to 73.2% of the voting rights. Each share of preferred stock is convertible into one share of common stock at any time at the option of the holder.

MAYTAG CORPORATION (DEC)

(in thousands)	1998	1997
Total current liabilities	$790,697	$566,638
Noncurrent liabilities:		
Deferred income taxes	21,191	23,666
Long-term debt, less current portion	446,505	549,524
Postretirement benefit liability	460,599	454,390
Accrued pension cost	69,660	31,308
Other noncurrent liabilities	117,392	99,096
Total noncurrent liabilities	1,115,347	1,157,984
Minority interest	174,055	173,723

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Minority Interest

In 1996, the Company invested approximately $35 million and committed additional cash investments of approximately $35 million to acquire a 50.5 percent ownership in Rongshida-Maytag, a manufacturer of home appliances in China. The Company's joint venture partner also committed additional cash investments of approximately $35 million, of which $7 million, $19 million and $9 million were contributed in 1998, 1997 and 1996, respectively. The results of this majority-owned joint venture in China are included in the Company's consolidated financial statements. The noncontrolling interest attributable to the joint venture as of December 31, 1998 and 1997 was $74 million and $73.7 million, respectively, and is reflected in Minority interest in the Consolidated Balance Sheets. The income attributable to the noncontrolling interest in the joint venture in 1998, 1997 and 1996 was $0.8 million, $4 million and $1.3 million, respectively, and is reflected in Minority interest in the Consolidated Statements of Income.

In the third quarter of 1997, the Company and a wholly-owned subsidiary of the Company contributed intellectual property and know-how with an appraised value of $100 million and other assets with a market value of $54 million to Anvil Technologies LLC ("LLC"), a newly formed Delaware limited liability company. An outside investor purchased from the Company a noncontrolling, member interest in the LLC for $100 million. The Company's objective in this transaction was to raise low-cost, equity funds. For financial reporting purposes, the results of the LLC (other than those which are eliminated in consolidation) are included in the Company's consolidated financial statements. The outside investor's noncontrolling interest of $100 million as of December 31, 1998 and 1997 is reflected in Minority interest in the Consolidated Balance Sheets. The income attributable to the noncontrolling interest in 1998 and 1997 was $7.5 million and $3.3 million, respectively, and is reflected in Minority interest in the Consolidated Statements of Income.

SARA LEE CORPORATION (JUN)

(Dollars in millions)	1998	1997
Total current liabilities	$5,733	$5,016
Long-term debt	2,270	1,933
Deferred income taxes	22	416
Other liabilities	538	543
Minority interest in subsidiaries	560	523

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Minority Interest in Subsidiaries

Minority interest in subsidiaries consists primarily of preferred equity securities issued by subsidiaries of the corporation. No gain or loss was recognized as a result of the issuance of these securities, and the corporation owned substantially all of the voting equity of the subsidiaries both before and after the transactions.

Minority interest in subsidiaries includes $295 of preferred equity securities issued by a wholly owned foreign subsidiary of the corporation. The securities provide a rate of return based upon specified inter-bank borrowing rates. The securities are redeemable in 2004 in exchange for common shares of the issuer, which may then be put to the corporation for preferred stock. The subsidiary may call the securities at any time.

$200 of the minority interest in subsidiaries consists of preferred equity securities issued by a domestic subsidiary of the corporation. The securities provide the holder a rate of return based upon a specified inter-bank borrowing rate, are redeemable in 2005 and may be called at any time by the subsidiary. The subsidiary has the option of redeeming the securities with either cash, debt or equity of the corporation.

SMITH INTERNATIONAL, INC. (DEC)

(in thousands)	1998	1997 (Restated)
Total current liabilities	$693,300	$473,372
Long-term debt	368,823	371,579
Deferred tax liabilities	29,421	16,578
Other long-term liabilities	23,903	32,220
Minority interests	9,507	206,705

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Minority Interests

The Company records minority interest expense which reflects the portion of the earnings of majority-owned operations which are applicable to the minority interest partners. The minority interest amounts primarily represent the share of the M-I profits associated with the former minority partner's interest in those operations. In August 1998, the Company acquired the remaining 36 percent interest in the M-I operations from Halliburton Company ("Halliburton").

2 (In Part:) Acquisitions

Acquisition of Minority Interest in M-I

On August 31, 1998, the Company acquired the remaining 36 percent interest in M-I previously held by Halliburton. The Company issued a $265.0 million non-interest bearing promissory note to Halliburton in exchange for their minority ownership interest. The discounted value of the note, which matures on April 28, 1999, is classified as short-term borrowings in the accompanying balance sheet.

Nonhomogeneous Operations

HILLENBRAND INDUSTRIES, INC. (NOV)

(Dollars in millions)	1998	1997
Total current liabilities	$ 375	$ 359
Long-term debt	303	203
Other long-term liabilities	86	75
Deferred income taxes	4	7
Insurance liabilities (Note 12)		
Benefit reserves	1,856	1,667
Unearned revenue	674	605
General liabilities	30	26
Total insurance liabilities	2,560	2,298
Total liabilities	$3,328	$2,942

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Financial Services

Forethought Financial Services, through its subsidiaries, Forethought Life Insurance Company, Forethought National TrustBank, Forethought Federal Savings Bank, Forethought Life Assurance Company and The Forethought Group, Inc., serves funeral planning professionals with life insurance policies, trust products and marketing support for Forethought® funeral planning. Forethought entered the preneed trust market in 1997. This business did not materially affect the financial results of Forethought or Hillenbrand Industries in 1998. The life insurance policies sold by Forethought Life Insurance Company are limited to long-duration, whole-life policies, and, as such, are accounted for under SFAS No. 97. The benefits under these policies increase based on external inflationary indices and management's discretion. Premiums received are allocated to benefit reserves and unearned revenue. Unearned revenues are recognized over the actuarially determined life of the contract. Policy acquisition costs, consisting of commissions, policy issue expense and premium taxes, are deferred and amortized consistently with unearned revenues. Liabilities equal to policyholder account balances and amounts assessed against these balances for future insurance charges are established on the insurance contracts issued by Forethought Life Insurance Company.

Employee-Related Liabilities

ADOLPH COORS COMPANY (DEC)

(in thousands)	1998	1997
Total current liabilities	$383,912	$359,146
Long-term debt	105,000	145,000
Deferred tax liability	65,779	76,219
Postretirement benefits (Note 8)	74,469	71,908
Other long-term liabilities	56,640	23,242
Total liabilities	$685,800	$675,515

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Non-Pension Postretirement Benefits

The Company has postretirement plans that provide medical benefits and life insurance for retirees and eligible dependents. The plans are not funded.

The obligation under these plans was determined by the application of the terms of medical and life insurance plans, together with relevant actuarial assumptions and health care cost trend rates ranging ratably from 8.5% in 1998 to 4.25% in 2008. The discount rate used in determining the accumulated postretirement benefit obligation was 7.00%, 7.25% and 7.75% at December 27, 1998, December 28, 1997, and December 29, 1996, respectively. In November 1998, the ACC board of directors approved changes to one of the plans. The changes, which will result in an amendment to the plan, will be effective July 1, 1999, and will increase the accumulated postretirement benefit obligation at the effective date by approximately $6.7 million.

The changes in the benefit obligation and plan assets and the funded status of the postretirement benefit plan are as follows:

	For the years ended		
(in thousands)	Dec. 27, 1998	Dec. 28, 1997	Dec. 29, 1996
Components of net periodic postretirement benefit cost:			
Service cost—benefits earned during the year	$1,484	$1,408	$2,065
Interest cost on projected benefit obligation	4,707	4,775	5,082
Recognized net actuarial gain	(207)	(353)	(310)
Net periodic postretirement benefit cost	$5,984	$5,830	$6,837
Change in projected postretirement benefit obligation:			
Projected benefit obligation at beginning of year		$67,916	$62,677
Service cost		1,484	1,408
Interest cost		4,707	4,775
Actuarial loss		1,504	2,686
Benefits paid		(3,489)	(3,630)
Projected postretirement benefit obligation at end of year		$ 72,122	$ 67,916
Change in plan assets:			
Fair value of assets at beginning of year		$ —	$ —
Actual return on plan assets		—	—
Employer contributions		3,489	3,630
Benefits paid		(3,489)	(3,630)
Fair value of plan assets at end of year		$ —	$ —
Funded status—shortfall		$(72,122)	$(67,916)
Unrecognized net actuarial gain		(5,552)	(7,188)
Unrecognized prior service cost		(360)	(434)
Accrued postretirement benefits		(78,034)	(75,538)
Less current portion		3,565	3,630
Long-term postretirement benefits		$(74,469)	$(71,908)

CAMPBELL SOUP COMPANY (JUL)

(Millions)	1998	1997
Current liabilities:		
Notes payable	$1,401	$1,506
Payable to suppliers and others	506	485
Accrued liabilities	638	553
Dividend payable	95	88
Accrued income taxes	163	137
Total current liabilities	2,803	2,769
Long-term debt	1,169	1,151
Nonpension postretirement benefits (Note 9)	405	442
Other liabilities	382	414
Total liabilities	$4,759	$4,776

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Million dollars)

9 (In Part): Pension Plans and Retirement Benefits

Retiree Benefits

The company provides postretirement benefits including healthcare and life insurance to substantially all retired U.S. employees and their dependents. Employees who have 10 years of service after the age of 45 and retire from the company are eligible to participate in the postretirement benefit plans.

Postretirement benefit expense included the following:

	1998	1997	1996
Benefits earned during the year	$11	$10	$13
Interest cost	22	17	19
Net amortization and deferrals	(15)	(14)	(2)
Postretirement benefit expense	$18	$13	$30

	1998	1997
Actuarial present value of benefit obligations:		
Retirees	$219	$ 194
Fully eligible active plan participants	45	47
Other active plan participants	49	60
Accumulated benefit obligation	313	301
Unrecognized prior service cost	16	20
Unrecognized net gain	95	140
Accrued postretirement benefit liability	$424	$461

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Obligations related to non-U.S. postretirement benefit plans are not significant since these benefits are generally provided through government-sponsored plans.

The current portion of nonpension postretirement benefits included in Accrued liabilities was $19 at August 2, 1998 and August 3, 1997.

GANNETT CO., INC. (DEC)

(in thousands of dollars)	1998	1997
Total current liabilities	$ 727,967	$ 738,577
Deferred income taxes	442,359	402,254
Long-term debt	1,306,859	1,740,534
Postretirement medical and life insurance liabilities (Note 6)	308,145	312,082
Other long-term liabilities	214,326	217,168
Total liabilities	$2,999,656	$3,410,615

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Postretirement Benefits Other Than Pensions

The company provides health care and life insurance benefits to certain retired employees. Employees become eligible for benefits after meeting certain age and service requirements. The cost of providing retiree heatlh care and life insurance benefits is actuarially determined and accrued over the service period of the active employee group.

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The table below provides a reconciliation of benefit obligations and funded status of the company's postretirement benefit plans:

(in thousands of dollars)	Dec. 27, 1998	Dec. 28, 1997
Change in benefit obligation		
Net benefit obligation at beginning of year	$231,565	$224,336
Service cost	3,118	3,416
Interest cost	14,378	15,342
Plan participants' contributions	4,402	4,318
Plan amendments	(8,341)	(20,695)
Actuarial loss	13,798	14,694
Acquisitions/plan mergers	—	9,816
Gross benefits paid	(20,574)	(19,662)
Net benefit obligation at end of year	$238,346	$231,565
Change in plan assets		
Fair value of plan assets at beginning of year	—	—
Employer contributions	16,172	15,344
Plan participants' contributions	4,402	4,318
Gross benefits paid	(20,574)	(19,662)
Fair value of plan assets at end of year	—	—
Funded status at end of year	$238,346	$231,565
Unrecognized net actuarial (loss) gain	(6,154)	7,500
Unrecognized prior service credit	75,953	73,017
Accrued postretirement benefit cost	$308,145	$312,082

JOHNSON & JOHNSON (DEC)

(Dollars in millions)	1998	1997
Total current liabilities	$8,162	$5,283
Long-term debt	1,269	1,126
Deferred tax liability	578	175
Employee related obligations (Note 11)	1,738	1,562
Other liabilities	874	948

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Employee Related Obligations

At the end of 1998 and 1997, employee related obligations were:

(Dollars in millions)	1998	1997
Post retirement benefits	$ 767	$ 753
Post employment benefits	144	166
Unfunded pension liabilities	677	517
Certificates of extra compensation	150	126
Employee related obligations	$1,738	$1,562

SUNOCO, INC. (DEC)

(Millions of dollars)	1998	1997
Total current liabilities	$1,384	$1,464
Long-term debt	823	824
Retirement benefit liabilities (Note 12)	449	477
Deferred income taxes	175	73
Other deferred credits and liabilities	504	367

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Retirement Benefit Plans

Defined Benefit Pension Plans and Postretirement Health Care and Life Insurance Plans

Sunoco has noncontributory defined benefit pension plans ("defined benefit plans") which provide retirement benefits for the majority of its employees. Sunoco also has plans which provide health care and life insurance benefits for substantially all of its retirees ("postretirement benefit plans"). The postretirement benefit plans are unfunded and the costs are shared by Sunoco and its retirees.

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The following tables set forth the components of the changes in benefit obligations and fair value of plan assets during 1998 and 1997 as well as the funded status and amounts both recognized and not recognized in the balance sheets at December 31, 1998 and 1997:

(Millions of dollars)	Defined Benefit Plans 1998	1997	Postretirement Benefit Plans 1998	1997
Benefit obligation at beginning of year*	$1,268	$1,242	$336	$332
Service cost	26	26	5	4
Interest cost	87	92	23	23
Actuarial (gains) losses	24	81	8	(2)
Acquisitions	17	—	3	—
Benefits paid	(141)	(176)	(28)	(27)
Premiums paid by participants	—	—	4	4
Other	—	3	(3)	2
Benefit obligations at end of year*	$1,281	$1,268	$348	$336
Fair value of plan assets at beginning of year**	$1,277	$1,242		
Actual return on plan assets	172	197		
Employer contributions	13	—		
Acquisitions	15	—		
Benefits paid from plan assets	(127)	(162)		
Fair value of plan assets at end of year**	$1,350	$1,277		
Benefit obligation (in excess of) less than plan assets at end of year	$ 69	$ 9	$(348)	$(336)
Unrecognized net transition asset	(10)	(19)	—	—
Unrecognized prior service cost (benefit)	11	13	(47)	(51)
Unrecognized net (gain) loss	(101)	(60)	19	10
Net liability recognized in balance sheet at end of year	$ (31)	$ (57)	$(376)	$(377)

* Represents the projected benefit obligation for defined benefit plans and the accumulated postretirement benefit obligation ("APBO") for postretirement benefit plans.
** Less than 1 percent of plan assets was invested in Company stock.

The net liability recognized in the balance sheets at December 31, 1998 and 1997 is classified as follows:

(Millions of dollars)	Defined Benefit Plans 1998	1997	Postretirement Benefit Plans 1998	1997
Retirement benefit liabilities	$(73)	$(100)	$(376)	$(377)
Deferred charges and other assets*	42	43	—	—
	$(31)	$ (57)	$(376)	$(377)

* Represents an intangible asset for which an equivalent additional minimum liability is included in retirement benefit liabilities.

Certain of the Company's defined benefit plans have accumulated benefit obligations in excess of the fair value of plan assets. The total projected benefit obligations, accumulated benefit obligations and fair value of plan assets of such plans were $255, $234 and $106 million, respectively, as of December 31, 1998 and $254, $232 and $94 million, respectively, as of December 31, 1997.

Environmental Costs

MOBIL CORPORATION (DEC)

(in millions)	1998	1997
Total current liabilities	$12,421	$12,946
Long-term debt	3,670	3,719
Employee benefits	1,745	2,060
Accrued restoration, removal and environmental costs	1,072	1,011
Deferred credits and other noncurrent obligations	1,274	1,021
Deferred income taxes	3,535	3,254
Minority interest in subsidiary companies	381	373
Total liabilities	$24,098	$24,384

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Major Accounting Policies

Restoration, Removal and Environmental Liabilities

The estimated costs of restoration and removal of major producing facilities are accrued on a unit-of-production basis over the life of the property. The estimated future costs for known environmental remediation requirements are accrued when it is probable that a liability has been incurred and the amount of remediation costs can be reasonably estimated. These amounts are the undiscounted, future estimated costs under existing regulatory requirements and using existing technology.

11. Restoration, Removal and Environmental Liabilities

Exploration and producing properties must generally be restored to their original condition when the oil or gas reserves are depleted and/or operations cease. At December 31, 1997 and 1998, $780 million and $760 million, respectively, had been accrued for restoration and removal costs, mainly related to offshore producing facilities.

Mobil accrues for its best estimate of the future costs associated with known environmental remediation requirements at its service stations, marketing terminals, refineries and plants, and at certain Superfund sites. At December 31, 1997 and 1998, the accumulated accrual for environmental remediation costs was $372 million and $328 million, respectively. Of these amounts, $80 million and $77 million were included in current accrued liabilities in the Consolidated Balance Sheet. Amounts accrued with respect to Superfund waste disposal sites are based on the company's best estimate of its portion of the costs of remediating such sites. These amounts are not material.

PHILLIPS PETROLEUM COMPANY (DEC)

(Millions of dollars)	1998	1997
Total current liabilities	$2,132	$2,445
Long-term debt	4,106	2,775
Accrued dismantlement, removal and environmental costs	729	713
Deferred income taxes	1,317	1,257
Employee benefit obligations	424	436
Other liabilities and deferred credits	639	770
Total liabilities	$9,347	$8,396

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Dismantlement, Removal and Environmental Costs

The estimated undiscounted costs, net of salvage values, of dismantling and removing major oil and gas production facilities, including necessary site restoration, are accrued using either the unit-of-production or the straight-line method.

Environmental expenditures are expensed or capitalized as appropriate, depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations, and that do not have future economic benefit, are expensed. Liabilities for these expenditures are recorded on an undiscounted basis when environmental assessments or clean-ups are probable and the costs can be reasonably estimated. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable. For all periods presented, the company's accounting policies comply, in all material respects, with the provisions of American Institute of Certified Public Accountants Statement of Position 96-1, "Environmental Remediation Liabilities."

8. Accrued Dismantlement, Removal and Environmental Costs

At December 31, 1998 and 1997, the company had accrued $725 million and $670 million, respectively, of dismantlement and removal costs, primarily related to worldwide offshore production facilities and to production facilities at Prudhoe Bay in Alaska. Estimated total future dismantlement and removal costs at December 31, 1998, were $1,109 million. These costs are accrued primarily on the unit-of-production method.

Phillips had accrued environmental costs, primarily related to clean-up of ponds and pits at domestic refineries and underground storage tanks at U.S. service stations, and other various costs, of $30 million and $40 million at December 31, 1998 and 1997, respectively. Phillips had also accrued $32 million of environmental costs associated with discontinued or sold operations at December 31, 1998 and 1997, respectively. Also, $5 million and $7 million were included at December 31, 1998 and 1997, respectively, for sites where the company has been named a Potentially Responsible Party. At the same dates, $4 million had been accrued for other environmental litigation. At December 31, 1998 and 1997, total environmental accruals were $71 million and $83 million, respectively.

Of the total $796 million of accrued dismantlement, removal and environmental costs at December 31, 1998, $67 million was classified as a current liability on the balance sheet, under the caption "Other accruals." At year-end 1997, $40 million was classified as current.

During 1998, as part of a comprehensive environmental cost recovery project, the company entered into settlement agreements with certain of its historical liability and pollution insurers in exchange for releases or commutations of their present and future liabilities to the company under its historical liability and pollution policies. As a result of these settlement agreements, the company recorded a before-tax benefit to earnings of $128 million, all of which had been collected at December 31, 1998.

Insurance

ABM INDUSTRIES INCORPORATED (OCT)

(in thousands)	1997	1998
Total current liabilities	$153,759	$157,824
Long-term debt	38,402	33,720
Retirement plans	13,413	15,974
Insurance claims	54,464	49,911
Total liabilities	$260,038	$257,429

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Insurance

Certain insurable risks such as general liability, property damage and workers' compensation are self-insured by the Company. However, the Company has umbrella insurance coverage for certain risk exposures subject to specified limits. Accruals for claims under the Company's self-insurance program are recorded on a claim-incurred basis. Under this program, the estimated liability for claims incurred but unpaid at October 31, 1997 and 1998 was $79,943,000 and $79,165,000, respectively. In connection with certain self-insurance agreements, the Company has standby letters of credit at October 31, 1998 supporting the estimated unpaid liability in the amounts of $70,069,000.

Preferred Securities Of Subsidiary Trust

HERCULES INCORPORATED (DEC)

(Dollars in millions)	1998	1997
Total current liabilities	$1,317	$ 799
Long-term debt	3,096	419
Deferred income taxes	225	160
Other postretirement benefits	136	139
Deferred credits and other liabilities	300	204
Total liabilities	$5,074	$1,721
Company-obligated preferred securities of subsidiary trust (Note 7)	200	—

NOTES TO FINANCIAL STATEMENTS

7. Company-obligated Preferred Securities of Subsidiary Trust

In the fourth quarter of 1998, Hercules Trust V (the Trust), the company's wholly owned consolidated subsidiary trust created under the laws of the State of Delaware, completed a private placement of units, consisting of Trust Preferred Securities (the Securities) in the amount of $200 million and a forward underwriting contract to purchase Hercules common stock. The proceeds of the Securities were invested by the Trust in the company's newly issued Junior Subordinated Debenture Notes (the Notes). Each Security will accrue and pay distributions equal to LIBOR plus 175 basis points, compounded quarterly. The obligations of the Trust are fully and unconditionally guaranteed by the company.

The Securities are expected to be remarketed pursuant to their terms within 12 months from their issuance. The distribution rates will be reset to a fixed rate in the remarketing based on bids received in a private auction to qualified institutional buyers, and the maturity date will be reset to the one-year anniversary of the successful remarketing. Hercules will be required to redeem the Securities if remarketing does not occur within the established period. The remarketing of the Securities may be accelerated under certain circumstances, including the price of the company's common stock closing at or below $22.6875 (twenty-two and eleven-sixteenths). In addition, Hercules has agreed to offer and sell, and a third party has agreed to underwrite, $200 million of Hercules common stock following the successful remarketing or redemption of the Securities.

MCKESSON CORPORATION (MAR)

(in millions)	1998	1997
Total current liabilities	$2,577.8	$2,637.2
Postretirement obligations and other noncurrent liabilities	233.3	255.1
Long-term debt	1,194.2	824.9
McKesson-obligated mandatorily redeemable preferred securities of subsidiary grantor trust whose sole assets are junior subordinated debentures of McKesson (Note 9)	195.4	194.8

FINANCIAL NOTES

9. Convertible Preferred Securities

In February 1997, a wholly-owned subsidiary trust of the Company issued 4 million shares of preferred securities to the public and 123,720 common securities to the Company, which are convertible at the holder's option into McKesson common stock. The proceeds of such issuances were invested by the trust in $206,186,000 aggregate principal amount of the Company's 5% Convertible Junior Subordinated Debentures due 2027 (the "Debentures"). The Debentures represent the sole assets of the trust. The Debentures mature on June 1, 2027, bear interest at the rate of 5%, payable quarterly and are redeemable by the Company beginning in March 2000 at 103.5% of the principal amount thereof.

Holders of the securities are entitled to cumulative cash distributions at an annual rate of 5% of the liquidation amount of $50 per security. Each preferred security is convertible at the rate of 1.3418 shares of McKesson common stock, subject to adjustment in certain circumstances. The preferred securities will be redeemed upon repayment of the Debentures and are callable by the Company at 103.5% of the liquidation amount beginning in March 2000.

The Debentures and related trust investment in the Debentures have been eliminated in consolidation and the preferred securities reflected as outstanding in the accompanying consolidated financial statements.

Warranties

CARLISLE COMPANIES INCORPORATED (DEC)

(in thousands)	1998	1997
Total current liabilities	$255,337	$226,083
Long-term liabilities		
Long-term debt	273,521	209,642
Product warranties	75,084	73,715
Other liabilities	12,005	2,940
Total long-term liabilities	$360,610	$286,297

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Product Warranties

The Company offers warranties on the sales of certain of its products and records an accrual for estimated future claims. Such accruals are based upon historical experience and management's estimate of the level of future claims.

Put Options

McDONALD'S CORPORATION (DEC)

(in millions)	1998	1997
Total current liabilities	$2,497.1	$2,984.5
Long-term debt	6,188.6	4,834.1
Other long-term liabilities and minority interests	492.6	427.5
Deferred income taxes	1,081.9	1,063.5
Common equity put options	59.5	80.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Capital Stock (In Part)

Common Equity Put Options

At December 31, 1997, 1.8 million common equity put options were outstanding, all of which expired unexercised in 1998. In 1998, the Company sold 7.3 million common equity put options, of which 1.0 million options were outstanding at December 31, 1998. The options expire at various dates through February 1999. At December 31, 1998, the $59.5 million exercise price of these outstanding options was classified in common equity put options, and the related offset was recorded in common stock in treasury, net of premiums received.

TANDY CORPORATION (DEC)

(in millions)	1998	1997
Total current liabilities	$879.5	$976.4
Long-term debt, excluding current maturities	235.1	236.1
Other non-current liabilities	27.5	46.4
Total other liabilities	262.6	282.5
Common stock put options	3.3	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Treasury Stock Repurchase Program

On March 3, 1997, the Company announced that its Board of Directors authorized management to purchase an additional 10.0 million shares of its common stock through the Company's existing share repurchase program. The share repurchase program was initially authorized in December 1995 and increased in October 1996. The share increase for 1997 brought the total authorization to 30.0 million shares, of which 25.9 million shares totaling $745.8 million had been purchased as of December 31, 1998. Additionally, on October 26, 1998, the Company announced that its Board of Directors authorized the repurchase of up to 5.0 million shares of the Company's common stock for an indefinite period of time to be used to offset the dilution of grants under Tandy's incentive stock plans (see Note 17). These purchases are in addition to the shares required for employee stock plans, which are purchased throughout the year.

In connection with the share repurchase program, the Board of Directors, at their October 23, 1998 meeting, authorized management to sell up to one million put options on the Company's common stock. During 1998, the Company sold 80,000 put options with a strike price of $40.71 to an independent third party. Such options grant the purchaser the right to sell shares of Tandy's common stock to the Company at specified prices upon exercise of the options. These put options are exercisable only at maturity and can be settled in cash at the Company's option, in lieu of repurchasing the stock. The issued put options have a maturity of six months. At December 31, 1998, all 80,000 options remained outstanding and the full redemption value of the options was classified as common stock put options in the accompanying 1998 Consolidated Balance Sheet. The related offset was recorded in common stock in treasury, net of premiums received. Additionally, 200,000 put options have been sold in 1999 at strike prices ranging from $45.08 to $55.20; these put options have six month maturity dates.

Put Warrants

ATMEL CORPORATION (DEC)

(in thousands)	1998	1997
Total current liabilities	$ 399,219	$383,668
Long-term debt	771,069	571,389
Deferred income taxes	3,404	34,499
Total liabilities	1,173,692	989,556
Put warrants	56,850	46,050

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

1 (In Part): Summary of Significant Accounting Policies

Put Warrants

In January 1996, the Board of Directors of the Company approved a stock repurchase program that allows the Company to repurchase up to 5,000 shares of its common stock. The Board of Directors approved the repurchase of an additional 5,000 shares in January 1998. The primary purpose of this stock repurchase program is to increase shareholder value. In connection with this program, the Company has entered into certain warrant transactions which provide the Company with the flexibility to implement its repurchase plan, under which the Company could repurchase its stock when favorable market conditions existed and without immediately impacting the Company's cash resources.

In connection with the Company's stock repurchase program, put warrants were sold to an independent third party during fiscal years 1998, 1997 and 1996. The Company used the proceeds from the sale of the put warrants to purchase call warrants in a transaction not requiring any net cash outlay at the time.

	Cumulative net premium received	Shares covered by warrants	Potential obligation
December 31, 1995	$ 0	0	$ 0
Sales of put warrants	9,223	3,275	73,099
Purchases of call warrants	(9,223)	0	0
Expiration of warrants	8,133	(2,275)	(44,849)
December 31, 1996	8,133	1,000	28,250
Sales of put warrants	5,238	2,000	46,050
Purchases of call warrants	(5,238)	0	0
Expiration of warrants	4,425	(1,000)	(28,250)
December 31, 1997	12,558	2,000	46,050
Sales of put warrants	20,250	3,700	69,730
Purchases of call warrants	(4,600)	0	0
Expirations	0	(800)	(16,200)
Expiration of warrants	(18,200)	(2,200)	(42,730)
December 31, 1998	$10,008	2,700	$56,850

The put warrants entitle the aforementioned independent third party to sell shares of the Company's common stock to the Company at specified strike prices and exercise dates, while the call warrants entitle the Company to buy from the same third party shares of the Company's common stock at specified strike prices and exercise dates.

The outstanding put warrants and corresponding call warrants expire on May 4 and May 14, 1999, respectively, are exercisable only on the maturity date, and may be settled in cash or shares of stock, at the Company's option. The May 4 position was closed out in January 1999.

The maximum potential repurchase obligations of the Company as of December 31, 1998 are as follows: 1,500 shares with a strike price of $18.00 or $27,000 and 1,200 shares with a strike price of $24.88 or $29,850. The put warrants have been classified separately on the balance sheet to reflect the maximum potential obligation of the

Company. There was no impact on basic and diluted net income per share in 1998, 1997 or 1996 resulting from these transactions.

Redeemable Common Stock

ALLIANT TECHSYSTEMS INC. (MAR)

(Amounts in thousands except share data)	1998	1997
Total current liabilities	$277,402	$319,066
Long-term debt	180,810	237,071
Post-retirement and post-employment benefits liability	136,889	143,373
Pension liability	33,991	37,079
Other long-term liabilities	37,334	45,207
Total liabilities	$666,426	$781,796
Contingencies		
Redeemable common shares (813,000 shares, per value $8, redeemable at prescribed prices totaling $44,979. Shares are redeemable in three equal lots of 271,000 shares each during each of the last three calendar quarters of 1998.)	$ 44,979	$ —

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share and per share data and unless otherwise indicated)

13 (In Part): Stockholders' Equity and Redeemable Common Shares

On October 24, 1997, the Company entered into an agreement with Hercules Incorporated (Hercules) providing for the disposition of the 3.86 million shares of Company common stock held by Hercules. The shares represent the stock issued by the Company in connection with the March 15, 1995, acquisition of the Hercules Aerospace Company operations (Aerospace operations) from Hercules.

Under the agreement with Hercules, during the quarter ended December 28, 1997, the Company registered for public offering approximately 2.78 million of the shares (previously unregistered) held by Hercules. The offering was completed on November 21, 1997. No new shares were issued in the offering nor did the Company receive any proceeds from the offering. The remaining 1.1 million shares then held by Hercules became subject to a put/call arrangement under which Hercules can require the Company to purchase the shares in four equal installments of 271,000 shares during each of the four calendar quarters of 1998. The Company can likewise require Hercules to sell the shares to the Company in four equal installments during each of the four calendar quarters of 1998. The prices for shares purchased under the put/call arrangement is equal to the per share net proceeds realized by Hercules in the secondary public offering, $55.32. During February 1998, the Company did repurchase the first installment of 271,000 shares, for approximately $15 million, which is reflected accordingly in these financial statements. In May, 1998, the Company repurchased the second installment of 271,000 shares, for approximately $15 million. The Company's present intention is to purchase the remaining shares covered by the put/call arrangement although no definitive decision has been made to do so.

Litigation

PITTWAY CORPORATION (DEC)

(Dollars in thousands)	1998	1997
Total current liabilities	$349,327	$252,098
Long-term debt:		
Notes payable, 6.70% and 6.81%, due in annual installments of $5 million beginning 1999 with the balance due 2005	70,000	75,000
Capitalized leases, principally at 5.0%-7.6%, due in monthly installments through 2005	10,176	9,049
Other	24,433	11,166
	104,609	95,215
Deferred liabilities:		
Income taxes	71,114	62,611
Litigation (Note 11)	43,000	—
Other	11,841	13,636
	$125,955	$76,247

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

11 (In Part): Contingencies and Commitments

In 1995 a lawsuit was brought against the Company by Interactive Technologies, Inc. ("ITI"), seeking lost profits and royalty damages of up to $66,800 on account of Company sales of products which the plaintiff alleged infringed on its patent. The plaintiff also asserted trebling of damages, if awarded, based upon alleged willful infringement. The Company moved for summary judgment of non-infringement and, in December 1997, the Court issued its order granting the Company partial summary judgment, stating its products did not literally infringe upon plaintiff's patent claims. In March 1998, the jury handed down a verdict against the Company awarding damages of $35,954. The jury found that the Company did not willfully infringe. The Company recorded a provision of $43,000 in the first quarter of 1998 which considers the judgment and interest. The Company has appealed the verdict.

Deferred Credits

AMERICA ONLINE, INC. (JUN)

(Amounts in millions)	1998	1997
Current liabilities:		
Trade accounts payable	$ 87	$ 68
Other accrued expenses and liabilities	443	299
Deferred revenue	242	166
Accrued personnel costs	46	20
Deferred network services credit	76	—
Total current liabilities	894	553
Long-term liabilities:		
Notes payable	372	50
Deferred revenue	71	86
Other liabilities	6	4
Deferred network services credit	273	—
Total liabilities	$1,616	$693

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Business Combinations

Purchase Transactions

Acquisition of CompuServe Corporation

The excess of the cash and the fair value of the CompuServe business received over the book value of ANS amounted to $381 million, which will be amortized on a straight-line basis over the five-year term of the Services Agreement as a reduction of network services expense within cost of revenues. Such amount has been classified as a deferred network services credit on the consolidated balance sheet. During the year ended June 30, 1998, the Company reduced cost of revenues by approximately $32 million due to the amortization of the deferred network services credit.

COMPUTER ASSOCIATES INTERNATIONAL, INC. (MAR)

(Dollars in millions)	1998	1997
Total current liabilities	$1,876	$1,727
Long-term debt, net of current portion	1,027	1,663
Deferred income taxes	952	853
Deferred maintenance revenue	370	338

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Basis of Revenue Recognition

Product license fee revenue is recognized after both acceptance by the client and delivery of the product. Maintenance revenue, whether bundled with product license or priced separately, is recognized ratably over the maintenance period. Accounts receivable resulting from product sales with extended payment terms are discounted to present value. The amounts of the discount credited to revenue for the years ended March 31, 1998, 1997, and 1996 were $356 million, $271 million, and $215 million, respectively.

NORDSTROM, INC. (JAN)

(Dollars in thousands)	1999	1998
Total current liabilities	$768,542	$942,606
Long-term debt	804,893	319,736
Deferred lease credits	147,188	77,091
Other liabilities	78,131	66,333

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Deferred Lease Credits

Deferred lease credits are amortized on a straight-line basis primarily over the life of the applicable lease.

OGDEN CORPORATION (DEC)

	1998	1997
Current liabilities:		
Notes payable	$ 45,600,000	$ —
Current portion of long-term debt	30,232,000	19,696,000
Current portion of project debt	63,201,000	68,052,000
Dividends payable	15,403,000	15,721,000
Accounts payable	94,629,000	109,719,000
Federal and foreign income taxes payable	21,776,000	1,913,000
Accrued expenses, etc.	305,942,000	267,874,000
Deferred income	47,991,000	42,962,000
Total current liabilities	624,774,000	525,937,000
Long-term debt	391,287,000	354,032,000
Project debt	1,367,528,000	1,424,648,000
Deferred income taxes	396,648,000	383,341,000
Deferred income	201,563,000	20,313,000
Other liabilities	215,119,000	187,866,000
Minority interests	28,174,000	28,417,000
Convertible subordinated debentures	148,650,000	148,650,000
Total liabilities	$3,373,743,000	$3,073,204,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Deferred Income

Deferred income (expressed in thousands of dollars) consisted of the following:

	1998		1997	
	Current	Noncurrent	Current	Noncurrent
Power sales agreement prepayment	$ 9,001	$174,328	$ —	$ —
Sale and leaseback arrangements	1,523	18,876	1,523	20,313
Advance billings to municipalities	11,523	—	14,662	—
Other	25,944	8,359	26,777	—
Total	$47,991	$201,563	$42,962	$20,313

The gain from sale and leaseback transactions consummated in 1986 and 1987 was deferred and is being amortized as a reduction of rental expense. Advance billings to municipalities are billed one or two months prior to performance of service and are recognized as income in the period the service is provided. In 1998, Ogden received a prepayment for future energy deliveries required under a power sales agreement. This prepayment is being amortized over the life of the agreement.

SEABOARD CORPORATION (DEC)

(Thousands of dollars)	1998	1997
Total current liabilities	$365,464	$360,902
Long-term debt, less current maturities	329,469	306,666
Deferred income taxes	44,147	27,943
Other liabilities	28,580	29,859
Total non-current and deferred liabilities	402,196	364,468
Minority interest	5,682	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Deferred Grant Revenue

Included in other liabilities at December 31, 1998 and 1997 is $11,127,000 and $11,550,000, respectively, of deferred grant revenue. Deferred grant revenue represents economic development funds contributed to the Company by government entities that were limited to construction of a hog processing facility in Guymon, Oklahoma. Deferred grants are being amortized to income over the life of the assets acquired with the funds.

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			
	1998	1997	1996	1995
To describe deductions from assets for				
Reducing inventories to LIFO cost	40	41	33	43
Doubtful accounts	20	19	21	23
Accumulated depreciation	4	3	5	4
Other—described	13	10	8	14
To describe accruals for				
Estimated expenses relating to property abandonments or discontinued operations	19	23	26	25
Insurance	11	16	13	19
Environmental costs	16	25	18	19
Employee benefits or compensation	8	6	4	6
Other—described	15	25	13	23
Other—not described	1	1	2	3

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

	1998	1997	1996	1995
Stockholders' Equity	271	271	263	256
Shareholders' Equity	244	246	250	248
Shareowners' Equity	26	25	20	23
Shareholders' Investment	12	12	15	14
Common Shareholders' Equity	12	10	8	10
Common Stockholders' Equity	9	11	12	16
Other or no title	26	25	32	33
Total Companies	**600**	**600**	**600**	**600**

CAPITAL STRUCTURES

Effective for periods ending after December 15, 1997, *Statement of Financial Accounting Standards No. 129* states the disclosure requirements for the capital structure of an entity.

Table 2-32 summarizes the capital structures disclosed on the balance sheets of the survey companies.

TABLE 2-32: CAPITAL STRUCTURES

	1998	1997	1996	1995
Common stock with:				
No preferred stock	501	485	472	457
One class of preferred stock	84	95	107	115
Two classes of preferred stock	15	18	19	24
Three or more classes of preferred stock	—	2	2	4
Total Companies	**600**	**600**	**600**	**600**
Companies included above with two or more classes of common stock	66	57	66	58

COMMON STOCK

Table 2-33 summarizes the reporting 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

	1998	1997	1996	1995
Par value stock shown at:				
Par value	571	576	580	568
Amount in excess of par	20	21	11	19
Assigned per share amount	4	6	12	9
No par value stock shown at:				
Assigned per share amount	13	9	8	14
No assigned per share amount	46	58	57	53
Issues outstanding	**654**	**670**	**668**	**663**

PREFERRED STOCK

Effective for periods ending after December 15, 1997, *Statement of Financial Accounting Standards No. 129* states reporting and disclosure requirements for preferred stock.

Table 2-34 summarizes the reporting 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			
	1998	1997	1996	1995
Par value stock shown at:				
Par value	41	53	52	63
Liquidation or redemption value	22	15	23	24
Assigned per share amount	7	4	8	5
Fair value at issuance date	5	3	1	4
Other	3	11	10	10
No par value stock shown at:				
Liquidation or redemption value	20	14	15	19
Assigned per share amount	6	13	13	13
Fair value at issuance date	1	2	—	3
No assigned per share amount	8	12	11	15
Number of Companies				
Preferred stock outstanding	102	120	130	145
No preferred stock outstanding	498	480	470	455
Total Companies	**600**	**600**	**600**	**600**

Preferred Stock Extended At Par Value

HECLA MINING COMPANY (DEC)

(Dollars in thousands)	1998	1997
Shareholders' equity		
Preferred stock, $0.25 par value, authorized 5,000,000 shares; issued and outstanding—2,300,000 shares, liquidation preference $117,012	$575	$575
Common stock, $0.25 par value, authorized 100,000,000 shares; issued 1998—55,166,728 shares, issued 1997—55,156,324 shares	13,792	13,789
Paid-in capital	374,017	373,966
Accumulated deficit	(230,493)	(222,143)
Accumulated other comprehensive loss	(5,269)	(4,961)
Less treasury stock, at cost: 1998—62,110 common shares, 1997—62,089 common shares	(886)	(886)
Total shareholders' equity	151,736	160,340

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Shareholders' Equity

Preferred Stock

The Company has 2.3 million shares of Series B Cumulative Convertible Preferred Stock (the Preferred Shares) outstanding. Holders of the Preferred Shares are entitled to receive cumulative cash dividends at the annual rate of $3.50 per share payable quarterly, when and if declared by the Board of Directors.

The Preferred Shares are convertible, in whole or in part, at the option of the holders thereof, into shares of common stock at an initial conversion price of $15.55 per share of common stock. The Preferred Shares were not redeemable by the Company prior to July 1, 1996. After such date, the shares are redeemable at the option of the Company at any time, in whole or in part, initially at $52.45 per share and thereafter at prices declining ratably on each July 1 to $50.00 per share on or after July 1, 2003.

Holders of the Preferred Shares have no voting rights except if the Company fails to pay the equivalent of six quarterly dividends. If these dividends are not paid, the holders of Preferred Shares, voting as a class, shall be entitled to elect two additional directors. The holders of Preferred Shares also have voting rights related to certain amendments to the Company's Articles of Incorporation.

The Preferred Shares rank senior to the common stock and any outstanding shares of Series A Preferred Shares. The Preferred Shares have a liquidation preference of $50.00 per share plus all declared and unpaid dividends which total $117,012,000 at December 31, 1998.

SEQUA CORPORATION (DEC)

(Amounts in thousands, except share data)	1998	1997
Shareholders' equity (Notes 7, 12, 13 and 14)		
Preferred stock—$1 par value, 1,825,000 shares authorized; 797,000 shares of $5 cumulative convertible stock issued at December 31, 1998 and 1997 (involuntary liquidation value—$17,181 at December 31, 1998)	$ 797	$ 797
Class A common stock—no par value, 25,000,000 shares authorized; 7,273,000 shares issued at December 31, 1998 and 7,188,000 shares issued at December 31, 1997	7,273	7,188
Class B common stock—no par value, 5,000,000 shares authorized; 3,727,000 shares issued at December 31, 1998 and 1997	3,727	3,727
Capital in excess of par value	288,379	283,339
Accumulated other comprehensive loss	(1,016)	(6,794)
Retained earnings	444,669	382,945
	743,829	671,202
Less: cost of treasury stock	78,377	76,808
Total shareholders' equity	$665,452	$594,394

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Capital Stock

Sequa's capital stock consists of Class A and Class B common stock and $5.00 cumulative convertible preferred stock. Holders of Class A common stock have one vote per share; holders of Class B common stock have ten votes per share; and preferred stockholders have one vote per share. Holders of Class B common stock are entitled to convert their shares into Class A common stock at any time on a share-for-share basis. Each share of $5.00 cumulative convertible preferred stock is convertible into 1.322 shares of Class A common stock. The preferred stock is redeemable, at the option of Sequa, at $100 per share.

At December 31, 1998, 4,327,880 shares of Sequa Class A common stock were reserved for the conversion of preferred and Class B common stock, and for the exercise of outstanding stock options.

The following table summarizes shares held in treasury:

At December 31,	1998	1997	1996
Class A common stock	215,104	512,643	614,100
Class B common stock	397,283	397,283	396,283
Preferred stock	383,990	186,690	186,690

During 1998, 286,199 shares of Class A common stock were issued out of treasury in exchange for 197,300 shares of cumulative convertible preferred stock. The average exchange ratio was 1.45 shares of Class A common stock for each share of preferred.

Preferred Stock Extended At Stated Value

PHARMACIA & UPJOHN, INC. (DEC)

(Dollar amounts in millions)	1998	1997
Shareholders' equity:		
Preferred stock, one cent par value; authorized 100,000,000 shares, issued Series A convertible 6,863 shares at stated value (1997: 6,996 shares)	$277	$282
Common stock, one cent par value, authorized 1,500,000,000 shares, issued 508,682,707 shares (1997: 508,647,507 shares)	5	5
Capital in excess of par value	1,376	1,440
Retained earnings	5,493	5,364
ESOP-related accounts	(254)	(260)
Treasury stock	(35)	(48)
Accumulated other comprehensive income:		
Currency translation adjustments	(1,246)	(1,298)
Unrealized investment gains, net	5	53
Minimum pension liability adjustment	(21)	—
Total shareholders' equity	$5,600	$5,538

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in millions)

17 (In Part): Shareholders' Equity

Preferred Stock

The Series A Convertible Perpetual Preferred Stock is held by the Employee Stock Ownership Trust (ESOP Trust). The per-share stated value is $40,300.00 and the preferred stock ranks senior to the company's common stock as to dividends and liquidation rights. Each share is convertible, at the holder's option, into 1,450 shares of the company's common stock and has voting rights equal to 1,450 shares of common stock. The company may redeem the preferred stock at any time after July 20, 1999, or upon termination of the ESOP at a minimum price of $40,300.00 per share. Dividends, at the rate of 6.25 percent, are cumulative, paid quarterly, and charged against retained earnings.

Preferred Stock Extended At Redemption Or Liquidating Value

OCCIDENTAL PETROLEUM CORPORATION (DEC)

(In millions, except share amounts)	1998	1997
Stockholders' equity		
Nonredeemable preferred stock, $1.00 par value; authorized 50 million shares; outstanding shares: 1998—4,852,294 and 1997—22,491,478; stated at liquidation value of $50 per share	$ 243	$1,125
ESOP preferred stock, $1.00 par value; authorized and outstanding shares: 1997—1,400,000	—	1,400
Unearned ESOP shares	—	(1,348)
Common stock, $.20 par value; authorized 500 million shares; outstanding shares: 1998—347,721,914 and 1997—341,126,546	69	68
Additional paid-in capital	3,814	4,149
Retained earnings (deficit)	(734)	(1,097)
Accumulated other comprehensive income	(29)	(11)
	$3,363	$4,286

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Nonredeemable Preferred Stock, ESOP Preferred Stock and Common Stock

The following is an analysis of nonredeemable preferred stock and common stock (shares in thousands):

	Nonredeemable Preferred Stock	Common Stock
Balance, December 31, 1995	26,495	318,711
Issued	—	10,145
Options exercised and other, net	(2)	372
Balance, December 31, 1996	26,493	329,228
Issued	—	1,079
Preferred stock conversions	(4,002)	14,276
Repurchase program	—	(4,148)
Options exercised and other, net	—	692
Balance, December 31, 1997	22,491	341,127
Issued	—	1,246
Preferred stock conversions	(17,639)	40,098
Repurchase program	—	(35,142)
Options exercised and other, net	—	393
Balance, December 31, 1998	4,852	347,722

Nonredeemable Preferred Stock

Occidental has authorized 50,000,000 shares of preferred stock with a par value of $1.00 per share. In February 1994, Occidental issued 11,388,340 shares of $3.00 cumulative CXY-indexed convertible preferred stock in a public offering for net proceeds of approximately $557 million. The shares are convertible into Occidental common stock in accordance with a conversion formula that is indexed to the market price of the common shares of CanadianOxy. The shares of CXY-indexed convertible preferred stock are redeemable on or after January 1, 1999, in whole or in part, at the option of Occidental, at a redemption price of $51.50 per share declining ratably to $50.00 per share on or after January 1, 2004, in each case plus accumulated and unpaid dividends to the redemption date. In 1998, and 1997, 2,532,740 shares and 4,001,691 shares of CXY-indexed convertible preferred stock were converted by the holders into 6,911,913 shares and 14,275,974 shares of Occidental's common stock. As of December 31, 1998, the aggregate number of shares of Occidental common stock issuable upon conversion of all of the remaining outstanding shares of the CXY-indexed convertible preferred stock was 10,471,250, based on the conversion ratio then in effect of 2.16.

OWENS-ILLINOIS, INC. (DEC)

Millions of dollars, except share amounts	1998	1997
Share owners' equity:		
Convertible preferred stock, par value $.01 per share, liquidation preference $50 per share, 9,050,000 shares authorized, issued and outstanding	$ 452.5	$ —
Exchangeable preferred stock	18.3	20.4
Common stock, par value $.01 per share, 250,000,000 shares authorized, 155,450,173 shares outstanding (140,526,195 in 1997)	1.5	1.4
Capital in excess of par value	2,183.1	1,558.4
Retained earnings (deficit)	7.3	(90.3)
Accumulated other comprehensive income	(190.7)	(148.0)
Total share owners' equity	$2,472.0	$1,341.9

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

Convertible Preferred Stock

In conjunction with the Offerings, on May 20, 1998, the Company issued 9,050,000 shares of convertible preferred stock at a public offering price of $50.00 per share (see "Long-Term Debt" note). Annual cumulative dividends of $2.375 per share accruing from the date of issuance are payable in cash quarterly commencing August 15, 1998. The convertible preferred stock is convertible at the option of the holder at any time, unless previously redeemed, into shares of common stock of the Company at an initial conversion rate of 0.9491 shares of common stock for each share of convertible stock, subject to adjustment in certain events. The convertible preferred stock may not be redeemed prior to May 15, 2001. At any time on or after such date, the convertible preferred stock may be redeemed only in shares of common stock of the Company at the option of the Company at predetermined redemption prices plus accrued and unpaid dividends, if any, to the redemption date.

Holders of the convertible preferred stock have no voting rights, except as required by applicable law and except that among other things, whenever accrued and unpaid dividends on the convertible preferred stock are equal to or exceed the equivalent of six quarterly dividends payable on the convertible preferred stock such holders will be entitled to elect two directors to the Company's board of directors until the dividend arrearage has been paid or amounts have been set apart for such payment. In addition, certain changes that would be materially adverse to the rights of holders of the convertible preferred stock cannot be made without the vote of holders of two-thirds of the outstanding convertible preferred stocks. The convertible preferred stock is senior to the common stock and the exchangeable preferred stock with respect to dividends and liquidation events.

Exchangeable Preferred Stock

Exchangeable preferred stock, $.01 par value, $7.00 cumulative dividend, issuable in series, at December 31, 1998 and 1997, were as follows:

	Number of shares	
	1998	1997
Series A Exchangeable		
Authorized	75,000	75,000
Issued	65,625	65,625
Outstanding	15,956	17,099
Series B Exchangeable		
Authorized	75,000	75,000
Issued	65,625	65,625
Outstanding	51,343	55,665
Series C Exchangeable		
Authorized	150,000	150,000
Issued	131,250	131,250
Outstanding	115,402	131,250

The exchangeable preferred stock is exchangeable at the option of the owners for a number of common shares determined by multiplying the total number of exchangeable shares being exchanged by the sum of $100 plus all dividends accumulated and unpaid on each share being exchanged and dividing such amount by the last reported sales price of common stock on the New York Stock Exchange at the close of business on the business day next preceding the day of exchange. Dividends accumulated and unpaid were approximately $7.9 million and $7.4 million at December 31, 1998 and 1977, respectively.

Holders of the exchangeable preferred stock have no voting rights, except on actions which would affect their rights to exchange shares for common shares, or on actions to increase the authorized number of exchangeable shares.

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

	1998	1997	1996	1995
Additional paid-in capital	264	262	254	256
Capital in excess of par or stated value	139	136	142	145
Paid-in capital	50	47	46	46
Additional capital, or other capital	28	34	35	36
Capital surplus	28	31	32	30
Paid-in surplus	2	1	1	2
Other captions	16	16	11	12
	527	527	521	527
No additional paid-in capital account	73	73	79	73
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 in connection with discussions of other components of stockholders' equity.

TABLE 2-36: RETAINED EARNINGS—CAPTION TITLE

	1998	1997	1996	1995
Retained Earnings	488	479	477	462
Retained Earnings with additional words	5	6	7	7
Earnings with additional words	29	31	34	35
Income with additional words	9	11	9	11
Earned Surplus	1	1	1	1
Retained Earnings (Deficit)	20	26	32	37
Accumulated Deficit	48	46	40	47
Total Companies	**600**	**600**	**600**	**600**

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

	1998	1997	1996	1995
Common stock				
Cost of treasury stock shown as stockholders' equity deduction	355	360	350	349
Par of stated value of treasury stock deducted from issued stock of the same class	23	19	19	27
Cost of treasury stock deducted from stock of the same class	12	5	4	6
Other	2	3	1	3
Total Presentations	**392**	**387**	**374**	**385**
Preferred Stock				
Cost of treasury stock shown as stockholders' equity deduction	2	2	4	3
Par or stated value of treasury stock deducted from issued stock of the same class	1	2	1	—
Other	1	—	—	1
Total Presentations	**4**	**4**	**5**	**4**
Number of Companies				
Disclosing treasury stock	392	384	373	384
Not disclosing treasury stock	208	216	227	216
Total Companies	**600**	**600**	**600**	**600**

Cost of Treasury Stock Shown as Reduction of Stockholders' Equity

AMERICAN BILTRITE INC. (DEC)

(In thousands of dollars)	1998	1997
Stockholders' equity:		
Common stock, par value $.01—authorized 15,000,000 shares, issued 4,607,902 shares	$ 46	$ 46
Additional paid-in capital	19,423	19,423
Retained earnings	68,247	60,924
Accumulated other comprehensive income	(4,906)	(3,305)
	82,810	77,088
Less cost of shares of common stock in treasury (960,914 shares in 1998 and 971,394 shares in 1997)	11,573	11,743
Total stockholders' equity	$71,237	$65,345

THE NEW YORK TIMES COMPANY (DEC)

(In thousands, except share data)	1998	1997
Stockholders' equity[1]		
Serial preferred stock of $1 par value—authorized 200,000 shares—none issued	$ —	$ —
Common stock of $.10 par value		
Class A—authorized 300,000,000 shares; issued: 1998—185,763,418; 1997—226,567,580 (including treasury shares: 1998—5,000,000; 1997—34,159,486)	18,575	22,656
Class B—convertible—authorized 849,602 shares; issued: 1998—849,602; 1997—1,129,488 (including treasury shares: 1998—none and 1997—279,886)	86	114
Additional paid-in capital	—	761,982
Accumulated other comprehensive income (loss)—foreign currency translation adjustments	(2,609)	(1,510)
Retained earnings	1,677,469	1,491,655
Common stock held in treasury, at cost	(162,051)	(545,600)
Total stockholders' equity	$1,531,470	$1,729,297

[1] All share and per share information is presented on a post two-for-one split basis. The split was effective on June 17, 1998.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Capital Stock

At the April 1996 annual meeting of the Company's Class A and B Common Shareholders, an amendment to the 1991 Executive Stock Incentive Plan was approved to reserve an additional 20 million shares of Class A Common Stock for issuance thereunder pursuant to the exercise of stock options.

The Company spent $454 million in 1998 and $146 million in 1997 to repurchase shares of Class A Common Stock. The Company repurchased 15 million shares in 1998 at an average cost of $31 per share and 3 million shares in 1997 at an average cost of $25 per share. During the period from December 28, 1998, through January 27, 1999, the Company spent $47 million to repurchase 1.4 million shares of Class A Common Stock at an average price of $34 per share. As of January 27, 1999, the remaining amount of repurchase authorizations from the Company's Board of Directors is $300 million. Under the authorizations, purchases may be made from time to time either in the open market or through private transactions. Purchases may be suspended from time to time or discontinued. Stock repurchases under this program exclude shares reacquired in connection with taxes due from optionees on certain exercises under the Company's stock option plans at a cost of $27 million in 1998.

Had the 1998 stock repurchases occurred as of January 1, 1998, the impact on earnings per share would have been reduced by $.04 per share. For 1997 and 1996 the impact on earnings per share would have been immaterial.

In June 1998 the Company retired from treasury 17 million Class A shares and 140,000 Class B shares. As a result of this retirement, treasury stock and Additional Paid-In Capital were both reduced by $539 million. In December 1998 the Company retired from treasury an additional 10 million Class A shares. This retirement resulted in a reduction of $322 million in treasury stock, $296 million in Additional Paid-In Capital and $26 million in Retained Earnings.

In addition to the Company's stock repurchase program, the Company sells equity options in private placements that entitle the holder, upon exercise, to sell shares of Class A Common Stock to the Company at a specified price. In 1997 put options for 400,000 shares were issued for $.3 million in premiums, which were accounted for as a part of Additional Paid-In Capital. In 1998 no put options were issued. All put options have expired.

Shares of Class A Common Stock reserved for issuance were as follows:

(Shares in thousands)	December 27, 1998	December 28, 1997
Stock options		
Outstanding	20,317	19,585
Available	11,256	15,383
Employee stock purchase plan		
Available	4,444	5,872
Voluntary conversion of Class B common stock		
Available	1,129	1,129
Retirement units		
Outstanding	157	318
Available	1,933	1,933
Total		
Outstanding	20,474	19,903
Available	18,754	24,309

RAYCHEM CORPORATION (JUN)

(In thousands except share data)	1998	1997
Stockholders' equity:		
Preferred stock, $1.00 par value Authorized: 15,000,000; Issued: none	$ —	$ —
Common stock, $1.00 par value Authorized: 150,000,000 and 144,300,000 shares, respectively Issued: 90,028,103 and 90,089,030 shares, respectively	90,028	90,089
Additional contributed capital	425,477	368,164
Retained earnings	665,753	540,623
Currency translation	(30,808)	(9,336)
Treasury stock, at cost (7,144,399 and 4,164,846 shares, respectively)	(290,320)	(143,106)
Other	(488)	(1,415)
Total stockholders' equity	$859,642	$845,019

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Treasury Stock

In December 1994, the board of directors authorized the repurchase, at management's discretion, of up to 3 million shares of the company's stock during any one fiscal year. In April 1996, the board of directors increased this authorization to repurchase up to 4 million shares of the company's stock during any one fiscal year, effective July 1, 1996. In April 1997, the board of directors further increased this authorization to repurchase up to 6 million shares of the company's stock during any rolling 12-month period commencing on or after April 16, 1997. In July 1997, the board of directors modified its share repurchase authorization. Commencing with fiscal 1998, management is permitted, at its discretion, to repurchase up to $300 million of the company's stock during any fiscal year. Shares repurchased under the board of directors' authorization are used to offset the dilution caused by the company's employee stock purchase and stock option plans. The company's repurchases of shares of Common Stock are recorded as "Treasury Stock" and result in a reduction of "Stockholders' equity." When treasury shares are reissued, the company uses a first-in, first-out method and the excess of repurchase cost over reissuance price is treated as a reduction of "Retained earnings."

Par Value of Treasury Stock Deducted From Issued Stock

THE TORO COMPANY (OCT)

(Dollars and shares in thousands, except per share data)	1998	1997
Stockholders' equity:		
Stock, par value $1.00, authorized 35,000,000 shares; issued and outstanding 12,769,560 shares in 1998 (net of 738,495 treasury shares) and 12,189,244 shares in 1997 (net of 720,760 treasury shares	$ 12,770	$ 12,189
Additional paid-in capital	56,546	31,371
Retained earnings	200,609	202,681
Foreign currency translation adjustment	(6,526)	(5,078)
Total stockholders' equity	$263,399	$241,163

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.

261 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.

Examples showing the presentation of other stockholders' equity accounts follow.

TABLE 2-38: OTHER STOCKHOLDERS' EQUITY ACCOUNTS

	Number of Companies			
	1998	**1997**	**1996**	**1995**
Cumulative translation adjustments...	442	405	403	400
Minimum pension liability adjustments...	186	106	101	117
Unrealized losses/gains on certain investments...	148	113	109	105
Unearned compensation...	119	115	117	110
Guarantees of ESOP debt...	46	65	68	78
Employee benefit trusts...	23	25	16	—
Receivables from sale of stock...	14	13	12	16

Accumulated Other Comprehensive Income (Loss)

CHAMPION INTERNATIONAL CORPORATION (DEC)

(in millions of dollars)	1998	1997
Shareholders' equity:		
Capital shares:		
Preference stock, 8,531,431 shares authorized but unissued	$ —	$ —
Common stock, $.50 par value: 250,000,000 authorized shares; 111,025,755 and 110,900,212 issued shares	55.5	55.5
Paid-in capital	1,705.5	1,697.2
Retained earnings	2,228.4	2,172.5
	3,989.4	3,925.2
Treasury shares, at cost	(689.7)	(657.9)
Accumulated other comprehensive income (Note 11)	(203.8)	(57.3)
	$3,095.9	$3,210.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Accumulated Other Comprehensive Income

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," effective in 1998, requires the disclosure of comprehensive income to reflect changes in equity that result from transactions and economic events from nonowner sources. Accumulated other comprehensive income for the periods presented below represents foreign currency translation items associated with the company's Brazilian and Canadian operations. There was no tax expense or tax benefit associated with the foreign currency translation items, other than than the cumulative tax effect described below.

Accumulated Other Comprehensive Income (Foreign Currency Translation)

	Years Ended December 31		
(in millions of dollars)	1998	1997	1996
Beginning balance	$ (57.3)	$(33.2)	$(29.9)
Foreign currency translation adjustments:			
Cumulative tax effect of changing the Brazilian functional currency to the Real	(51.5)	—	—
Other foreign currency translation adjustments	(95.0)	(24.1)	(3.3)
Ending balance	$(203.8)	$(57.3)	$(33.2)

CLEVELAND-CLIFFS INC. (DEC)

(in millions)	1998	1997
Shareholders' equity:		
Preferred stock		
Class A—no par value		
Authorized—500,000 shares; Issued—none		
Class B—no par value		
Authorized—4,000,000 shares; Issued—none		
Common shares—par value $1 a share		
Authorized—28,000,000 shares; Issued—16,827,941 shares	$ 16.8	$ 16.8
Capital in excess of par value of shares	70.9	69.8
Retained income	513.2	472.1
Accumulated other comprehensive loss, net of tax	(4.3)	(2.0)
Cost of 5,677,287 common shares in treasury (1997—5,519,027 shares)	(155.9)	(146.2)
Unearned compensation	(3.1)	(3.1)
Total shareholders' equity	$437.6	$407.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B. Other Comprehensive Income

Components of Other Comprehensive Income (Loss) and related tax effects allocated to each are shown below:

(in millions)	Pre-Tax Amount	Tax Benefit	After-Tax Amount
Year ended Dec. 31, 1996			
Unrealized (losses) on securities	$(1.6)	$ .5	$(1.1)
Foreign currency translation adjustment	(.2)	—	(.2)
Total	$(1.8)	$ .5	$(1.3)
Year ended Dec. 31, 1997			
Unrealized (losses) on securities	$(1.7)	$ .7	$(1.0)
Foreign currency translation adjustment	(.1)	—	(.1)
Total	$(1.8)	$ .7	$(1.1)
Year ended Dec. 31, 1998			
Unrealized (losses) on securities	$(3.5)	$1.2	$(2.3)

Other Comprehensive Income (Loss) balances are as follows:

(in millions)	Unrealized (Losses) on Securities	Foreign Currency Items	Accumulated Other Comprehensive Income (Loss)
Balance Dec. 31, 1995	$ .1	$ .3	$ .4
Change during 1996	(1.1)	(.2)	(1.3)
Balance Dec. 31, 1996	(1.0)	.1	(.9)
Change during 1997	(1.0)	(.1)	(1.1)
Balance Dec. 31, 1997	(2.0)	—	(2.0)
Change during 1998	(2.3)	—	(2.3)
Balance Dec. 31, 1998	$(4.3)	$—	$(4.3)

CROWN CORK & SEAL COMPANY (DEC)

(in millions, except share data)	1998	1997
Shareholders' equity:		
Preferred stock, 4.5% cumulative convertible, par value: $41.8875; authorized: 12,432,622		
1998—outstanding 8,376,451	$ 351	
1997—outstanding 12,431,793		$ 521
Additional preferred stock, authorized: 30,000,000; none issued		
Common stock, par value: $5.00; authorized: 500,000,000		
1998—issued 155,792,424	779	
1997—issued 155,792,386		779
Additional paid-in capital	1,340	1,561
Retained earnings	1,250	1,327
Accumulated other comprehensive income/(loss)—Note C	(578)	(522)
Treasury stock (1998—33,455,026 shares; 1997—27,393,843 shares)	(167)	(137)
Total shareholders' equity	$2,975	$3,529

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions)

C. Comprehensive Income

Statement of Financial Accounting Standards ("SFAS") No. 130, Reporting Comprehensive Income, establishes a standard for reporting and displaying comprehensive income and its components within the financial statements. Comprehensive income includes charges and credits to equity that are not the result of transactions with shareholders. Comprehensive income is composed of two subsets—net income and other comprehensive income. Included in other comprehensive income for the Company are cumulative translation adjustments and minimum pension liability adjustments. These adjustments are accumulated within the Statement of Shareholders' Equity under the caption Accumulated Other Comprehensive Income/(Loss). As of December 31, accumulated other comprehensive income/(loss), as reflected in the consolidated statement of shareholders' equity, was comprised of the following:

	1998	1997
Minimum pension liability adjustments	$(104)	$ (17)
Cumulative translation adjustments	(474)	(505)
	$(578)	$(522)

Cumulative translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries.

UNOVA, INC. (DEC)

(Thousands of dollars)	1998	1997
Shareholders' investment		
Preferred stock; 50,000,000 shares authorized		
Common stock; shares outstanding: 54,942,655 (1998) and 54,510,193 (1997)	$ 549	$ 545
Additional paid-in capital	645,054	603,743
Retained earnings (deficit)	61,672	(8,041)
Accumulated other comprehensive income:		
Cumulative currency translation adjustment	(5,850)	(6,758)
Total shareholders' investment	$701,425	$589,489

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Foreign Currencies

The currency effects of translating the financial statements of the Company's foreign entities that operate in local currency environments are included in the "cumulative currency translation adjustment" component of shareholders' investment. Currency transaction gains and losses are included in the consolidated and combined statements of operations and were not material for any periods presented herein.

Unearned Compensation Relating to Stock Award Plans

ANALOGIC CORPORATION (JUL)

(000 omitted)	1998	1997
Stockholders' equity:		
Common stock, $.05 par; authorized 30,000,000 shares; issued 1998, 13,852,127 shares; issued 1997, 13,835,364 shares	$ 693	$ 692
Capital in excess of par value	23,567	22,916
Retained earnings	241,329	220,343
Unrealized holding gains and losses	1,656	1,713
Cumulative translation adjustments	(1,373)	(1,617)
	265,872	244,047
Less:		
Treasury stock, at cost (1998, 1,205,347 shares; 1997, 1,234,653 shares)	13,515	14,121
Unearned compensation	1,102	1,710
Total stockholders' equity	$251,255	$228,216

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Stock Option and Stock Bonus Plans

At July 31, 1998, the Company had three key employee stock option plans; two of which have lapsed as to the granting of options. In addition, the Company has one key employee stock bonus plan, two nonemployee director stock option plans and one employee stock purchase plan.

Under the Company's key employee stock bonus plan, common stock may be granted to key employees under terms and conditions as determined by the Board of Directors. Generally, participants under the stock bonus plan may not dispose or otherwise transfer stock granted for three years from the date of grant. Upon issuance of stock under the plan, unearned compensation equivalent to the market value at the date of grant is charged to stockholders' equity and subsequently amortized over the periods during which the restrictions lapse (up to six years). Amortization of $538,000, $663,000 and $759,000 were recorded in fiscal 1998, 1997 and 1996, respectively.

At July 31, 1998, 844,068 shares were reserved for grant under the above stock option, bonus and purchase plans.

LOWE'S COMPANIES, INC. (JAN)

(in thousands)	1999	1998
Shareholders' equity (Note 8):		
Preferred stock—$5 par value, none issued	$ —	$ —
Common stock—$.50 par value; issued and outstanding January 29, 1999 352,643 January 30, 1998 350,632	176,321	175,316
Capital in excess of par	983,217	892,666
Retained earnings	2,006,384	1,565,133
Unearned compensation—restricted stock awards	(30,387)	(32,694)
Accumulated other comprehensive income	417	188
Total shareholders' equity	$3,135,952	$2,600,609

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Shareholders' Equity

Restricted stock awards of 10,000, 870,700 and 777,100 shares, with per share weighted-average fair values of $35.13, $24.80 and $16.57, were granted to certain executives in 1998, 1997 and 1996, respectively. These shares are nontransferable and subject to forfeiture for periods prescribed by the Company. These shares may become transferable and vested earlier based on achievement of certain performance measures. During 1998, a total of 280,100 shares were forfeited and 164,950 shares became vested. At January 29, 1999, grants totaling 1,548,750 shares are included in Shareholder's Equity and are being amortized as earned over periods not exceeding seven years. Related expense (charged to compensation expense) for 1998, 1997 and 1996 was $18.5, $6.2 and $1.9 million, respectively.

Guarantees of ESOP Debt

H.J. HEINZ COMPANY (APR)

(Dollars in thousands)	1998	1997
Shareholders' equity:		
Capital stock:		
Third cumulative preferred,		
$1.70 first series, $10 par value	$ 199	$ 241
Common stock, 431,096,485		
shares issued, $.25 par value	107,774	107,774
	107,973	108,015
Additional capital	252,773	175,811
Retained earnings	4,390,248	4,041,285
Cumulative translation adjustments	(391,148)	(210,864)
	4,359,846	4,114,247
Less:		
Treasury shares, at cost		
(67,678,632 shares at April 29,		
1998 and 63,912,463 shares at		
April 30, 1997)	2,103,979	1,629,501
Unfunded pension obligation	24,529	26,962
Unearned compensation relating		
to the ESOP	14,822	17,363
Total shareholders' equity	$2,216,516	$2,440,421

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Shareholders' Equity

Employee Stock Ownership Plan (ESOP)

The company established an ESOP in 1990 to replace in full or in part the company's cash-matching contributions to the H.J. Heinz Company Employees Retirement and Savings Plan, a 401(k) plan for salaried employees. Matching contributions to the 401(k) plan are based on a percentage of the participants' contributions, subject to certain limitations.

To finance the plan, the ESOP borrowed $50.0 million directly from the company in 1990. The loan is in the form of a 15-year variable-rate interest-bearing note (an average of 5.6%, 5.6% and 5.5% for 1998, 1997 and 1996, respectively) and is included in the company's Consolidated Balance Sheets as unearned compensation. The proceeds of the note were used to purchase 2,366,862 shares of treasury stock from the company at approximately $21.13 per share.

The stock held by the ESOP is released for allocation to the participants' accounts over the term of the loan as company contributions to the ESOP are made. The company contributions are reported as compensation and interest expense. Compensation expense related to the ESOP for 1998, 1997 and 1996 was $0.2 million, $3.0 million and $2.3 million, respectively. Interest expense was $0.9 million, $1.1 million and $1.5 million for 1998, 1997 and 1996, respectively. The Company's contributions to the ESOP and the dividends on the company stock held by the ESOP are used to repay loan interest and principal.

The dividends on the company stock held by the ESOP were $2.3 million, $2.3 million and $2.1 million in 1998, 1997 and 1996, respectively.

The ESOP shares outstanding at April 29, 1998 and April 30, 1997, respectively, were as follows: unallocated 593,095 and 711,725; committed-to-be-released 32,329 and 61,724; and allocated 1,124,475 and 1,156,236. Shares held by the ESOP are considered outstanding for purposes of calculating the company's net income per share.

VIAD CORP (DEC)

(000 omitted, except share data)	1998	1997
Common stock and other equity:		
Common stock, $1.50 par value,		
200,000,000 shares authorized,		
99,739,925 shares issued	$149,610	$149,610
Additional capital	327,866	291,414
Retained income	328,305	209,127
Unearned employee benefits		
and other	(162,543)	(121,968)
Accumulated other comprehensive		
income:		
Unrealized gain on securities		
classified as available for sale,		
net of tax	18,231	13,625
Cumulative translation		
adjustments	(7,009)	(3,022)
Common stock in treasury, at cost,		
344,858 and 516,926 shares	(8,579)	(9,625)
Total common stock and other equity	$645,881	$529,161

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

J (In Part): Preferred Stock and Common Stock and Other Equity

Viad funds a portion of its matching contributions to employees' 401(k) plans through a leveraged ESOP. All eligible employees of Viad and its participating affiliates, other than certain employees covered by collective bargaining agreements that do not expressly provide for participation of such employees in an ESOP, may participate in the ESOP.

The ESOP borrowed $40,000,000 to purchase treasury shares in 1989. The ESOP's obligation to repay this borrowing is guaranteed by Viad; therefore, the unpaid balance of the borrowing ($22,000,000 and $24,000,000 at December 31, 1998 and 1997, respectively) has been reflected in the accompanying balance sheet as long-term debt. The same amounts, representing unearned employee benefits, have been recorded as a deduction from common stock and other equity. The liability is reduced as the ESOP repays the borrowing, and the amount in common stock and other equity is reduced as the employee benefits are charged to expense. The ESOP intends to repay the loan (plus interest) using Viad contributions and dividends received on the shares of common stock held by the ESOP.

Information regarding ESOP transactions for the years ended December 31 was as follows:

(000 omitted)	1998	1997	1996
Amounts paid by ESOP for:			
Debt repayment	$2,000	$2,000	$2,000
Interest	1,098	1,187	1,200
Amounts received from Viad as:			
Dividends	884	856	999
Contributions	2,205	2,226	2,064

Shares are released for allocation to participants based upon the ratio of the year's principal and interest payments to the sum of the total principal and interest payments expected over the remaining life of the plan. Expense of the ESOP is recognized based upon the greater of cumulative cash payments to the plan or 80% of the cumulative expense that would have been recognized under the shares allocated method, in accordance with Emerging Issues Task Force Abstract No. 89-8, "Expense Recognition for Employee Stock Ownership Plans." Under this method, Viad has recorded expense of $2,205,000, $2,123,000 and $2,138,000 in 1998, 1997 and 1996, respectively.

Unallocated shares held by the ESOP totaled 2,575,000 and 2,867,000 at December 31, 1998 and 1997, respectively. Shares allocated during 1998 and 1997 totaled 292,000 and 297,000, respectively.

Grantor Trust

RALSTON PURINA COMPANY (SEP)

(In millions except per share data)	1998	1997
Shareholders' equity:		
Preferred stock, $1 par value, none outstanding		
Common stock—$.10 par value, issued 326,303,467 and 114,694,666 shares in 1998 and 1997, respectively	$ 32.6	$ 11.5
Capital in excess of par value	127.7	320.0
Retained earnings	2,067.0	1,566.7
Cumulative translation adjustment	(87.3)	(129.8)
Common stock in treasury, at cost, 13,875,377 and 8,116,407 shares in 1998 and 1997, respectively	(766.3)	(466.7)
Unearned portion of restricted stock	(4.2)	(3.4)
Value of 13,470,442 and 4,307,214 shares of common stock held in Grantor Trust in 1998 and 1997, respectively	(191.5)	(381.2)
Net unrealized holding loss on available-for-sale securities	(88.9)	—
Total shareholders' equity	$1,089.1	$917.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Grantor Trust

On September 15, 1994, the Company established the Ralston Purina Company Grantor Trust (the Trust) to provide a source of funds to assist the Company in meeting its obligations under various employee benefit plans and programs. The Trust supports certain employee benefit plans and does not change those plans or the amounts of stock expected to be issued for those plans. However, payment of certain benefits would be accelerated if minimum funding requirements of the Trust are not met.

For financial reporting purposes, the Trust is consolidated with the Company. In 1998, the Trust was adjusted through additional paid in capital from fair market value to original cost basis based upon guidance issued by the Emerging Issues Task Force of the Financial Accounting Standards Board. The cost basis of the shares held by the Trust is shown as a reduction to shareholders equity. Any dividend transactions between the Company and the Trust are eliminated. RAL Stock held in the Trust is not considered outstanding in the computation of earnings per share. The Trust held 13,470,442 shares of RAL Stock at a cost basis of $191.5 at September 30, 1998; and held 12,921,642 shares of RAL stock at a fair market value of $381.2 at September 30, 1997.

The Trustee, a party not related to the Company, is responsible for voting the shares of RAL Stock held in the the Trust.

SNAP-ON INCORPORATED (DEC)

(Amounts in thousands except share data)	1998	1997
Shareholders' equity:		
Preferred stock—authorized 15,000,000 shares of $1 par value; none outstanding	$ —	$ —
Common stock—authorized 250,000,000 shares of $1 par value; issued 66,685,169 and 66,472,127 shares	66,685	66,472
Additional paid-in capital	117,384	82,758
Retained earnings	883,207	938,963
Accumulated other comprehensive income (loss)	(30,231)	(30,385)
Grantor stock trust at fair market value—6,924,019 and 0 shares	(241,042)	—
Treasury stock at cost—1,016,224 and 5,956,313 shares	(33,736)	(165,671)
Total shareholders' equity	$762,267	$892,137

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Capital Stock

At the end of the second quarter of 1998, the Corporation created a Grantor Stock Trust ("GST"). In conjunction with the formation of the GST, the Corporation sold 7.1 million shares of treasury stock to the GST. The sale of these shares had no net impact on shareholders' equity or on the Corporation's Consolidated Statements of Earnings. The GST is a funding mechanism for certain benefit programs and compensation arrangements, including the incentive stock program and employee and franchised dealer stock purchase plans. The Northern Trust Company, as trustee of the GST, will vote the common stock held by the GST based on the directions of non-director employees holding vested options and certain employees and dealer participants in those stock purchase plans, as set forth in the GST agreement. The GST is recorded as Grantor Stock Trust at Fair Market Value on the accompanying Consolidated Balance Sheets. Shares owned by the GST are accounted for as a reduction to shareholders' equity until used in connection with employee benefits. Each period, the shares owned by the GST are valued at the closing market price, with corresponding changes in the GST balance reflected in additional paid-in capital.

THE STANDARD REGISTER COMPANY (DEC)

(Dollars in thousands)	1998	1997
Shareholders' equity:		
Common stock, $1.00 par value: Authorized 50,500,000 shares Issued 1998—24,391,072; 1997—24,308,437	$ 24,391	$ 24,308
Class A stock, $1.00 par value: Authorized 4,725,000 shares Issued—4,725,000	4,725	4,725
Capital in excess of par value	33,957	31,599
Accumulated other comprehensive income	(1,161)	—
Retained earnings	479,679	444,259
Treasury stock at cost: 1998—701,152 shares; 1997—615,073 shares	(19,614)	(16,956)
Common stock held in grantor trust, 26,284 shares at cost	(1,012)	—
Total shareholders' equity	$520,965	$487,935

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

7 Common Stock Held in Grantor Trust

During 1998, the Company established a grantor trust ("Trust") with cash and 26,284 shares of treasury stock. The Trust will fund the Company's obligations under a deferred compensation plan for a select group of management. The benefits payable from the Trust are primarily included in the $3,795 "Deferred compensation" liability shown on the Company's balance sheet. Obligations under the deferred compensation plan are intended to be settled only in cash. Therefore, the shares of the Company's common stock held by the Trust are not considered potentially dilutive.

To record this transaction, the Company reduced "Treasury stock" by the average cost of these shares to the Company, or $729, and the fair market value of the shares was recorded as "Common stock held in grantor trust." "Capital in excess of par value" was increased for the difference of $283 between the cost of the shares and their fair value. Increases or decreases in the deferred compensation liability that result from changes in the value of the Company's common stock held by the Trust, are recognized in current income.

Receivables From Sale of Stock

ARDEN GROUP, INC. (DEC)

(In thousands, except share and per share data)	1998	1997
Stockholders' equity:		
Common stock, Class A, $.25 par value; 3,573,688 shares issued and outstanding including 1,357,200 treasury shares	$ 894	$ 894
Common stock, Class B, $.25 par value; 1,368,984 shares issued and outstanding	342	342
Paid-in capital	3,866	3,866
Notes receivable from officer/director	(215)	(255)
Unrealized gain on available-for-sale securities	393	416
Retained earnings	56,831	46,750
	62,111	52,013
Less, treasury stock; 1,357,200 shares at cost	3,753	3,753
Total stockholders' equity	$58,358	$48,260

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Related Party Transactions

At January 2, 1999, the Company held two notes receivable with balances totaling $215,000 from an officer/director of the Company. These notes arose from transactions in 1979 and 1980 whereby the Company loaned the officer/director money to purchase an aggregate of 200,000 shares of the Company's Class A common stock at the then fair market value. These notes, which bear interest at the rate of 6% per annum, mature on December 31, 2003 with principal payments of $40,000 due annually prior thereto. If the officer's employment is terminated prior to January 1, 2004, the unpaid portion of the two notes would be forgiven. The loans are collaterized by 180,000 shares of Class B common stock. The receivable is shown on the balance sheets as a reduction in stockholders' equity.

COHERENT, INC. (SEP)

(in thousands)	1998	1997
Stockholders' equity:		
Common stock, par value $.01:		
Authorized—100,000 shares		
Outstanding—23,736 in 1998 and 22,926 in 1997	$ 236	$ 228
Additional paid-in capital	102,469	90,750
Notes receivable from stock sales	(310)	(98)
Accumulated other comprehensive income	1,331	267
Retained earnings	158,897	140,086
	$262,623	$231,233

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Employee Stock Option and Benefit Plans

Notes Receivable From Stock Sales

Notes receivable from stock sales result from the exercise of stock options for notes. The notes are full recourse promissory notes bearing interest at 5.7% to 7.1% and are collateralized by the stock issued upon exercise of the stock options. Interest is payable annually and principal is due through 1999.

Stock Purchase Rights

CONAGRA, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Stock Options and Rights

Each share of common stock carries with it one-half preferred stock purchase right ("Right"). The Rights become exercisable ten days after a person (an "Acquiring Person") acquires or commences a tender offer for 15% or more of the Company's common stock. Each Right entitles the holder to purchase one one-thousandth of a share of a new series of Class E Preferred Stock at an exercise price of $200, subject to adjustment. The Rights expire on July 12, 2006, and may be redeemed at the option of the Company at $.01 per Right, subject to adjustment. Under certain circumstances, if (i) any person becomes an Acquiring Person or (ii) the Company is acquired in a merger or other business combination after a person becomes an Acquiring Person, each holder of a Right (other than the Acquiring Person) will have the right to receive, upon exercise of the Right, shares of common stock (of the Company under (i) and of the acquiring company under (ii)) having a value of twice the exercise price of the Right. The Rights were issued pursuant to a dividend declared by the Company's Board of Directors on July 12, 1996 payable to stockholders of record on July 24, 1996. The one Right for each outstanding share was adjusted to one-half Right for each share effective October 1, 1997 as a result of the two-for-one stock split. At May 31, 1998, the Company has reserved one million Class E preferred shares for exercise of the Rights.

ELCOR CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shareholder Rights Plan

On May 26, 1998, the company's Board of Directors adopted a new Shareholder Rights Plan which took effect when the existing rights plan expired on July 8, 1998. Under the new plan, rights were constructively distributed as a dividend at the rate of one right for each share of common stock of the company held by the shareholders of record as of the close of business on July 8, 1998. Until the occurrence of certain events, the rights are represented by and traded in tandem with common stock. Each right will separate and entitle shareholders to buy stock upon an occurrence of certain takeover or stock accumulation events. Should any person or group (Related Person) acquire beneficial ownership of 15% or more of the company's common stock other than certain bona fide institutional investors to whom a 20% threshold applies, all rights not held by the Related Person become rights to purchase one one-hundredth of a share of preferred stock for $165 or $165 of Elcor common stock at a 50% discount. If after such an event the company merges, consolidates or engages in a similar transaction in which it does not survive, each holder has a "flip over" right to buy discounted stock in a surviving entity.

Under certain circumstances, the rights are redeemable at a price of $0.01 per right. Further, upon defined stock accumulation events, the Board of Directors has the option to exchange one share of common stock per right. The rights will expire by their terms on July 8, 2008.

FORT JAMES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Common Stock

Shareholder Rights Plan

Under a shareholder rights plan, preferred stock purchase rights ("Rights") are issued at the rate of one Right for each share of Common Stock. Each Right entitles its holder to purchase one one-thousandth of a share of Series M Cumulative Participating Preferred Stock ("Series M") at an exercise price of $150, subject to adjustment. The Rights will only be exercisable if a person or group acquires, has the right to acquire, or has commenced a tender offer for 15% or more of the outstanding Common Stock. The Rights are nonvoting, pay no dividends, expire on March 1, 1999, and may be redeemed by the Company for $0.01 per Right at any time before the tenth day (subject to adjustment) after a 15% position is acquired. The Rights have no effect on earnings per share until they become exercisable.

After the Rights are exercisable, if the Company is acquired in a merger or other business combination, or if 50% or more of the Company's assets are sold, each Right will entitle its holder (other than the acquiring person or group) to purchase, at the then-current exercise price, common stock of the acquiring person having a value of twice the exercise price. In addition, in the event a 15% or greater shareholder (i) acquires the Company through a merger where Fort James is the surviving corporation, (ii) engages in certain self-dealing transactions, or (iii) increases his ownership other than through a cash tender offer providing fair value to all holders of Common Stock, each Right will entitle its holder (other than the acquiring person or group) to purchase, at the then-current exercise price, Common Stock having a value of twice the exercise price.

A new shareholder rights plan was adopted subsequent to year-end. The terms of the new plan are essentially the same as those of the previous plan with the following exceptions: (i) the exercise price has been increased to $200, subject to adjustment; (ii) the expiration date has been extended to March 1, 2009; and (iii) the ten day period to redeem the Rights after a 15% position is acquired has been eliminated.

ENESCO GROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Shareholders' Equity

Pursuant to action by the Company's Board of Directors (the "Board") on July 22, 1998, effective with the expiration on September 19, 1998 of the stock purchase rights then existing under the Company's Stockholder Rights Plan, one new right for each outstanding share of the Company's common stock ("common stock") was issued (a "New Right") under a Renewed Rights Agreement. Each New Right initially represents the right to purchase one share of common stock for $125. The New Rights will only become exercisable, or separately transferable, promptly after the Company announces that a person has acquired or tendered for 15% or more, or promptly after a tender offer commences that could result in ownership of 15% or more, of the common stock then outstanding.

If the New Rights become exercisable after any person acquires or tenders for 15% or more of the common stock then outstanding (except through an offer for all common stock that has been approved by the Board), each New Right not owned by that person or related parties will enable its holder to purchase, at the New Right's exercise price, common stock (or other securities or assets, or a combination thereof) having double the value of the exercise price. In the event of certain merger or asset sale transactions with another party, similar terms would apply to the purchase of that party's common stock.

The New Rights, which have no voting power, expire on July 22, 2008, subject to extension. Upon approval by the Board, the New Rights may be redeemed for $.01 each under certain conditions.

UNIVERSAL CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Share Purchase Rights Plan

In 1989, the Company distributed as a dividend one preferred share purchase right for each outstanding share of common stock. Each right entitles the shareholder to purchase one-half of one-hundredth of a share of Series A Junior Participating Preferred Stock ("Preferred Stock") at an exercise price of $110, subject to adjustment. The rights will become exercisable only if a person or group acquires or announce a tender offer for 20% or more of the Company's outstanding common stock. The Board of Directors may reduce this threshold percentage to 10%. If a person or group acquires the threshold percentage of common stock, each right will entitle the holder, other than the acquiring party, to buy shares of common stock or Preferred Stock having a market value of twice the exercise price. If the Company is acquired in a merger or other business combination, each right will entitle the holder, other than the acquiring person, to purchase securities of the surviving company having a market value equal to twice the exercise price of the rights. Following the acquisition by any person of more than the threshold percentage of the Company's outstanding common stock but less than 50% of such shares, the Company may exchange one share of common stock for each right (other than rights held by such person). Until the rights become exercisable, they may be redeemed by the Company at a price of one cent per right. The rights expire on February 13, 1999.

Stock Purchase Warrants

ANACOMP, INC. (SEP)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Capital Stock

Warrants

In connection with the Reorganization discussed in Note 2, Anacomp issued 362,694 new warrants to certain creditors and previous common and preferred stockholders. Each new warrant was convertible into one share of new Common Stock at an exercise price of $12.23 per share. In connection with the rights offering discussed in Note 13, each new warrant is now convertible into 1.0566 shares of new Common Stock at an exercise price of $11.57 per share. The new warrants expire on June 3, 2001. At September 30, 1998, 362,015 warrants were outstanding.

Stock Forward Purchase Agreement

COLGATE-PALMOLIVE COMPANY (DEC)

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

Stock Repurchases

During 1998, the Company entered into a series of forward purchase agreements on its common stock. These agreements are settled on a net basis in shares of the Company's common stock. To the extent that the market price of the Company's common stock on a settlement date is higher (lower) than the forward purchase price, the net differential is received (paid) by the Company. As of December 31, 1998, agreements were in place covering approximately $458.6 of the Company's common stock (5.0 million shares) that had forward prices averaging $91.68 per share. If these agreements were settled based on the December 31, 1998 market price of the Company's common stock ($92.88 per share), the Company would be entitled to receive approximately 64,000 shares. During 1998, settlements resulted in the Company receiving 321,331 shares, which were recorded as treasury stock.

Put Options

DOW JONES & COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Capital Stock

In 1998, the company's board of directors authorized the repurchase of up to $800 million of the company's common stock. The company repurchased 6.2 million shares at an aggregate cost of $295.2 million. Additionally in 1998, as part of the company's stock repurchase program the company sold put options. As of December 31, 1998, one million shares under puts were outstanding at strike prices (net of put premiums received) ranging from $43.94 to $45.06 per share, with exercise dates in March, June and September 1999. In the event the puts are exercised, the contract allows the company, at its option, to repurchase the stock or deliver to the holder either cash or shares of the company equivalent to the difference between the put's exercise price and the market price of the company's stock. As of December 31, 1998, approximately $460.7 million remained under board authorization, after reserving for the exercise of outstanding puts.

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

	1998	1997	1996	1995
Income	298	299	308	298
Operations	180	173	162	167
Earnings	117	122	125	127
Other	5	6	5	8
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.

Examples of financial statements reporting comprehensive income and its components are presented on pages 404-414.

Occasionally the survey companies disclosed reclassifications of income statement amounts. Examples of such reclassifications follow.

TABLE 3-2: INCOME STATEMENT FORMAT

	1998	1997	1996	1995
Single-step Form				
Federal income tax shown as separate last item	156	164	185	187
Federal income tax listed among operating items	1	4	3	2
Multi-step Form				
Costs and expenses deducted from sales to show operating income	220	224	206	223
Costs deducted from sales to show gross margin	223	208	206	188
Total Companies	**600**	**600**	**600**	**600**

Reclassifications

BINKS SAMES CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Reclassifications

Certain amounts in the fiscal 1997 and fiscal 1996 financial statements, as previously reported, have been reclassified to conform to the fiscal 1998 presentation. Research and development expenses have been reclassified from cost of goods sold to operating expense for all periods presented.

NEWELL CO. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Reclassifications

Certain 1997 and 1996 amounts have been reclassified to conform with the 1998 presentation. In particular, the Company began reclassifying the amortization of trade names and goodwill from non-operating expenses to operating expenses in the first quarter of 1998. This change required a restatement for all periods presented.

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

	1998	1997	1996	1995
Net Sales				
Net sales	337	342	342	339
Net sales and operating revenues	11	12	13	11
Net sales combined with other items	3	4	4	4
Sales				
Sales	79	81	88	86
Sales and operating revenues	18	23	22	24
Sales combined with other items	14	11	7	14
Other Captions				
Revenue	128	115	114	114
Gross sales, billings, shipments, etc.	10	12	10	8
Total Companies	**600**	**600**	**600**	**600**

TABLE 3-4: GAINS

	Number of Companies			
	1998	1997	1996	1995
Interest	334	338	331	324
Sale of assets	149	160	126	139
Equity in earnings of investees	92	103	93	108
Dividends	83	68	71	80
Foreign currency transactions	42	52	41	50
Royalties	29	35	26	24
Liability accrual reduced	24	9	12	17
Rentals	15	13	13	10
Litigation settlements	15	9	8	10
Public offering of subsidiary's stock	5	4	13	6

REVENUES

JLG INDUSTRIES, INC. (JUL)

(In thousands)	1998	1997	1996
Net sales	$530,859	$526,266	$413,407
Cost of sales	402,702	396,261	304,691
Gross profit	$128,157	$130,005	$108,716

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Revenue Recognition

Sales of aerial work platforms and service parts are generally unconditional sales that are recorded when product is shipped and invoiced to independently owned and operated distributors and customers. Provisions for warranty are estimated and accrued at the time of sale. Actual warranty costs do not materially differ from estimates. In addition, net sales include rental revenues earned on the lease of equipment held for rental. Rental revenues are recognized in the period earned over the lease term.

MICROSOFT CORPORATION (JUN)

(In millions)	1996	1997	1998
Revenue	$8,671	$11,358	$14,484
Operating expenses:			
Cost of revenue	1,188	1,085	1,197
Research and development	1,432	1,925	2,502
Acquired in-process technology	—	—	296
Sales and marketing	2,657	2,856	3,412
General and administrative	316	362	433
Other expenses	19	259	230
Total operating expenses	5,612	6,487	8,070
Operating income	3,059	4,871	6,414

NOTES TO FINANCIAL STATEMENTS

Accounting Policies (In Part)

Revenue Recognition

Revenue is recognized when earned. The Company's revenue recognition policies are in compliance with American Institute of Certified Public Accountants Statements of Position 97-2 and 98-4, *Software Revenue Recognition*. Revenue from products licensed to original equipment manufacturers is recorded when OEMs ship licensed products while revenue from organization license programs is recorded when the software has been delivered and the customer is invoiced. Revenue from packaged product sales to distributors and resellers is recorded when related products are shipped. Maintenance and subscription revenue is recognized ratably over the contract period. Revenue attributable to significant support (technical support and unspecified enhancements such as service packs and Internet browser updates) is based on the price charged or derived value of the undelivered elements and is recognized ratably on a straight-line basis over the product's life cycle. Costs related to insignificant obligations, which include telephone support for certain products, are accrued. Provisions are recorded for returns and bad debts.

NORTEK, INC. (DEC)

(In thousands)	1998	1997	1996
Net sales	$1,738,343	$1,134,129	$841,557
Costs and expenses:			
Cost of products sold	1,275,350	825,805	596,847
Selling, general and administrative expense	315,449	219,376	180,308
Amortization of goodwill and intangible assets	14,416	5,967	3,451
	1,605,215	1,051,148	780,606
Operating earnings	133,128	82,981	60,951

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Sales Recognition

The Company recognizes sales upon the shipment of its products net of applicable provisions for discounts and allowances. The Company also provides for its estimate of warranty and bad debts at the time of sale as selling, general, and administrative expense.

SYBASE, INC. (DEC)

(In thousands)	1998	1997	1996
Revenues:			
License fees	$421,454	$471,036	$605,491
Services	446,015	432,901	406,054
Total revenues	867,469	903,937	1,011,545
Costs and expenses:			
Cost of license fees	37,573	31,356	29,859
Cost of services	235,574	248,625	246,273
Sales and marketing	392,979	469,161	523,159
Product development and engineering	148,583	138,590	164,676
General and administrative	65,406	62,607	72,561
Cost of restructuring	74,167	—	49,232
Total costs and expenses	954,282	950,339	1,085,760
Operating loss	(86,813)	(46,402)	(74,215)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

The Company licenses software under noncancellable license agreements. License fee revenues are recognized when a noncancelleable license agreement is in force, the product has been shipped, the license fee is fixed or determinable, and collectibility is reasonably assured. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer. Sublicense fees are recognized as reported to the Company by its licensees. License fees revenue for certain application development and data access tools is recognized upon direct shipment to the end user or through an initial reseller channel to the end user. If collectibility is not considered probable, revenue is recognized when the fee is collected.

Maintenance and support revenues are recognized ratably over the term of the related agreements, which in most cases is one year. Revenues from consulting services under time and materials contracts and for training are recognized as services are performed. Revenues from other contract services are generally recognized under the percentage-of-completion method.

The Company adopted Statement of Position 97-2, "Software Revenue Recognition," ("SOP 97-2") and Statement of Position 98-4, "Deferral of the Effective Date of a Provision of SOP 97-2, Software Revenue Recognition," ("SOP 98-4") as of January 1, 1998. SOP 97-2 and SOP 98-4 provide guidance for recognizing revenue on software transactions and supercede Statement of Position 91-1, "Software Revenue Recognition" ("SOP 91-1"). The adoption of SOP 97-2 and SOP 98-4 did not have a material impact on the Company's financial results. However, full implementation guidelines for these standards have not been issued. Once available, the current revenue recognition accounting practices may need to change and such changes could affect the Company's future revenues and results of operations.

In December 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions" ("SOP 98-9"). SOP 98-9 amends SOP 98-4 to extend the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4 through fiscal years beginning on or before March 15, 1999. All other provisions of SOP 98-9 are effective for transactions entered into in fiscal years beginning after March 15, 1999. The Company has not yet determined the effect of the final adoption of SOP 98-9 on its future revenues and results of operations.

VARIAN ASSOCIATES, INC. (SEP)

(Amounts in thousands)	1998	1997	1996
Sales	$1,422,125	$1,425,824	$1,599,361
Operating costs and expenses:			
Cost of sales	896,285	902,733	995,668
Research and development	107,035	110,750	110,140
Marketing	199,132	199,167	200,333
General and administrative	104,516	83,249	103,128
Total operating costs and expenses	1,306,968	1,295,899	1,409,269
Operating earnings:	115,157	129,925	190,092
Interest expense	(8,835)	(7,783)	(6,375)
Interest income	6,418	4,604	5,526
Gain on sale of thin film systems	—	51,039	—
Earnings before taxes	112,740	177,785	189,243

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Revenue Recognition

Sales and related cost of sales are generally recognized upon shipment of products. The Company's products are generally subject to installation and warranty, and the Company provides for the estimated future costs of installation, repair, replacement, or customer accommodation in cost of sales when sales are recognized. Service revenue is recognized ratably over the period of the related contract. Sales and related cost of sales under long-term contracts to commercial customers and the U.S. Government are recognized as units are delivered.

GAINS

Sale of Assets

CHOCK FULL O'NUTS CORPORATION (JUL)

	1998	1997	1996
Revenues:			
Net sales	$394,356,822	$364,203,601	$321,134,537
Rentals from real estate	2,011,257	2,091,307	2,156,070
	396,368,079	366,294,908	323,290,607
Costs and expenses:			
Cost of sales	293,304,109	257,078,504	229,477,193
Selling, general and administrative expenses	85,682,621	86,018,181	77,223,407
Expenses of real estate	1,751,005	1,951,137	1,484,681
	380,737,735	345,047,822	308,185,281
Operating Income	15,630,344	21,247,086	15,105,326
Gain on sale of real estate—Note 10(c)	1,281,698	—	460,000
Interest and dividend income	628,333	1,061,160	865,145
Interest expense	(7,903,211)	(8,599,963)	(8,783,798)
Other (deductions)/income	(166,859)	(1,495,891)	60,692
Income before income taxes	9,470,305	12,212,392	7,707,365

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Other Items

(c) In November 1997, the Company consummated the sale of one of its downtown Manhattan properties for $6,900,000, resulting in an after tax gain of $725,000.

JOHNSON CONTROLS, INC. (SEP)

(In millions)	1998	1997	1996
Net sales	$12,586.8	$11,145.4	$9,210.0
Cost of sales	10,776.2	9,485.6	7,878.3
Gross profit	1,810.6	1,659.8	1,331.7
Selling, general and administrative expenses	1,146.6	1,062.7	852.8
Restructuring charge	—	70.0	—
Operating income	664.0	527.1	478.9
Interest income	14.8	9.9	7.9
Interest expense	(133.5)	(122.7)	(73.4)
Gain on sale of business	59.9	—	—
Miscellaneous—net	11.6	11.3	8.1
Other income (expense)	(47.2)	(101.5)	(57.4)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Divestitures

Plastics Machinery Division

On September 30, 1998, the Company completed the sale of the Plastics Machinery division to Milacron, Inc. for approximately $190 million. The plastics machinery business had annual sales of approximately $190 million. The Company used the after-tax proceeds from the sale to reduce its debt. The Company recorded a gain on the sale of $59.9 million ($35.0 million or $.41 per basic share and $.38 per diluted share, after-tax).

SEQUA CORPORATION (DEC)

(Amounts in thousands)	1998	1997	1996
Sales	$1,802,393	$1,595,125	$1,459,029
Costs and expenses			
Cost of sales	1,444,914	1,285,829	1,160,192
Selling, general and administrative	252,016	224,589	233,679
	1,696,930	1,510,418	1,393,871
Operating income	105,463	84,707	65,158
Other income (expense)			
Interest expense	(51,776)	(50,298)	(51,794)
Interest income	5,868	6,052	4,271
Gain on sale of businesses (Note 15)	56,542	—	—
Equity in income (loss) of unconsolidated joint ventures	(4,876)	223	4,038
Other, net	(3,224)	1,143	4,283
	2,534	(42,880)	(39,202)
Income before income taxes	107,997	41,827	25,956

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Acquisitions and Dispositions

In October 1998, Sequa sold substantially all of the business and operating assets of Sequa Chemicals, its US-based chemicals division, for net cash proceeds of $107,275,000. The sale resulted in a pre-tax gain of $49,867,000. Sequa Chemicals had sales of $74,004,000 in 1998, $82,293,000 in 1997 and $74,069,000 in 1996 and operating income of $3,082,000 in 1998, $8,004,000 in 1997 and $8,261,000 in 1996. The consolidated financial statements and accompanying notes reflect the operating results of Sequa Chemicals as a continuing operation in the Other Products segment. Also during 1998, Sequa sold a Gas Turbine manufacturing facility in the United Kingdom for net cash proceeds of $14,058,000. The sale resulted in a pre-tax gain of $6,675,000.

SONOCO PRODUCTS COMPANY (DEC)

(Dollars in thousands)	1998	1997	1996
Net sales	$2,557,917	$2,847,831	$2,788,075
Cost of sales	1,968,200	2,208,092	2,148,105
Selling, general and administrative expenses	301,610	297,439	310,605
(Gain) loss on assets held for sale	(100,354)	226,358	—
Income before interest and taxes	388,461	115,942	329,365
Interest expense	54,779	57,194	55,481
Interest income	(5,916)	(4,971)	(6,191)
Income before income taxes	339,598	63,719	280,075

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

3 (In Part): Assets Held for Sale

In December 1997, the Company signed a letter of intent to sell its industrial containers operations, part of the Company's Industrial Packaging segment. Accordingly, the $97,870 of net assets of these operations, which consisted primarily of property, plant and equipment, accounts receivable and inventories, net of liabilities, were included in net assets held for sale at December 31, 1997. The sale was fully completed in 1998 for cash proceeds of approximately $218,400 resulting in a pre-tax gain of $119,552 ($55,252 after tax).

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. The cash transaction was completed early in the second quarter of 1998 for net proceeds of approximately $87,700. 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 ($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 sale. An additional pre-tax charge of $19,198 ($13,698 after tax) was recognized in 1998 upon completion of the sale of the North American labels business. At December 31, 1998, the operations that remain for sale consist of a labels operation in the United Kingdom and a manufacturer of roll-label application equipment in the United States. There were approximately $5,294 and $120,712 included in net assets held for sale at December 31, 1998 and 1997, respectively, consisting primarily of property, plant and equipment, accounts receivable and inventories, net of liabilities.

UNIVERSAL CORPORATION (JUN)

(In thousands of dollars)	1998	1997	1996
Sales and other operating revenues	$4,287,204	$4,112,675	$3,570,228
Costs and expenses:			
Cost of goods sold	3,673,600	3,559,647	3,080,001
Selling, general and administrative expenses	335,210	316,201	297,752
Operating income:	278,394	236,827	192,475
Equity in pretax earnings of unconsolidated affiliates	16,901	11,864	4,305
Gain on sale of investment	16,718	—	—
Interest expense	(63,974)	(64,886)	(68,754)
Income before income taxes and other items	248,039	183,805	128,026

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Gain on Sale of Investment

In 1998, the Company sold its minority interest in a Dutch spice joint venture to the majority owner for total proceeds of $29.1 million and a gain of $16.7 million before taxes.

Equity in Earnings of Investee

TWIN DISC, INCORPORATED (JUN)

(In thousands)	1998	1997	1996
Net sales	$202,643	$189,942	$176,657
Cost of goods sold	152,515	146,123	135,780
Gross profit	50,128	43,819	40,877
Marketing, engineering and administrative expenses	34,092	31,219	28,706
Earnings from operations	16,036	12,600	12,171
Other income (expense):			
Interest income	550	1,335	121
Interest expense	(1,505)	(1,781)	(1,942)
Equity in earnings of affiliates	651	307	45
Other, net	313	219	512
	9	80	(1,264)
Earnings before income taxes	16,045	12,680	10,907

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Investments in Affiliates

The Company's 25% investments in affiliates are stated at cost, adjusted for equity in undistributed earnings since acquisition.

Foreign Currency Transactions

WALBRO CORPORATION (DEC)

(In thousands)	1998	1997	1996
Net sales	$677,990	$619,905	$585,389
Costs and expenses:			
Cost of sales	571,992	538,751	488,134
Selling and administrative expenses	55,643	60,786	52,177
Research and development expenses	12,883	17,289	18,400
Restructuring and impairment charges	—	27,000	—
Operating income (loss)	37,472	(23,921)	26,678
Other expense (income):			
Interest expense, net of capitalized interest of $204 in 1998, $1,207 in 1997 and $3,683 in 1996	31,806	25,410	20,535
Interest income	(3,177)	(674)	(2,716)
Royalty income, net	(3,228)	(3,878)	(1,410)
Foreign currency exchange gain	(1,262)	(308)	(70)
Other	(785)	365	(63)
Income (loss) before (provision) credit for income taxes, minority interest, equity in income of joint ventures and extraordinary item	14,118	(44,836)	10,402

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Foreign Currency Translation

The assets and liabilities of the Company's foreign operations are generally translated into U.S. dollars at current exchange rates, and revenues and expenses are translated at average exchange rates for the year. Resulting translation adjustments are reflected as a separate component of stockholders' equity.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency, except those transactions which operate as a hedge of an identifiable foreign currency commitment or as a hedge of a foreign currency investment position, are included in the results of operations as incurred.

SAUCONY, INC. (DEC)

(In thousands)	1998	1997	1996
Net sales	$105,074	$93,611	$91,341
Other revenue	736	351	538
Total revenue	105,810	93,962	91,879
Costs and expenses:			
Cost of sales	67,623	63,511	61,692
Selling expenses	17,507	16,698	16,065
General and administrative expenses	14,939	13,412	11,777
Write down of Australian assets	—	1,426	—
Write down of impaired real estate	—	850	—
Total costs and expenses	100,069	95,897	89,534
Operating income (loss)	5,741	(1,935)	2,345
Non-operating income (expense):			
Interest, net	(707)	(817)	(730)
Foreign currency	124	(1,127)	171
Other	80	79	196
Income (loss) before income taxes and minority interest	5,238	(3,800)	1,982

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average rates of exchange in effect during the year. The resulting cumulative translation adjustments have been recorded as a separate component of stockholder's equity. Foreign currency transaction gains and losses are included in consolidated net income.

Royalties

E.I. DU PONT DE NEMOURS AND COMPANY (DEC)

(Dollars in millions)	1998	1997	1996
Sales	$24,767	$24,089	$23,644
Other income (Note 3)	981	1,005	1,101
Total	25,748	25,094	24,745
Cost of goods sold and other operating charges	15,664	15,564	15,314
Selling, general and administrative expenses	2,115	2,061	2,119
Depreciation and amortization	1,452	1,361	1,526
Research and development expense	1,308	1,072	990
Interest expense	520	389	409
Purchased in-process research and development	1,443	1,478	—
Employee separation costs and write-down of assets	633	340	—
Total	23,135	22,265	20,358
Income from continuing operations before income taxes and minority interests	2,613	2,829	4,387

NOTES TO FINANCIAL STATEMENTS (Dollars in millions)

3. Other Income

(Dollars in millions)	1998	1997	1996
Royalty income	$132	$ 64	$ 72
Interest income, net of miscellaneous interest expense	112	131	118
Equity in earnings of affiliates (see Note 14)	278	643	694
Sales of assets	375*	64	162
Miscellaneous income and expenses—net	84	103	55
	$981	$1,005	$1,101

* Includes a $217 gain on the sale of substantially all of the company's remaining interest in CONSOL Energy Inc.

LAM RESEARCH CORPORATION (JUN)

(Dollars in thousands)	1998	1997	1996
Net sales	$1,050,527	$1,060,535	$1,309,899
Royalty income	2,059	12,662	22,814
Total revenue	1,052,586	1,073,197	1,332,713
Costs and expenses:			
Cost of goods sold—on net sales	646,511	723,404	689,515
Cost of goods sold—restructuring charges	31,933	—	—
Gross profit	374,142	349,793	643,198
Research and development	206,456	192,254	186,899
Selling, general and administrative	201,900	209,294	237,444
Restructuring charges	116,925	9,021	—
Merger costs	17,685	—	—
Purchased technology for research and development	12,100	—	—
	555,066	410,569	424,343
Operating income (loss)	(180,924)	(60,776)	218,855

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

N. 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, 1998, 1997, and 1996, the Company earned $1,336,000, $11,689,000 and $20,713,000, respectively, of royalty income from TEL. The current royalty agreement which was due 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 1998, 1997 and 1996 amounted to $723,000, $973,000 and $2,101,000, respectively.

Liability Accruals Reduced

AMGEN INC. (DEC)

(In millions)	1998	1997	1996
Revenues:			
Product sales	$2,514.4	$2,219.8	$2,088.2
Corporate partner revenues	127.9	125.9	109.9
Royalty income	75.9	55.3	41.7
Total revenues	2,718.2	2,401.0	2,239.8
Operating expenses:			
Cost of sales	345.2	300.8	283.2
Research and development	663.3	630.8	528.3
Selling, general and administrative	515.4	483.8	470.6
Loss of affiliates, net	28.6	36.1	52.8
Legal (award) assessment	(23.0)	157.0	—
Total operating expenses	1,529.5	1,608.5	1,334.9
Operating income	1,188.7	792.5	904.9
Other income (expense):			
Interest and other income, net	45.7	72.6	63.6
Interest expense, net	(10.0)	(3.7)	(6.2)
Total other income (expense)	35.7	68.9	57.4
Income before income taxes	1,224.4	861.4	962.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Contingencies

On August 12, 1998, Johnson & Johnson gave notice of challenge to the results of the audit of the Hospital segment for the 1995-97 period and on December 24, 1998, Johnson & Johnson quantified its challenge. As a result, the Company has reduced amounts previously provided for the Company's potential spillover liability by $23 million in the fourth quarter. The Company does not expect that any additional compensation for the 1995-97 period would have a material adverse effect on the annual financial statements of Amgen due to amounts previously provided for by the Company.

BOSTON SCIENTIFIC CORPORATION (DEC)

(In thousands)	1998	1997	1996
Net sales	$2,233,576	$1,830,778	$1,551,238
Cost of products sold	734,841	545,541	427,838
Gross profit	1,498,735	1,285,237	1,123,400
Selling, general and administrative expenses	754,970	662,647	492,332
Amortization expense	52,662	32,398	23,576
Royalties	31,315	22,177	17,061
Research and development expenses	200,285	167,194	134,919
Purchased research and development	681,952	29,475	110,000
Restructuring and merger-related charges (credits)	(15,014)	145,891	32,341
	1,706,170	1,059,782	810,229
Operating income (loss)	(207,435)	225,455	313,171
Other income (expense):			
Interest and dividend income	4,835	3,706	6,297
Interest expense	(67,573)	(14,285)	(11,518)
Other, net	(5,141)	255	(4,620)
Income (loss) before income taxes and cumulative effect of change in accounting	(275,314)	215,131	303,330

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

M (In Part): Restructuring and Merger-Related Charges

The Company is in the process of implementing a rationalization plan established after acquiring Schneider. The rationalization plan takes into consideration duplicate capacity and opportunities for further leveraging of cost and technology platforms. The Company's actions approved and committed to in the fourth quarter of 1998 will result in the displacement in 1999 of approximately 2,000 current positions, over half of which are manufacturing positions. The Company has decided to close five Schneider facilities, as well as transition the manufacturing of selected Boston Scientific product lines to different sites. The Company estimates that the costs associated with these activities will be approximately $62 million, most of which represent severance and related costs. Approximately $36 million of the total has been capitalized as part of the purchase price of Schneider. The remaining $26 million ($17 million, net of tax) has been charged to operations. The rationalization plan also resulted in the decision to expand, not close, a facility originally provided for in a 1997 merger-related charge; thus, in the fourth quarter, the Company reversed $21 million ($14 million, net of tax) of previously recorded merger-related charges. The reversal also includes estimated reductions in contractual commitment payments, associated legal costs and other asset write-downs originally provided for as a 1997 merger charge. In the second quarter of 1998, the Company reorganized certain U.S. sales organizations differently than was originally contemplated at the time of the Target acquisition. As a result, the Company reversed $20 million ($13 million, net of tax) of 1997 merger-related charges.

Litigation Settlement

APPLIED MATERIALS, INC. (OCT)

(In thousands)	1996	1997	1998
Net sales	$4,144,817	$4,074,275	$4,041,687
Cost of products sold	2,195,078	2,173,350	2,178,531
Gross margin	1,949,739	1,900,925	1,863,156
Operating expenses:			
Research, development and engineering	481,394	567,612	643,852
Marketing and selling	313,631	314,381	321,606
General and administrative	226,063	252,214	272,109
Non-recurring items	25,100	75,818	237,227
Income from operations	903,551	690,900	388,362
Income from litigation settlements, net	—	69,000	15,000
Interest expense	20,733	20,705	45,309
Interest income	39,618	59,726	79,780
Income from continuing operations before taxes	922,436	798,921	437,833

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Litigation Settlements

During fiscal 1997, the Company settled certain outstanding litigation with Novellus Systems, Inc. (Novellus) and General Signal Corporation (GSC). In connection with the Novellus settlement, the Company received $80 million in damages for past patent infringement, and was awarded the right to receive ongoing royalties for certain system shipments subsequent to the date of the settlement. In connection with the GSC settlement, the Company paid $11 million and acquired ownership from GSC of five patents regarding "cluster tool" architecture.

During the first fiscal quarter of 1998, 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 $15 million was collected in November 1997. Because of the impact of the current industry downturn on ASM's financial condition and liquidity, ASM was not able to pay the $65 million remaining balance at the maturity date. Therefore, the Company determined based on known facts and circumstances that collection of the note was doubtful, and recorded, for the fourth fiscal quarter of 1998, a $65 million pre-tax charge. The net effect of the ASM settlement is $15 million of non-operating income for fiscal 1998. Subsequent to the end of fiscal 1998, ASM secured financing and made a partial payment to the Company.

Gain on Currency Option and Forward Contract

FEDERAL-MOGUL CORPORATION (DEC)

(Millions of dollars)	1998	1997	1996
Net sales	$4,468.7	$1,806.6	$2,032.7
Cost of products sold	3,290.2	1,381.8	1,660.5
Gross margin	1,178.5	424.8	372.2
Selling, general and administrative expenses	640.8	276.0	320.0
Amortization	83.8	8.9	12.0
Purchased in-process research and development charge	18.6	—	—
Restructuring charges (credits)	7.3	(1.1)	57.6
Reengineering and other related charges (credits)	—	(1.6)	11.4
Adjustment of assets held for sale and other long-lived assets to fair value	19.0	2.4	151.3
Integration costs	22.4	—	—
Interest expense	204.0	33.3	44.4
Interest income	(10.6)	(7.1)	(2.9)
International currency exchange losses	4.7	0.6	3.7
Net (gain) loss on British pound currency option and forward contract	(13.3)	10.5	—
Other expense, net	16.3	3.4	3.4
Earnings (loss) before income taxes and extraordinary items	185.5	99.5	(228.7)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): British Pound Currency Option and Forward Contract

In the fourth quarter of 1997, in anticipation of the then-pending T&N acquisition, the Company purchased a British pound currency option for $28.1 million with a notional amount of $2.5 billion. The cost of the option and its change in fair value have been reflected in the results of operations in the fourth quarter of 1997. At December 31, 1997, the Company recognized a net loss of $10.5 million on the transaction. In January 1998, the Company settled the option and recognized an additional loss of $17.3 million.

Also in January 1998, in anticipation of the then-pending T&N acquisition, the Company entered into a forward contract to purchase £1.5 billion for approximately $2.45 billion. As a result of favorable fluctuations in the British pound/United States dollar exchange rate during the contract period, the Company recognized a $30.6 million gain.

Insurance Proceeds

HOMASOTE COMPANY (DEC)

	1998	1997	1996
Net sales	$23,915,187	$24,979,819	$26,969,869
Cost of sales	18,647,626	19,419,846	20,013,748
Gross profit	5,267,561	5,559,973	6,956,121
Selling, general and administrative expenses	6,597,579	6,350,194	5,850,714
Operating (loss) income	(1,330,018)	(790,221)	1,105,407
Other income (expense):			
Gain on sale of assets	6,218	10,942	13,219
Interest income	72,002	159,678	94,730
Interest expense	(284,277)	(185,678)	(89,600)
Other income (Note 10)	500,695	86,681	69,975
	294,638	71,623	88,324
(Loss) earnings before income tax (benefit) expense	(1,035,380)	(718,598)	1,193,731

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Commitments and Contingencies

As previously disclosed, on November 1, 1997 and again on January 30, 1998, fires broke out in the Company's new gas fired board dryer. These fires caused severe damage to the dryer, as well as disruptions to production. The Company has filed several insurance claims related to the fires, including a significant claim under its business interruption policy. The claims process is lengthy and its outcome cannot be predicted with certainty. During 1998, the Company received advance payments of approximately $465,000 of business interruption insurance proceeds, which are included in Other Income in the accompanying consolidated statement of operations for 1998.

Minority Interest Loss

LABARGE, INC. (JUN)

(Dollars in thousands)	1998	1997	1996
Net sales	$99,292	$96,666	$75,060
Costs and expenses:			
Cost of sales	76,420	77,442	61,103
Selling and administrative expense	14,407	11,380	8,977
	90,827	88,822	70,080
Earnings from operations	8,465	7,844	4,980
Interest expense	997	942	1,355
Equity in loss (income) of joint venture	120	(4)	93
Minority interest loss	(89)	—	—
Other income, net	(113)	(95)	(239)
Earnings before income taxes	7,550	7,001	3,771

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of LaBarge, Inc. and its wholly-owned subsidiaries, and joint ventures owned 51% and more. Significant intercompany accounts and transactions have been eliminated. Investments in 20-50% owned companies are accounted for on the equity method. Investments in less than 20% owned companies are accounted for at cost.

2 (In Part): Acquisitions, Divestitures and Investments

Joint Venture

During the second quarter of fiscal 1998, the Company increased its ownership of LaBarge Clayco Wireless L.L.C. to fifty-one percent. Beginning with the second quarter, LaBarge, Inc. began consolidating 100% of the results of this unit into its financial statements and deducting the minority interest share before arriving at pretax profits. For fiscal years 1997 and 1996, the results of operations and investment in this joint venture had been reported using the equity method of accounting, which was appropriate for a 50% joint venture. Sales by and assets of the joint venture were less than 4.2% of total consolidated net sales and assets for fiscal 1998.

Gain on Change in Ownership Interest

USX CORPORATION (DEC)

(Dollars in millions)	1998	1997	1996
Revenues:			
Sales	$27,887	$22,375	$22,743
Dividend and affiliate income	96	105	99
Gain on disposal of assets	82	94	71
Gain on ownership change in Marathon Ashland Petroleum LLC (Note 3)	245	—	—
Gain on affiliate stock offering	—	—	53
Other income	25	14	11
Total revenues	28,335	22,588	22,977
Costs and expenses:			
Cost of sales (excludes items shown below)	20,712	16,047	16,930
Selling, general and administrative expenses	304	218	144
Depreciation, depletion and amortization	1,224	967	985
Taxes other than income taxes	3,998	3,178	3,202
Exploration expenses	313	189	146
Inventory market valuation charges (credits)	267	284	(209)
Total costs and expenses	26,818	20,883	21,198
Income from operations	1,517	1,795	1,779
Net interest and other financial costs	279	347	421
Minority interest in income of Marathon Ashland Petroleum LLC (Note 3)	249	—	—
Income from continuing operations before income taxes	989	1,358	1,358

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Business Combinations

During 1997, Marathon and Ashland Inc. (Ashland) agreed to combine the major elements of their refining, marketing and transportation (RM&T) operations. On January 1, 1998, Marathon transferred certain RM&T net assets to Marathon Ashland Petroleum LLC (MAP), a new consolidated subsidiary. Also on January 1, 1998, Marathon acquired certain RM&T net assets from Ashland in exchange for a 38% interest in MAP. The acquisition was accounted for under the purchase method of accounting. The purchase price was determined to be $1.9 billion, based upon an external valuation. The change in Marathon's ownership interest in MAP resulted in a gain of $245 million, which is included in 1998 revenues.

Nonrecurring/Unusual Gain

GENCORP INC. (NOV)

(Dollars in millions)	1998	1997	1996
Net sales	$1,737	$1,568	$1,515
Costs and expenses:			
Cost of products sold	1,379	1,243	1,200
Selling, general and administrative	149	147	143
Depreciation	62	56	58
Interest expense	14	16	27
Other (income) expense	2	(12)	3
Unusual items	(5)	—	42
	1,601	1,450	1,473
Income before income taxes	136	118	42

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B (In Part): Unusual Items

During 1998, the Company incurred usual items resulting in income of $5 million. Unusual items included charges of $8 million primarily related to exiting the plastic extrusions appliance gasket and residential wallcovering businesses offset by a gain of $13 million from the sale of surplus land in Nevada by Aerojet.

THE FAIRCHILD CORPORATION (JUN)

(In thousands)	1998	1997	1996
Revenue:			
Net sales	$741,176	$680,763	$349,236
Other income, net	6,508	28	300
	747,684	680,791	349,536
Costs and expenses:			
Cost of goods sold	554,670	499,419	275,135
Selling, general and administrative	141,930	142,959	79,295
Research and development	172	100	94
Amortization of goodwill	5,469	4,814	3,979
Restructuring	—	—	2,319
	702,241	647,292	360,822
Operating income (loss)	45,443	33,499	(11,286)
Interest expense	46,007	52,376	64,521
Interest income	(3,292)	(4,695)	(8,062)
Net interest expense	42,715	47,681	56,459
Investment income (loss), net	(3,362)	6,651	4,575
Non-recurring income (loss)	124,028	2,528	(1,724)
Earnings (loss) from continuing operations before taxes	123,394	(5,003)	(64,894)
Income tax (provision) benefit	(48,659)	5,735	29,839
Equity in earnings of affiliates, net	3,956	4,598	4,821
Minority interest, net	(26,292)	(3,514)	(1,952)
Earnings (loss) from continuing operations	52,399	1,816	(32,186)
Earnings (loss) from discontinued operations, net	(4,296)	(485)	15,612
Gain on disposal of discontinued operations, net	59,717	—	216,716
Earnings before extraordinary items	107,820	1,331	200,142
Extraordinary items, net	(6,730)	—	(10,436)
Net earnings	$101,090	$ 1,331	$189,706

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

1 (In Part): Summary of Significant Accounting Policies

Nonrecurring Income

Nonrecurring income of $124,028 in 1998 resulted from disposition of Banner hardware group (See Note 2). Nonrecurring income of $2,528 in 1997 resulted from the gain recorded from the sale of Fairchild Scandinavian Bellyloading Company ("SBC"), (See Note 2). Nonrecurring expense in 1996 resulted from expenses incurred in 1996 in connection with other, alternative transactions considered but not consummated.

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

	1998	1997	1996	1995
Single Amount				
Cost of sales	259	265	263	260
Cost of goods sold	108	108	109	102
Cost of products sold	103	105	105	104
Cost of revenues	20	18	15	15
Elements of cost	13	11	15	15
Other captions	60	69	69	65
	563	576	576	561
More than one amount	37	24	24	39
Total Companies	**600**	**600**	**600**	**600**

TABLE 3-6: EXPENSES—OTHER THAN COST OF GOODS SOLD

	Number of Companies			
	1998	1997	1996	1995
Selling, general and administrative	337	335	342	340
Selling and administrative	141	147	140	152
General and/or administrative	101	90	100	89
Selling	40	26	18	20
Interest	569	561	571	579
Research, development, engineering, etc.	308	319	312	296
Advertising	132	129	121	100
Provision for doubtful accounts	32	37	33	31
Taxes other than income taxes	25	35	30	29
Maintenance and repairs	18	24	27	34
Exploration, dry holes, abandonments	18	21	23	23

TABLE 3-7: LOSSES

	Number of Companies			
	1998	1997	1996	1995
Restructuring of operations	197	144	138	129
Write-down of assets	174	106	111	114
Intangible asset amortization	149	132	111	110
Foreign currency transactions	79	82	80	96
Purchased R&D	39	20	N/C	N/C
Minority interest	35	42	36	34
Litigation settlements	33	24	33	25
Equity in losses of investees	33	20	26	15
Environmental cleanup	29	28	22	28
Sale of assets	28	40	29	25
Sale of receivables	21	22	27	25

N/C—Not compiled.

EXPENSES

Cost of Goods Sold

BADGER METER, INC. (DEC)

(In thousands)	1998	1997	1996
Net sales	$143,813	$130,771	$116,018
Cost of sales	86,502	82,034	73,490
Gross margin	57,311	48,737	42,528

INTERNATIONAL MULTIFOODS CORPORATION (FEB)

(In thousands)	1998	1997	1996
Net sales	$2,611,792	$2,595,873	$2,523,197
Cost of materials and production	(2,237,586)	(2,215,366)	(2,135,707)
Delivery and distribution	(163,915)	(167,788)	(162,870)
Gross profit	210,291	212,719	224,620

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cost of Sales

To more closely match costs with related revenues, the Company classifies the inflation element inherent in interest rates on Venezuelan local currency borrowings and the foreign exchange gains and losses, which occur on certain Venezuelan borrowings, as components of cost of sales. Accordingly, cost of sales was increased by $0.9 million in fiscal 1998 and $2.6 million in fiscal 1997, and was reduced by $7.8 million in fiscal 1996.

KELLWOOD COMPANY (APR)

(Dollars in thousands)	1998	1997	1996
Net sales	$1,781,582	$1,521,005	$1,466,036
Costs and expenses:			
Cost of products sold	1,428,812	1,211,548	1,175,139
Selling, general and administrative expenses	235,961	209,371	206,058
Amortization of intangible assets	15,160	15,373	15,467
Interest expense	28,874	21,566	22,937
Interest income and other, net	(1,172)	(1,679)	(2,089)
Earnings before income taxes	73,947	64,826	48,524

NOTES TO FINANCIAL STATEMENTS

2 (In Part): Accounting Policies

Research, Testing and Development

Research, testing and development costs are expensed as incurred. Research and development expenses, excluding testing, were $78.3 million, $88.4 million and $93.4 million in 1998, 1997 and 1996, respectively.

Research and Development

BINKS SAMES CORPORATION (NOV)

(In thousands)	1998	1997	1996
Net sales	$122,370	$97,297	$140,530
Cost of goods sold	83,719	61,029	95,641
Gross profit	38,651	36,268	44,889
Selling, general, and administrative expenses	29,578	28,916	29,968
Research and development costs	3,760	3,793	2,978
Litigation settlement costs	10,675	—	—
Operating income (loss)	(5,362)	3,559	11,943

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Research and Development Expenses

Research and development costs are charged to expense when incurred. Research and development costs were $3.8 million, $3.8 million, and $3.0 million in fiscal 1998, 1997, and 1996, respectively.

THE LUBRIZOL CORPORATION (DEC)

(In thousands of dollars)	1998	1997	1996
Net sales	$1,614,558	$1,669,251	$1,592,877
Royalties and other revenues	3,361	4,531	4,685
Total revenues	1,617,919	1,673,782	1,597,562
Cost of sales	1,133,327	1,123,602	1,083,394
Selling and administrative expenses	179,759	171,244	158,633
Research, testing and development expenses	150,980	146,678	160,978
Total cost and expenses	1,464,066	1,441,524	1,403,005

TRW INC. (DEC)

(In millions)	1998	1997	1996
Sales	$11,886	$10,831	$9,857
Cost of sales	9,715	8,826	8,376
Gross profit	2,171	2,005	1,481
Administrative and selling expenses	826	684	613
Research and development expenses	522	461	412
Purchased in-process research and development	—	548	—
Interest expense	114	75	84
Other expense (income)—net	(37)	(3)	70
Earnings from continuing operations before income taxes	746	240	302

NOTES TO FINANCIAL STATEMENTS

Research and Development

	1998	1997	1996
Customer-funded	$1,425	$1,501	$1,425
Company-funded			
Research and development	522	461	412
Product development	196	184	160
	718	645	572
	$2,143	$2,146	$1,997

Company-funded research and development programs include research and development for commercial products and independent research and development and bid and proposal work related to government products and services. A portion of the cost incurred for independent research and development and bid and proposal work is recoverable through overhead charged to government contracts. Product development costs include engineering and field support for new customer requirements.

The 1997 amounts exclude the $548 million charge for purchased in-process research and development.

Advertising

BROWN-FORMAN CORPORATION (APR)

(Expressed in millions)	1996	1997	1998
Net sales	$1,807	$1,841	$1,924
Excise taxes	263	257	255
Cost of sales	664	680	690
Gross profit	880	904	979
Advertising expenses	231	229	260
Selling, general and administrative expenses	375	388	412
Operating income	274	287	307
Interest income	3	3	3
Interest expense	20	17	14
Income before income taxes	257	273	296

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

1 (In Part): Accounting Policies

Advertising Costs

Advertising costs are charged to expense as incurred, except for direct-response advertising costs, which are capitalized and amortized over periods not exceeding one year.

KIMBERLY-CLARK CORPORATION (DEC)

(Millions of dollars)	1998	1997	1996
Net sales	$12,297.8	$12,546.6	$13,149.1
Cost of products sold	7,597.8	7,972.6	8,241.4
Gross profit	4,700.0	4,574.0	4,907.7
Advertising, promotion and selling expenses	1,937.4	1,937.2	2,029.7
Research expense	224.8	211.8	207.9
General expense	726.9	623.9	603.0
Goodwill amortization	33.3	16.8	13.4
Restructuring and other unusual charges	101.5	481.1	—
Operating profit	1,676.1	1,303.2	2,053.7
Interest income	24.3	31.4	28.1
Interest expense	(198.7)	(164.8)	(186.7)
Other income (expense), net	124.4	17.7	107.2
Income before income taxes	1,626.1	1,187.5	2,002.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Advertising Expense

Advertising expense is comprised of media, agency and production expenses. Advertising expenses are charged to income during the period incurred, except for expenses related to the development of a major commercial or media campaign which are charged to income during the period in which the advertisement or campaign is first presented by the media. The Corporation uses no direct-response advertising. Advertising expenses charged to income totaled $295.3 million in 1998, $306.6 million in 1997 and $284.9 million in 1996.

Provision For Doubtful Accounts

O'SULLIVAN CORPORATION (DEC)

	1998	1997	1996
Net sales	$163,178,700	$163,599,400	$171,218,487
Cost of products sold	134,444,519	137,976,808	140,180,005
Gross profit	$ 28,734,181	$ 25,622,592	$ 31,038,482
Operating expenses:			
Selling and warehousing	$ 5,629,965	$ 5,067,830	$ 4,923,111
Allowance for doubtful accounts	1,106,250	—	77,000
General and administrative	6,087,002	5,701,472	5,650,032
Postemployment benefits and deferred compensation	457,994	4,033,375	493,773
	$ 13,281,211	$ 14,802,677	$ 11,143,916
Income from operations	$ 15,452,970	$ 10,819,915	$ 19,894,566

LOSSES

Restructuring of Operations

FEDDERS CORPORATION (AUG)

(Amounts in thousands)	1998	1997	1996
Net sales	$322,121	$314,100	$371,772
Costs and expenses:			
Cost of sales	252,351	244,024	288,744
Selling, general and administrative	40,210	38,347	32,040
Restructuring	16,750	—	—
	309,311	282,371	320,784
Operating income	12,810	31,729	50,988

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

2. Restructuring

In January 1998, the Company announced a plan to restructure its operations, which resulted in the Company recording a one-time expense totaling $16,750 in the second fiscal quarter ending February 28, 1998. The charge consisted of machinery and equipment write-downs ($5,590), an amount for machinery and equipment and other lease terminations ($4,856), personnel-related costs, primarily related to outsourcing ($3,803) and administrative facility closing costs ($2,501).

The restructuring did not result in factory closings. However, it did involve shifting some additional production from North America to China and increasing component outsourcing. As part of the restructuring, all Fedders International activities, including executive management located at the Company's headquarters in New Jersey, were relocated to Singapore. The sales, marketing, research and design, service and administrative support functions of Fedders North America were relocated to the Company's facility in Illinois.

MINNESOTA MINING AND MANUFACTURING COMPANY (DEC)

(Amounts in millions)	1998	1997	1996
Net sales	$15,021	$15,070	$14,236
Operating expenses:			
Cost of goods sold	8,705	8,580	8,099
Restructuring charge—inventory	39	—	—
Total cost of goods sold	8,744	8,580	8,099
Selling, general and administrative expenses	3,784	3,815	3,646
Restructuring charge—other	454	—	—
Total	12,982	12,395	11,745
Operating income	2,039	2,675	2,491

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restructuring Charge

To reduce costs and improve productivity, the Company is streamlining corporate structure, consolidating manufacturing operations and exiting certain product lines.

In 1998, the Company recorded a restructuring charge of $332 million ($214 million after tax) in the third quarter and $161 million ($99 million after tax) in the fourth quarter, for a total of $493 million ($313 million after tax). A portion of this restructuring charge ($39 million) has been classified as a component of cost of goods sold. The restructuring charge does not include the write-down of goodwill or other intangible assets.

Of the total restructuring charge, $271 million relates to employee termination benefits. The Company expects to terminate approximately 4,800 employees by December 31, 1999. These reductions will take place in each business segment and geographic area of the company and in all major functions.

Under the plan, the Company terminated 1,225 employees in the second half of 1998, of whom about one-third were in the United States and two-thirds were abroad. Because certain employees can defer receipt of termination benefits for up to 12 months, cash payments lag job eliminations. After subtracting payments of $39 million made through December 31, 1998, the Company had a remaining liability of $232 million related to employee termination benefits at year-end. This has been classified in current liabilities (payroll) on the Consolidated Balance Sheet and will be funded through cash provided by operating activities.

The Company plans to consolidate or downsize manufacturing operations, including actions in seven locations in the United States, nine in Europe, four in the Asia Pacific area and two in Latin America. As part of the restructuring plan, the Company is also discontinuing product lines that had combined annual sales of less than $100 million and marginal operating income in each of the years 1998, 1997 and 1996.

The restructuring charge includes $143 million, net of salvage value, for the write-down of assets included in property, plant and equipment. These assets primarily include specialized 3M manufacturing machinery and equipment. Estimated salvage values are based on estimates of proceeds upon sale of certain of the affected assets.

The restructuring charge also includes $79 million for losses on inventory write-downs and exit plans. The Company has taken an inventory write-down of $39 million, which has been classified as a component of cost of goods sold, for certain product lines that are being discontinued. The losses on exit plans include $40 million in incremental costs and contractual obligations for items such as leasehold termination payments and other facility exit costs incurred as a direct result of this plan. After subtracting $8 million in payments made through December 31, 1998, the company had a remaining balance in other current liabilities of $32 million for these exit costs at year-end.

Selected information relating to the restructuring charge follows.

Restructuring Information

(Millions)	Employee Termination Benefits	Write-down of Property, Plant and Equipment	Other	Total
1998 restructuring charge				
Third quarter	$102	$161	$69	$332
Fourth quarter	169	—	10	179
Fourth-quarter change in estimate	—	(18)	—	(18)
Total restructuring charge	$271	$143	$79	$493
Write-down of assets to net realizable value	—	(143)	(39)	(182)
Cash payments	(39)	—	(8)	(47)
Restructuring liability as of December 31, 1998	$232	$ —	$32	$264

WAUSAU–MOSINEE PAPER CORPORATION (DEC)

(All dollar amounts in thousands)	1998	1997	1996
Net sales	$946,127	$933,127	$857,159
Cost of products sold	771,076	733,464	673,868
Gross profit	175,051	199,663	183,291
Operating expenses:			
Selling and administrative	60,103	65,332	64,242
Restructuring and merger expense	42,803	13,503	—
Operating profit	72,145	120,828	119,049

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Restructuring

In March 1998, the Company began implementation of a workforce reduction program. The purpose of the program was to reduce the number of employees by 400 through early retirement incentives along with voluntary separation arrangements, involuntary severance programs and process automation. As a result of the program implementation, the Company recorded a pre-tax restructuring charge of $37.7 million in the first quarter of 1998. The charge was based on estimates of the cost of the workforce reduction program, including special termination benefits, settlement and curtailment losses related to pension and postretirement benefit plans. In the fourth quarter of 1998, an additional pre-tax expense of $5.1 million was recorded to recognize adjustments to the previous estimates of the early retirement incentives and to recognize additional expenses associated with integration costs.

Approximately 93% of the benefits under the program have been paid or have been transferred as obligations of the Company's retirement plans as of December 31, 1998.

Write-Down of Assets

BMC INDUSTRIES, INC. (DEC)

(In thousands)	1998	1997	1996
Revenues	$335,138	$312,538	$280,487
Cost of products sold	297,995	244,468	213,007
Gross margin	37,143	68,070	67,480
Selling	15,496	11,696	10,028
Administrative	5,179	4,316	5,005
Impairment of long-lived assets	42,800	—	—
Acquired in-process research and development	9,500	—	—
Income (loss) from operations	(35,832)	52,058	52,447

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

6. Property, Plant and Equipment

The following is a summary of property, plant and equipment at December 31:

	1998	1997
Land and improvements	$ 5,475	$ 3,523
Buildings and improvements	98,423	114,631
Machinery and equipment	165,486	151,410
Construction in progress	7,246	13,506
Total	276,630	283,070
Less accumulated depreciation and amortization	(114,036)	(100,688)
Total property, plant and equipment, net	$162,594	$182,382

The Company recorded a charge of $26,700 after-tax ($42,800 pre-tax) during the quarter ended June 30, 1998 for the write-down of certain Precision Imaged Products (PIP) operations fixed-assets, primarily those related to the production of computer monitor masks. After careful assessment of various factors relevant to these assets, including significant declines in sales prices within the computer monitor mask market, management determined it was appropriate to write down the value of these assets and, accordingly, such assets were written down to estimated fair value based on estimated discounted future cash flows in accordance with SFAS No. 121.

GENEVA STEEL COMPANY (SEP)

(Dollars in thousands)	1998	1997	1996
Net sales	$720,453	$726,669	$712,657
Cost of sales	659,132	665,978	662,307
Gross margin	61,321	60,691	50,350
Selling, general and administrative expenses	22,116	22,487	24,621
Write-down of impaired assets	17,811	—	—
Income from operations	21,394	38,204	25,729

NOTES TO CONSOLIDATED FINANICAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Accounting for the Impairment of Long-Lived Assets

The Company accounts for impairment of long-lived assets in accordance with 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" which was issued in March 1995. SFAS No. 121 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset may not be recoverable. The Company evaluates at each balance sheet date whether events and circumstances have occurred that indicate possible impairment. In accordance with SFAS No. 121, the Company uses an estimate of the future undiscounted net cash flows of the related asset or asset grouping over the remaining life in measuring whether the assets are recoverable. During fiscal year 1998, the Company wrote down approximately $17.8 million of impaired long-lived assets. The write-down included $8.5 million of in-line scarfing equipment, $6.6 million of mineral property development costs and $2.7 million of other machinery and equipment. Based on the operating record of the Company's continuous caster and recent reduced production levels, the Company believes that sustained use of the inline scarfing equipment is unlikely. In addition, the use by the Company of iron-ore pellets purchased from third parties and recent reduced production levels has caused the Company to decrease the estimated value to it of the mineral development costs. Based on the Company's expectation of future undiscounted net cash flow, these assets have been written-down to their realizable value.

MANPOWER INC. (DEC)

(In thousands)	1998	1997	1996
Revenues from services	$8,814,272	$7,258,504	$6,079,905
Cost of services	7,311,278	5,948,308	4,931,937
Gross profit	1,502,994	1,310,196	1,147,968
Selling and administrative expenses	1,280,491	1,054,809	921,011
Write-down of capitalized software	92,100	—	—
Operating profit	130,403	255,387	226,957

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

2. Write-down of Capitalized Software

In accordance with its ongoing review of capitalized software, in December 1998 the Company recorded a $92,100 ($57,102 after tax, or $.70 per share on a diluted basis) non-cash charge to write off the carrying value of software costs and certain hardware and network infrastructure costs related to the development of a complex and proprietary information system for its North American branch office administration, invoicing and payroll processing. This comprehensive information system had been under development for several years and portions of the system were in field testing and deployment.

After a period of field testing, management and the Board of Directors decided in December 1998 that it was necessary to significantly alter the technological architecture of the system in order to reduce ongoing support, maintenance and communications costs. This decision requires the application software under development to be abandoned and a new application to be purchased or developed for the new architecture. In addition to the developed software, certain hardware, network infrastructure and software licenses were also abandoned as a result of the change in system architecture. The non-cash charge includes the costs of abandoning all of these assets.

The capitalized software balance of $9,580 and $53,490 as of December 31, 1998 and 1997, respectively, is included in Other assets in the Consolidated Balance Sheets.

THE PENN TRAFFIC COMPANY (JAN)

(Dollars in thousands)	1999	1998	1997
Total revenues	$2,828,109	$3,010,065	$3,296,462
Costs and operating expenses:			
Cost of sales (including buying and occupancy costs)	2,213,801	2,317,847	2,531,381
Selling and administrative expenses	602,382	625,731	684,558
Restructuring charges	—	10,704	—
Gain on sale of Sani-Dairy (Note 8)	—	(24,218)	—
Unusual items	61,355	—	—
Write-down of long-lived assets (Note 10)	143,842	26,982	—
Operating (loss) income	(193,271)	53,019	80,523

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Business Description and Summary of Significant Accounting Policies

Impairment of Long-Lived Assets

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" ("SFAS 121"), assets are generally evaluated on a market-by-market basis in making a determination as to whether such assets are impaired. At each year-end, the Company reviews its long-lived assets (including goodwill) for impairment based on estimated future nondiscounted cash flows attributable to the assets. In the event such cash flows are not expected to be sufficient to recover the recorded value of the assets, the assets are written down to their estimated fair values (Note 10).

10. Accounting for Certain Long-Lived Assets

The Company periodically reviews the recorded value of its long-lived assets to determine if the future cash flows to be derived from these properties will be sufficient to recover the remaining recorded asset values. In accordance with SFAS 121, during the fourth quarter of Fiscal 1999, based upon a comprehensive review of the Company's long-lived assets the Company recorded a noncash charge of $52.3 million primarily related to the write-down of a portion of the recorded asset values of 14 of the Company's supermarkets that were operating as of January 30, 1999 (including allocable goodwill) to estimated realizable values. The 14 supermarkets are located throughout the Company's trading area.

During June 1998, the Company announced its plans for realizing value from certain of its Pennsylvania Bi-Lo stores and related wholesale operations. The Company recorded a noncash charge of $91.5 million to write down the carrying amounts of 22 stores held for sale (including allocable goodwill) at October 31, 1998 to estimated realizable values. Since October 31, 1998, the Company has revised its Store Rationalization Program and decided to continue to operate six of these stores and close two of them. The Company has continued to depreciate the stores held for sale in the normal course of business.

During Fiscal 1999, 9 of these stores were sold yielding cash proceeds of $7.4 million and a gain of $0.2 million. At January 30, 1999, 5 stores with a net book value of $15.3 million were held for sale. Subsequent to year end, 4 of these stores were sold for cash proceeds of approximately $16 million. Revenues of the 14 stores sold or held for sale were $129.5 million for Fiscal 1999 (these amounts reflect the fact that 9 of these did not operate for the entire 52-week period).

Based upon a comprehensive review of the Company's long-lived assets, the Company recorded a noncash charge of $27.0 million in Fiscal 1998. This charge primarily related to the write-down of a portion of the recorded asset values (including allocable goodwill) of 12 of the Company's supermarkets that were in operation as of January 31, 1998, as well as certain other real estate. These 12 supermarkets were located throughout the Company's trading area.

The Company performed a comprehensive review of its long-lived assets as of the end of Fiscal 1997. Based on this review, no additional assets were deemed to be impaired.

WTD INDUSTRIES, INC. (APR)

(In thousands)	1998	1997	1996
Net sales	$242,051	$284,086	$191,964
Cost of sales	231,303	255,068	186,514
Gross profit	10,748	29,018	5,450
Selling, general and administrative expenses	11,290	12,529	9,685
Impairment charges	4,168	—	—
Reorganization credits	—	—	(409)
Operating income (loss)	(4,710)	16,489	(3,826)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Impairment Charges

The Company has classified certain property, plant and equipment related to two facilities as Assets Held for Sale. 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 an impairment loss associated with these two mills. The resulting adjustment of approximately $4.2 million to reduce the book value of these assets was recorded in the fourth quarter ended April 30, 1998. The Company considers continued operating losses and significant and long-term changes in industry conditions to be its primary indicators of potential impairment. An impairment was recognized when the future undiscounted cash flows of each facility were estimated to be insufficient to recover their related carrying values. As such, the carrying values of these assets were written down to the Company's estimates of fair value. Fair value was based on current appraisal values, or other estimates of fair value such as discounted future cash flows. Accordingly, actual results could vary significantly from such estimates. At April 30, 1998, these assets have a remaining carrying amount of $6.5 million. The Company intends to operate one of these facilities while pursuing alternatives for its sale. The other facility has been shut down and the Company intends to sell it. Together, these two facilities recorded net sales of $24.8 million, $36.9 million, and $22.6 million, and contributed net operating losses of $3.1 million, $.1 million, and $2.4 million for the years ended April 30, 1998, 1997, and 1996, respectively, excluding the impairment charge in the fourth quarter of fiscal 1998.

The Company continually considers market conditions and changes occurring in the forest products industry to evaluate the status of its individual mill facilities, and management believes that all necessary impairment adjustments have been made at April 30, 1998. However, given the volatility of the market over the past nine months and the losses incurred during that fiscal period, management will continue to evaluate impairment issues.

Intangible Asset Amortization

B/E AEROSPACE, INC. (FEB)

(Dollars in thousands)	1998	1997	1996
Net sales	$487,999	$412,379	$232,582
Cost of sales	309,094	270,557	160,031
Gross profit	178,905	141,822	72,551
Operating expenses:			
Selling, general and administrative	58,622	51,734	42,000
Research, development and engineering	45,685	37,083	58,327
Amortization of intangible assets	11,265	10,607	9,499
Other expenses	4,664	—	4,170
Total operating expenses	120,236	99,424	113,996
Operating earnings (loss)	58,669	42,398	(41,445)

NACCO INDUSTRIES, INC. (DEC)

(In millions)	1998	1997	1996
Revenues	$2,536.2	$2,246.9	$2,273.2
Cost of sales	2,020.7	1,825.9	1,874.1
Gross profit	515.5	421.0	399.1
Selling, general and administrative expenses	301.1	265.2	252.5
Amortization of goodwill	14.7	15.8	15.4
Restructuring charge	1.6	8.0	—
Operating profit	198.1	132.0	131.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Accounting Policies

Goodwill

Goodwill represents the excess purchase price paid over the fair value of the net assets acquired. The amortization of goodwill is provided on a straight-line basis over a 40-year period. Accumulated amortization of goodwill was $136.5 million and $122.0 million at December 31, 1998 and 1997, respectively. Management regularly evaluates its accounting for goodwill, considering such factors as historical and future profitability, and believes that the asset is realizable and the amortization period remains appropriate.

Foreign Currency Transactions

BOISE CASCADE CORPORATION (DEC)

(Expressed in thousands)	1998	1997	1996
Revenues:			
Sales	$6,162,123	$5,493,820	$5,108,220
Cost and expenses:			
Materials, labor, and other operating expenses	4,849,678	4,436,650	4,152,150
Depreciation, amortization, and cost of company timber harvested	282,737	256,570	255,000
Selling and distribution expenses	666,759	553,240	446,530
General and administrative expenses	150,455	139,060	119,860
Other (income) expense, net	71,843	710	(14,520)
	6,021,472	5,386,230	4,959,020
Equity in net income (loss) of affiliates	(3,791)	(5,180)	2,940
Income from operations	136,860	102,410	152,140
Interest expense	(159,870)	(137,350)	(128,360)
Interest income	2,274	6,000	3,430
Foreign exchange gain (loss)	(542)	10	(1,200)
Gain on subsidiary's issuance of stock	—	—	5,330
	(158,138)	(131,340)	(120,800)
Income (loss) before income taxes, minority interest, and cumulative effect of accounting change	(21,278)	(28,930)	31,340

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Foreign Currency Translation

Local currencies are considered the functional currencies for most of the Company's operations outside the United States. Assets and liabilities are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated into U.S. dollars at average monthly exchange rates prevailing during the year. Resulting translation adjustments are included in "Accumulated other comprehensive income (loss)." The 1998, 1997, and 1996 foreign exchange gain and losses reported on the Statements of Income (Loss) arose primarily from translation adjustments where the U.S. dollar is the functional currency.

Purchased R&D

THE DOW CHEMICAL COMPANY (DEC)

(In millions)	1998	1997	1996
Net sales	$18,441	$20,018	$20,053
Operating costs and expenses:			
Cost of sales	13,799	14,679	14,108
Insurance and finance company operations, pretax income	(112)	(113)	(78)
Research and development expenses	807	785	761
Selling, general and administrative expenses	1,666	1,880	2,136
Amortization of intangibles	88	61	39
Purchased in-process research and development	349	—	—
Special charges	458	—	—
Total operating costs and expenses	17,055	17,292	16,966
Operating income	1,386	2,726	3,087

NOTES TO FINANCIAL STATEMENTS
(In millions)

B. Purchased In-Process Research and Development and Special Charges

Purchased In-Process Research and Development

Purchased in-process research and development (IPR&D) represents the value assigned in a purchase business combination to research and development projects of the acquired business that had commenced but had not yet been completed at the date of acquisition and which have no alternative future use. In accordance with SFAS No. 2, "Accounting for Research and Development Costs," as clarified by FASB Interpretation No. 4, amounts assigned to IPR&D meeting the above stated criteria must be charged to expense as part of the allocation of the purchase price of the business combination. Accordingly, charges totaling $349 were recorded during 1998 as part of the allocations of the purchase prices related to the acquisitions of Sentrachem, additional common stock of Mycogen, several seed companies, and the remaining 40 percent of DowElanco (since renamed Dow AgroSciences LLC). During the third and fourth quarters of 1998, the U.S. Securities and Exchange Commission (SEC) issued clarifying guidance on how these amounts are to be determined. In light of this clarification, the Company reviewed all IPR&D charges, and in the fourth quarter recorded a $55 reduction of previously recorded IPR&D charges to comply with the SEC guidance.

The method used to determine the purchase price allocations of IPR&D was an income or cash flow method. The calculations were based on estimates of operating earnings, capital charges (representing the effect of capital expenditures), trade name royalties, charges for core technology, and working capital requirements to support the cash flows attributed to the technologies. The after tax cash flows were bifurcated to reflect the stage of development of each technology. Discount rates reflecting the stage of development and the risk associated with each technology were used to value IPR&D. The Company has substantial experience in research and development projects for new products, which enables it to establish realistic time frames for the completion of such projects; therefore, the Company believes there is limited risk that the projects described below will not be concluded within reasonable proximity to the expected completion dates.

The allocation of the purchase price of Sentrachem (see Note C) resulted in the recording of an IPR&D charge of $50, which has been included in the Performance Chemicals and Agricultural Products segments (see Note B). Projects associated with the technology acquired incldued process development of a selective herbicide, nutrient concentrates and fine chemicals. These projects ranged from 25 percent to 40 percent complete, with expected completion in years 1999 through 2004 at an estimated expected cost of $35.

Additional shares of Mycogen were acquired in two steps in 1998 as described in Note C. In allocating the purchase price for Mycogen and its related acquisitions of several small seed companies, the Company recorded a $79 IPR&D charge included in the Agricultural Products segment (see Note R). Projects associated with the technology acquired included process development of a selective herbicide, nutrient concentrates and fine chemicals. These projects ranged from 25 percent to 40 percent complete, with expected completion in years 1999 through 2004 at an estimated expected cost of $35.

Additional shares of Mycogen were acquired in two steps in 1998 as described in Note C. In allocating the purchase price for Mycogen and its related acquisitions of several small seed companies, the Company recorded a $79 IPR&D charge included in the Agricultural Products segment (see Note R). Projects associated with the technology acquired included Bt technology, an input trait used to protect crops from insect pests, various biotechnology projects that will enhance crop quality or output traits, and germplasm development. These projects ranged from 1 percent to 38 percent complete, with expected completion in years 2001 through 2007 at an estimated expected cost of $140.

In 1998, the Company completed the appraisal of the technology acquired with the purchase of Eli Lilly and Company's 40 percent interest in DowElanco and recorded an IPR&D charge of $220 as part of the Agricultural Products segment (see Note R). Projects associated with the technology included naturally derived insecticides, herbicides and fungicides, and various biotechnology projects to enhance crops and to protect them from disease and pests. Projects ranged from 7 percent to 94 percent complete, with expected completion in years 1998 through 2007 at an estimated expected cost of $196.

MALLINCKRODT INC. (JUN)

(In millions)	1998	1997	1996
Net sales	$2,367.0	$1,698.1	$1,596.9
Operating costs and expenses:			
Cost of goods sold	1,368.8	897.9	837.9
Selling, administrative and general expenses	712.5	409.7	403.4
Purchased research and development	396.3	—	—
Research and development expenses	149.0	100.5	80.6
Other operating income, net	(9.1)	(7.5)	(4.5)
Total operating costs and expenses	2,617.5	1,400.6	1,317.4
Operating earnings (loss)	(250.5)	297.5	279.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Changes in Business

Acquisitions: Nellcor Puritan Bennett Incorporated

On August 28, 1997, the Company acquired Nellcor Puritan Bennett Incorporated (Nellcor) through an agreement to purchase for cash all of the outstanding shares of common stock of Nellcor for $28.50 per share. The aggregate purchase price of the Nellcor acquisition was approximately $1.9 billion. Nellcor manufactures and markets products that monitor, diagnose and treat respiratory impaired patients. The product lines include pulse oximetry monitors and sensors, critical care and portable ventilators, home oxygen therapy products, sleep apnea diagnostic and therapy products, and medical gas products and distribution systems. The Company completed the acquisition using cash and cash equivalents and borrowed approximately $1.1 billion under a $2.0 billion credit facility established in July 1997, and amended and restated in September 1997.

The acquisition was accounted for under the purchase method of accounting and, accordingly, the result of operations of Nellcor have been included in the Company's consolidated financial statements since September 1, 1997. The purchase price of the acquisitions was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price over the fair value of the net identifiable assets, totaling $724.2 million, was allocated to goodwill and is being amortized on a straight-line basis over 30 years. The Company also recorded a deferred tax liability of $211.0 million, representing the tax effect of timing differences recorded as part of the acquisition.

Approximately $925.4 million of the purchase price was allocated to identifiable intangible assets including purchased research and development ($398.3 million), technology ($374.2 million), and trademarks and trade names and assembled work force ($152.9 million). (See Note 1 for amortization periods and methods for intangible assets.) The purchased research and development represents the value of numerous new medical devices and other products/technologies in all major product lines (e.g., sensors, monitors and ventilators) that were in various stages of development and had not reached technological feasibility. No alternative future uses were identified prior to reaching technological feasibility because of the uniqueness of the projects. The purchased research and development was valued using the income approach, which includes an analysis of the markets, cash flows and risks associated with achieving such cash flows. This intangible asset, which had no tax benefit, was charged to results of operations during the first quarter of 1998. Of the total charge of $398.3 million, $2.0 million related to the Aero Systems division which was sold and reclassified to discontinued operations in the fourth quarter of 1998.

Minority Interest

SPS TECHNOLOGIES, INC. (DEC)

(Thousands of dollars)	1998	1997	1996
Net sales	$716,605	$588,616	$485,903
Cost of goods sold	553,770	460,159	386,403
Gross profit	162,835	128,457	99,500
Selling, general and administrative expense	83,501	70,379	61,322
Operating earnings	79,334	58,078	38,178
Other income (expense):			
Interest income	947	1,002	621
Interest expense	(10,860)	(8,998)	(7,989)
Equity in earnings (loss) of affiliates	(2,442)	230	853
Minority interest	(523)	(224)	(100)
Other, net	114	(788)	(513)
	(12,764)	(8,778)	(7,128)
Earnings before income taxes	66,570	49,300	31,050

Litigation Settlement

POLARIS INDUSTRIES, INC. (DEC)

(In thousands)	1998	1997	1996
Sales	$1,175,520	$1,048,296	$1,191,901
Cost of sales	897,233	785,758	928,085
Gross profit	278,287	262,538	263,816
Operating expenses:			
Selling and marketing	118,688	112,978	112,146
Research and development	28,387	26,722	28,270
General and administrative	31,106	29,736	25,983
Total operating expenses	178,181	169,436	166,399
Operating income	100,106	93,102	97,417
Nonoperating expense (income):			
Interest expense	2,959	2,829	4,339
Equity in (income) of affiliates	(7,819)	(6,718)	(3,107)
Other expense (income), net	(4,805)	(5,171)	(1,148)
Provision for litigation loss (Note 2)	61,409	—	—
Income before income taxes	48,362	102,162	97,333

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Litigation Settlement

Injection Research Specialists ("IRS") commenced an action in 1990 against Polaris and Fuji Heavy Industries, Ltd. ("Fuji") one of Polaris' engine suppliers, in Colorado Federal Court alleging various claims relating to electronic fuel injection systems for snowmobiles. In October 1998, following a judgment against Polaris for $34.0 million (before pre- and post-judgment interest) and affirmance thereof by the Federal Court of Appeals, IRS, Polaris and Fuji entered into a confidential settlement agreement to settle all outstanding claims between the parties. The resulting provision for litigation loss of $61.4 million has been reflected as non-operating expense in the accompanying statement of operations for the year ended December 31, 1998. The net income impact of the litigation loss was $39.6 million or $1.53 per diluted share. Adjusted net income excluding the IRS litigation provision was $70.6 million or $2.72 per diluted share. The related payment to IRS was made in the fourth quarter 1998 in connection with entering into the confidential settlement agreement. Polaris utilized its existing bank line of credit arrangement to fund the payment. Polaris no longer uses any of the technology in dispute.

TRINITY INDUSTRIES, INC. (MAR)

(In millions)	1998	1997	1996
Revenues	$2,473.0	$2,234.3	$2,241.7
Operating costs:			
Cost of revenues	2,054.0	1,877.6	1,929.0
Selling, engineering and administrative expenses	144.2	124.0	105.6
Retirement plans expense	18.9	18.5	12.2
	2,217.1	2,020.1	2,046.8
Operating profit	255.9	214.2	194.9
Other (income) expenses:			
Litigation settlement	70.0	—	—
Interest income	(1.8)	(0.5)	(1.8)
Interest expense	20.9	21.4	30.8
Other, net	0.9	12.0	0.1
	90.0	32.9	29.1
Income from continuing operations before income taxes	165.9	181.3	165.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contingencies

In September 1997, the Company settled a 13 year old lawsuit brought against a former subsidiary of the Company by Morse/Diesel, Inc. The settlement resulted in an after-tax charge of $43.8 million being recorded in the second quarter of fiscal year 1998. The Company has not participated in the business associated with this matter since 1989.

In April, 1998, the Company settled a 5 year old patent infringement lawsuit brought against the Company by Johnstown America Corp. for approximately $10.5 million, net of tax.

The Company is involved in various other claims and lawsuits incidental to its business. In the opinion of management, these claims and suits in the aggregate will not have a material adverse affect on the Company's consolidated financial statements.

Equity in Investee Losses

FORD MOTOR COMPANY (DEC)

(In millions)	1998	1997	1996
Sales	$119,083	$122,935	$118,023
Costs and expenses:			
Costs of sales	104,782	108,907	108,882
Selling, administrative and other expenses	7,616	7,082	6,625
Total costs and expenses	112,398	115,989	115,507
Operating income	6,685	6,946	2,516
Interest income	1,331	1,116	841
Interest expense	829	788	695
Net interest income	502	328	146
Equity in net loss of affiliated companies	(38)	(88)	(6)
Net expense from transactions with Financial Services	(191)	(104)	(85)
Income before income taxes	6,958	7,082	2,571

Environmental Cleanup

THE SCOTTS COMPANY (SEP)

(In millions)	1998	1997	1996
Sales	$1,113.0	$899.3	$750.4
Cost of sales	715.0	573.6	512.4
Gross profit	398.0	325.7	238.0
Advertising and promotion	104.4	83.9	69.2
Selling, general and administrative	167.2	130.5	116.6
Amortization of goodwill and other intangibles	12.9	10.2	8.8
Restructuring and other charges	15.4	—	17.7
Other expense (income), net	4.0	6.3	(0.6)
Income from operations	94.1	94.8	26.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Environmental Costs

The Company recognizes environmental liabilities when conditions requiring remediation are identified. 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. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalized. Environmental liabilities are not discounted or reduced for possible recoveries from insurance carriers.

3. Other Expense (Income)

Other expense (income) consisted of the following for the fiscal years ended September 30:

(In millions)	1998	1997	1996
Royalty income	$(3.4)	$(2.0)	$(1.0)
Asset valuation and write-off charges	2.3	6.0	—
Foreign currency loss	2.5	—	1.2
Legal and environmental charges	2.7	1.1	—
Other, net	(0.1)	1.2	(0.8)
Total	$ 4.0	$ 6.3	$(0.6)

Sale of Assets

TANDY CORPORATION (DEC)

(In millions, except per share amounts)	1998	1997	1996
Net sales and operating revenues	$4,787.9	$5,372.2	$6,285.5
Cost of products sold	2,783.5	3,357.9	4,263.1
Gross profit	2,004.4	2,014.3	2,022.4
Expenses (income):			
Selling, general and administrative	1,580.3	1,580.3	1,761.1
Depreciation and amortization	99.0	97.2	108.6
Interest income	(10.8)	(13.2)	(13.0)
Interest expense	45.4	46.1	36.4
Restricted stock awards	82.6	—	—
Provision for loss on sale of Computer City	108.2	—	—
Provision for restructuring costs	—	—	162.1
Impairment of long-lived assets	—	—	112.8
	1,904.7	1,710.4	2,168.0
Income (loss) before income taxes	99.7	303.9	(145.6)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Sale of Computer City, Inc.

On June 22, 1998, the Company announced that it had signed a definitive agreement with CompUSA Inc. ("CompUSA") for the sale of 100% of the outstanding common stock of the Company's Computer City, Inc. subsidiary. On August 31, 1998, the sale was completed. The Company received approximately $36.5 million in cash and an unsecured subordinated note for $136.0 million as consideration for the sale. The note, which is of equal priority with CompUSA's existing subordinated debt, bears interest at 9.48% per annum and is payable over a ten year period. Interest is payable on June 30 and December 31 of each year, with the first payment made on December 31, 1998. Beginning on December 31, 2001, principal payments will be due semiannually until the note matures on June 30, 2008. The Company recognized a loss of $108.2 million from the sale of CCI in 1998, which included certain liabilities and contractual obligations incurred by the Company.

Sale of Receivables

FIRST BRANDS CORPORATION (JUN)

(Dollars in thousands except per share data)	1998	1997	1996
Net sales	$1,203,670	$1,119,898	$1,073,022
Cost of goods sold	775,870	713,203	687,103
Selling, general and administrative expenses	291,156	268,086	241,711
Amortization and other depreciation	14,585	13,411	15,607
Restructuring expense (Note 3)	2,700	19,000	—
Interest expense and amortization of debt discount and expenses	29,604	20,383	17,546
Discount on sale of receivables (Note 5)	4,561	3,992	3,963
Other income (expense), net	(500)	1,575	1,827
Income before provision for income taxes, extraordinary loss and cumulative effect of change in accounting principle	84,694	83,398	108,919

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Accounts Receivable

During fiscal 1998, the Company exercised its option to terminate a previous agreement to sell up to $100,000,000 in eligible trade accounts receivable. After terminating its previous agreement, the Company entered into a new three-year agreement, with an automatic yearly renewal provision thereafter, for the sale of $100,000,000 in fractional ownership interest in a defined pool of eligible receivables. The new program increases the receivable pool which may be considered eligible, reduces the yearly service fees and provides for a lower discount rate. As of June 30, 1998 the entire $100,000,000 had been sold, reflecting a $15,000,000 increase over the prior year-end balance. 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."

Year 2000 Costs

DAYTON HUDSON CORPORATION (JAN)

(Millions of dollars)	1998	1997	1996
Revenues	$30,951	$27,757	$25,371
Costs and expenses:			
Cost of retail sales, buying and occupancy	22,634	20,320	18,628
Selling, publicity and administrative	5,077	4,532	4,289
Depreciation and amortization	780	693	650
Interest expense	398	416	442
Taxes other than income taxes	506	470	445
Real estate repositioning	—	—	134
Total costs and expenses	29,395	26,431	24,588
Earnings before income taxes and extraordinary charges	1,556	1,326	783

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impact of Year 2000

Year 2000 related costs, included in selling, publicity and administrative expenses, are expensed as incurred. In 1998 the Company expensed $27 million related to year 2000 readiness. Prior to 1998, the Company expensed approximately $5 million. Year 2000 capital expenditures are recorded at cost less accumulated depreciation.

WEYERHAEUSER COMPANY (DEC)

(Dollar amounts in millions)	1998	1997	1996
Net sales and revenues:			
Weyerhaeuser	$ 9,574	$10,117	$10,105
Real estate and related assets	1,192	1,093	1,009
Total net sales and revenues	10,766	11,210	11,114
Costs and expenses:			
Weyerhaeuser:			
Costs of products sold	7,468	7,866	7,610
Depreciation, amortization and fee stumpage	611	616	601
Selling, general and administrative expenses	649	646	702
Research and development expenses	57	56	54
Taxes other than payroll and income taxes	130	142	151
Charges for closure or disposition of facilities	71	89	—
Charge for Year 2000 remediation	42	1	—
	9,028	9,416	9,118
Real estate and related assets:			
Costs and operating expenses	1,016	909	726
Depreciation and amortization	5	12	16
Selling, general and administrative expenses	53	96	173
Taxes other than payroll and income taxes	8	8	11
	1,082	1,025	926
Total costs and expenses	10,110	10,441	10,044
Operating income	656	769	1,070

Merger Related Stock Options

AMERICAN STORES COMPANY (JAN)

(In thousands)	1998	1997	1996
Sales	$19,866,725	$19,138,880	$18,678,129
Cost of merchandise sold, including warehousing and transportation expenses	14,560,899	14,039,263	13,713,151
Gross profit	5,305,826	5,099,617	4,964,978
Operating and administrative expenses	4,437,804	4,317,576	4,220,187
Merger related stock options	195,252	—	—
Restructuring and impairment	—	13,400	77,151
Operating profit	672,770	768,641	667,640

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Compensation Plans (In Part)

Variable Accounting Treatment for Option Plans

Stock options and certain shares of restricted stock granted under the Company's stock option and stock award plans automatically vest upon a change of control, which is defined in plans adopted prior to June 1997 (Pre-1997 Plans) as stockholder approval of the Merger or, for options granted under the Company's 1997 Stock Option and Stock Award Plan and the 1997 Stock Plan for Non-Employee Directors (1997 Plans), upon the later of stockholder approval or regulatory approval of the Merger. All options outstanding on the consummation of the merger will be converted into options to acquire shares of Albertson's Common Stock. In addition, option holders have the right (limited stock appreciation right or LSAR), during an exercise period of up to 60 days after the occurrence of a change of control (but prior to consummation of the Merger), to elect to surrender all or part of their options in exchange for shares of Alberton's Common Stock having a value equal to the excess of the change of control price over the exercise price (which shares will be deliverable upon the Merger). The change of control price is defined as the higher of (i) the highest reported sales price during the 60-day period ending prior to the respective dates of the "change of control," or (ii) the price paid to stockholders in the Merger, subject to adjustment in both cases if the exercise period is less than 60 days.

Approval of the Merger Agreement on November 12, 1998 by the Company's stockholders accelerated the vesting of 10.2 million stock options granted under Pre-1997 Plans (approximately 60% of the outstanding stock options) and permitted the holders of these options to exercise LSARs. The exercisability of 10.2 million LSARs resulted in the Company recognizing a $195.3 million merger related stock option charge during the fourth fiscal quarter of 1998. This charge was recorded based on the difference between the average option exercise price of $19.15 and the average market price at measurement dates of $38.29. Of the 10.2 million options, 6.3 million were exercised using the LSAR feature, 1.7 million were exercised without using the LSAR, and 2.2 million shares reverted back to fixed price options due to the expiration of the LSAR on January 10, 1999.

The actual change of control price used to measure the value of the 6.3 million LSARs will not be determinable until the date the Merger is consummated or the Merger Agreement is terminated. Additional charges or income would be recognized in each quarter until the Merger is consummated if the change of control price is higher or lower than the amounts assumed for purposes of the foregoing estimates. If the Merger is consummated, the foregoing charges will be non-cash.

LSARs relating to the approximately 6.5 million remaining stock options issued under the 1997 plans will become exercisable upon regulatory approval of the Merger, which would result in recognition of an additional charge estimated at $100 million based upon an average exercise price of $23.72 and assuming an estimated change of control price of $39.19. The actual change of control price used to measure the value of the LSARs will not be determinable until the date the Merger is consummated or the Merger Agreement is terminated. If the Merger is consummated, the foregoing charges will be non-cash.

Product Line Relocation

CMI CORPORATION (DEC)

(Dollars in thousands)	1998	1997	1996
Net revenues	$205,686	$154,014	$138,788
Costs and expenses:			
Cost of goods sold	152,116	115,172	98,694
Marketing and administrative	30,445	25,450	23,098
Engineering and product development	7,816	6,646	6,009
Product line relocation costs	1,419	—	—
	191,796	147,268	127,801
Operating earnings	13,890	6,746	10,987

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): 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 $3.8 million and is being amortized on a straight-line basis over 15 years. The Company moved the production of these product lines to its principal manufacturing location in 1998. The costs associated with integration were approximately $1.4 million and were expensed as incurred.

Trust Distribution

FLEETWOOD ENTERPRISES, INC. (APR)

(Amounts in thousands)	1998	1997	1996
Sales	$3,050,567	$2,874,426	$2,809,277
Cost of products sold	2,456,288	2,334,840	2,276,595
Gross profit	594,279	539,586	532,682
Operating expenses	424,084	400,027	401,150
Operating income	170,195	139,559	131,532
Other income (expense):			
Loss on disposition of European subsidiary	—	—	(28,000)
Investment income	12,542	12,298	14,032
Interest expense	(3,567)	(4,035)	(1,429)
Distribution on preferred securities of Fleetwood Capital Trust	(3,936)	—	—
Other	(285)	(772)	(5,142)
	4,754	7,491	(20,539)
Income from continuing operations before provision for income taxes and minority interest	174,949	147,050	110,993

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Convertible Trust Preferred Securities

On February 10, 1998, Fleetwood Capital Trust, a Delaware business trust wholly owned by the Company (the Trust), completed a $287.5 million private placement of 5,750,000 shares of 6% Convertible Trust Preferred Securities (the Securities) with a liquidation value of $50 per security. The combined proceeds from the issuance of the Securities and the purchase by the Company of the common securities of the Trust were invested by the Trust in 6% convertible subordinated debentures in the aggregate principal amount of $296.4 million, due February 15, 2028 (the Debentures), issued by the Company. The Debentures are the sole assets of the Trust and eliminate in consolidation.

Distribution on the Securities are cumulative and will be paid quarterly in arrears at an annual rate of 6%. The Company has guaranteed, on a subordinated basis, distributions and other payments on the Securities. The Company has the option to defer payment of the distributions for an extended period of up to 20 consecutive quarters, so long as the Company is not in default in the payment of interest on the Debentures.

The Securities are convertible, at the option of the holder, at any time at the rate of 1.02627 shares of Fleetwood Common stock (i.e., a conversion price of $48.72 per Common share), subject to adjustment in certain circumstances. The Debentures will be redeemable in whole or in part, at the option of the Company, on or after February 15, 2001, at a price equal to 103.75 percent of the principal amount plus accrued and unpaid interest, declining annually to par if redeemed on or after February 15, 2006. The Securities are subject to mandatory redemption to the extent of any early redemption of the Debentures and upon maturity of the Debentures on February 15, 2028.

Cost of Acquisition Opportunity

TYLER CORPORATION (DEC)

(In thousands)	1998	1997	1996
Revenues	$50,549	$ —	$ —
Cost of revenues	24,749	—	—
Gross profit	25,800	—	—
Selling, general and administrative expense	14,461	2,959	6,858
Costs of a certain acquisition opportunity	3,146	—	—
Amortization of intangibles	3,173	—	—
Operating income (loss)	5,020	(2,959)	(6,858)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisitions

On July 31, 1998 the Company entered into a letter of intent with a Fortune 500 company to acquire certain businesses of the company in a transaction to be accounted for as a purchase business combination. These businesses had estimated annual revenues of over $500 million and represented a business opportunity which was aligned with the Company's strategy in the information management business. Direct and incremental costs associated with the proposed combination, primarily consisting of fees paid to outside legal and accounting advisors for due diligence, were incurred by the Company and would have been considered as a cost of the acquisition upon the successful closing of the transaction. Subsequent to September 30, 1998, the potential seller elected not to sell any of the businesses. Accordingly, all costs associated with this opportunity have been expensed in the accompanying 1998 consolidated financial statements and included in "costs of a certain acquisition opportunity."

Nonrecurring/Unusual Losses

APPLIED MATERIALS, INC. (OCT)

(In thousands)	1996	1997	1998
Net sales	$4,144,817	$4,074,275	$4,041,687
Cost of products sold	2,195,078	2,173,350	2,178,531
Gross margin	1,949,739	1,900,925	1,863,156
Operating expenses:			
Research, development and engineering	481,394	567,612	643,852
Marketing and selling	313,631	314,381	321,606
General and administrative	226,063	252,214	272,109
Non-recurring items	25,100	75,818	237,227
Income from operations	903,551	690,900	388,362

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Non-recurring Items

Non-recurring operating expense items do not include litigation settlements and costs associated with AKT (see Note 8 and Note 4 of Notes to Consolidated Financial Statements). Non-recurring operating expense items for fiscal 1996, 1997 and 1998 included the following:

(In thousands)	1996	1997	1998
Acquired in-process research and development	$ —	$59,500	$ 32,227
Write-down of impaired assets	—	—	70,000
Restructuring	25,100	—	135,000
Bad debt expense	—	16,318	—
	$25,100	$75,818	$237,227

Acquired In-Process Research and Development

During the first fiscal quarter of 1997, the Company acquired two companies, Opal, Inc. and Orbot Instruments, Ltd. (Orbot), in separate transactions for $293 million, consisting primarily of cash, and recognized $59.5 million of acquired in-process research and development expense. With the exception of this charge, the transactions did not have a material effect on the Company's results of operations for fiscal 1997. During fiscal 1998, the Company determined that certain intangible assets recorded in connection with these acquisitions were impaired (see "Write-down of Impaired Assets" below). There can be no assurance that the Company will not incur additional charges in connection with these or other acquisitions (see "Management's Discussion and Analysis—Trends, Risks, and Uncertainties").

During the first fiscal quarter of 1998, the Company entered into an agreement with Trikon Technologies, Inc. for a non-exclusive, worldwide, perpetual license of MORI™ plasma source and Forcefill™ deposition technology. Because the development of this technology had not yet reached technological feasibility at the time of its acquisition and had no alternative future use, the Company recognized $32 million, including transaction costs, of acquired in-process research and development expense at the time of its acquisition.

Write-Down of Impaired Assets

During the fourth fiscal quarter of 1998, the Company determined that the carrying value of certain purchased technology exceeded its net realizable value as a result of rapid changes in technology and a reduced demand outlook caused by significant changes in business conditions. This determination was supported by the results of an independent analysis prepared by a nationally-recognized valuation firm. 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 $70 million for this impairment in asset value.

Restructuring

During the fourth fiscal quarter of 1996, the Company recorded a pre-tax restructuring charge of $25 million in connection with a reduction of its workforce and related consolidation of facilities. These actions were taken in response to a downturn in the semiconductor industry.

During fiscal 1998, the Company recorded a pre-tax restructuring charge of $135 million, consisting of $75 million for headcount reductions and $60 million for consolidation of facilities and related fixed assets. These restructuring actions occurred in the Company's third and fourth fiscal quarters, and were taken to align the Company's cost structure with prevailing market conditions and to create a more flexible and efficient organization that is well-positioned for an industry recovery. During the third fiscal quarter of 1998, the Company completed a voluntary separation plan that resulted in a headcount reduction of approximately 800 employees, or six percent of its global workforce, for a cost of $25 million. The majority of employees who terminated employment were located in California and Texas. During the fourth fiscal quarter of 1998, the Company eliminated approximately 2,000 additional positions, or 15 percent of its global workforce, for a cost of $50 million. Approximately 1,350 of these positions were eliminated in California and Texas, with the remainder being eliminated from other locations worldwide.

Total cash outlays for fiscal 1998 restructuring activities will be $105 million. The remaining $30 million of restructuring costs consists of non-cash charges primarily for asset write-offs. During fiscal 1998, $42 million of cash was used for restructuring costs. The majority of the remaining cash outlays of $63 million is expected to occur in fiscal 1999.

Restructuring activity for fiscal 1998 was as follows:

(In thousands)	Severance and Benefits	Facilities	Total
Fiscal 1996 provision	$19,329	$ 5,771	$25,100
Amount utilized in fiscal 1996	(13,238)	(348)	(13,586)
Balance, October 27, 1996	6,091	5,423	11,514
Amount utilized in fiscal 1997	(6,091)	(5,272)	(11,363)
Balance, October 26, 1997	—	151	151
Provision for fiscal 1998	74,812	60,188	135,000
Amount utilized in fiscal 1998	(39,526)	(3,844)	(43,370)
Balance, October 25, 1998	$35,286	$56,495	$91,781

Bad Debt Expense

During fiscal 1997, the Company determined that its outstanding accounts receivable balance from Thailand-based Submicron Technology PCL (SMT) was not collectible. Therefore, the Company repossessed systems previously sold to SMT and recorded $16 million of bad debt expense.

BECTON, DICKINSON AND COMPANY (SEP)

(Dollars in thousands)	1998	1997	1996
Revenues	$3,116,873	$2,810,523	$2,769,756
Cost of products sold	1,541,032	1,413,311	1,429,177
Selling and administrative expense	861,564	766,071	755,110
Research and development expense	217,900	180,626	154,220
Special charges	90,945	—	—
Total operating costs and expenses	2,711,441	2,360,008	2,338,507
Operating income	405,432	450,515	431,249

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

5. Special and Other Charges

During the third quarter of 1998 the Company recorded special charges of $90,945, primarily associated with the restructuring of certain manufacturing operations and the write-down of impaired assets.

The Company's plan for restructuring its manufacturing operations included the closure of a surgical blade plant in the United States and the consolidation of certain other production functions. The restructuring plan will be substantially completed over the next twelve to eighteen months, and includes approximately $35,000 in special charges related primarily to severance and other termination costs and losses from the disposal of assets. The Company expects that approximately 350 people will be affected by this plan. As of September 30, 1998, no significant amounts have been charged against the related accruals. The write-down of assets includes approximately $38,000 in special charges to recognize an impairment loss related primarily to goodwill associated with prior acquisitions in the manual microbiology business. The sustained decline in sales volume of this business, combined with the Company's increased focus on new and developing alternative technologies, created an impairment indicator that required a reassessment of recoverability. An impairment loss was recorded as a result of the carrying value of these assets exceeding their fair value, as calculated on the basis of discounted estimated future cash flows. The remaining special charges of approximately $18,000 consisted of various other one-time charges.

The Company also recorded $22,000 of charges in 1998, primarily in the third and fourth quarters, associated with the reengineering of business processes relating to the enterprise-wide program to upgrade its business systems. The majority of these charges are included in Selling and administrative expense. This program will develop a platform of common business practices for the Company and will coordinate the installation of a global software system to provide more efficient access to worldwide business information.

H.B. FULLER COMPANY (NOV)

(In thousands)	1998	1997	1996
Net sales	$1,347,241	$1,306,789	$1,275,716
Cost of sales	925,370	893,835	871,501
Gross profit	421,871	412,954	404,215
Selling, administrative and other expenses	333,912	325,702	323,461
Non-recurring charges	26,747	—	—
Operating earnings	61,212	87,252	80,754

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands)

3 (In Part): Non-recurring Charges

In the third quarter of 1998, the Company's Board of Directors approved and the Company announced a restructuring plan that will streamline the organizational structure worldwide. Over the last two quarters of 1998 and continuing into 1999, twelve adhesive manufacturing facilities will be closed, primarily in Europe, Latin America and Asia/Pacific, sales offices and warehouses will be consolidated and layers of management reduced. This plan anticipated a non-recurring charge of $40,000 to $45,000 (before tax) over six quarters, a reduction of employee census of more than 600 (including 142 of actual employee reductions in 1998) and a reduction of costs in excess of $30,000 (before tax) annually, when completed. Cash requirements of this plan are estimated to be $29,000 to $30,000 and will primarily be expended in fiscal year 1999. As a result of selling two business units in the fourth quarter of 1998, the total amount of the charge is now estimated to be from $35,000 to $40,000 (before tax) with approximately $8,000 to $13,000 to be incurred in 1999. The cash requirements are now estimated to be $24,000 to $25,000. The Company has adequate lines of credit to fund these payments.

Reorganization and restructuring costs include costs directly related to the Company's plan of reorganization. EITF No. 94-3 provides specific requirements as to the appropriate recognition of costs associated with employee termination benefits and other exit costs.

Employee termination costs are recognized when benefit arrangements are communicated to affected employees in sufficient detail to enable the employees to determine the amount of benefits to be received upon termination.

Other exit costs resulting from an exit plan that are not associated with or that do not benefit activities that will be continued are recognized at the date of commitment to an exit plan subject to certain conditions. For the cost to be accrued, the cost must not be associated with or incurred to generate revenues after the commitment date, and it must be either i) incremental to other costs incurred prior to the commitment date, or ii) represent amounts under a contractual obligation that existed prior to the commitment date that will either continue after the exit plan is completed with no economic benefit or which will result in a penalty to cancel the obligation.

Other costs directly related to the reorganization of the Company which are not eligible for recognition at the commitment date, such as relocation and other integration costs, are expensed as incurred.

The Company, as a result of the restructuring/reorganization plan, identified certain property, plant and equipment, primarily consisting of land, machinery and equipment and capitalized software costs, to be impaired. An impairment was recognized when the future undiscounted cash flows of each asset was estimated to be insufficient to recover its related carrying value. As such, the carrying values of these assets were written down to the Company's estimates of fair value. Fair value was based on sales of similar assets, or other estimates of fair value such as discounting estimated future cash flows. Most of the assets impaired as a result of the restructuring continue to be held and used until the facilities are closed in 1999. Net losses from operations affected by the restructuring, which will be closed in 1999, totaled $800, excluding non-recurring charges, for the year ended November 28, 1998.

During 1998, the Company recorded the following amounts in the income statement in connection with the restructuring plan:

	North America	Europe	Latin America	Asia/ Pacific	Total
Severance (net of pension curtailment)	$ 3,945	$8,526	$3,704	$278	$16,453
Impairment of property, plant and equipment	9,481	4,063	3,564	—	17,108
Contracts/leases	526	266	—	53	845
Consulting	121	764	12	2	899
Other	193	—	126	104	423
Subtotal	14,266	13,619	7,406	437	35,728
Less: Gain on the sale of businesses	(1,387)	(7,594)	—	—	(8,981)
Total	$12,879	$6,025	$7,406	$437	$26,747

Included in the $35,700 restructuring charge are $19,700 of cash costs and $16,000 in non-cash related costs.

North American charges relate to an announced manufacturing plant closing in the first quarter of 1999, reduced layers of management and the impairment recognized on property, plant and equipment, including machinery and previously capitalized software costs, due to the reassessment of system benefits as a result of the restructuring. These costs were partially offset by a gain on the sale of the glue gun and stick business in the fourth quarter of 1998. Latin American charges relate to announced closing of five manufacturing plants (three in the first quarter and the remaining two during the balance of 1999), including the impairment of property, plant and equipment and severance associated with the reduction in layers of management. The Europe charges relate to announced plant closings in two countries (one in the first quarter and one in the second quarter of 1999), including the impairment of property, plant and equipment and severance associated with the reduction in layers of management. These costs were partially offset by a gain on the sale of the wax business in the fourth quarter of 1998. In Asia/Pacific, one manufacturing plant was closed in the fourth quarter of 1998, sales offices and warehouses were closed, the area office will be relocated and layers of management are being reduced.

INTERNATIONAL MULTIFOODS CORPORATION (FEB)

(In thousands)	1998	1997	1996
Net sales	$2,611,792	$2,595,873	$2,523,197
Cost of materials and production	(2,237,586)	(2,215,366)	(2,135,707)
Delivery and distribution	(163,915)	(167,788)	(162,870)
Gross profit	210,291	212,719	224,620
Selling, general and administrative	(160,481)	(170,508)	(168,825)
Unusual items	(5,000)	(20,107)	(5,700)
Operating earnings	44,810	22,104	50,095

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Unusual Items

Fiscal 1998

The Company recognized a pre-tax charge of $5.0 million ($3.2 million after tax or 17 cents per share) as a result of a determination that receivables from a major customer of the Company's former food exporting business may not be fully recoverable. See Note 12 for additional discussion.

12 (In Part): Commitments and Contingencies

In fiscal 1998, the Company entered into an exit agreement with a major customer of the Company's former food exporting business. The terms of the exit agreement have been restructured on several occasions because of the customer's financial difficulties, which the Company believes were caused by delays in moving product into the Russian marketplace. As of February 28, 1998, the Company had a note receivable from the customer of $10.7 million and accounts receivable of $4.6 million. The current agreement provides for payments on the accounts receivable balance totaling $3.0 million by June 1998 with the remaining balance added to the note receivable. The note receivable has a term of 60 months, bears interest at 8.5% and provides for monthly payments of interest only for the first 12 months, followed by 48 monthly payments of interest and principal in equal installments. As a result of uncertainties with respect to the customer's ability to meet its obligations, the Company recognized a $5.0 million pre-tax charge in the fourth quarter of fiscal 1998 to reduce the carrying value of the receivables to their estimated net realizable value. In estimating the net realizable value, considerable management judgment is necessary and, accordingly, future events may result in additional charges that could be material to the Company's results of operations.

TEKTRONIX, INC. (MAY)

(In thousands)	1998	1997	1996
Net sales	$2,085,802	$1,940,082	$1,768,858
Cost of sales	1,220,475	1,107,355	1,028,331
Gross profit	865,327	832,727	740,527
Research and development expenses	203,312	188,192	164,292
Selling, general and administrative expenses	508,749	481,083	437,949
Equity in business ventures' earnings	2,513	1,556	5,081
Non-recurring charges	40,478	—	—
Operating income	115,301	165,008	143,367

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Non-Recurring Charges

(In thousands)	1998
Restructuring of the Video and Networking Division	$59,960
In-process research and development acquired in the purchase of CTE	17,000
Integration costs associated with the purchase of CTE	2,000
Total non-recurring charges	78,960
Inventory write-down included in cost of sales	(38,482)
Non-recurring charges	$40,478

PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Effective for fiscal years beginning after December 15, 1997, *Statement of Financial Accounting Standards No. 132* states the disclosure requirements for pensions and other postretirement benefits. *SFAS No. 132* does not supersede FASB Statements No. 87, No. 88, and No. 106 as to the measurement or recognition of pensions and other postretirement benefits.

The disclosure requirements of *SFAS No. 132* include, but are not limited to, disclosing the actuarial assumption rates used in accounting for pensions and other postretirement benefits. *SFAS No. 132* also requires disclosure of the assumed health care cost trend rate for other postretirement benefits. Tables 3-8, 3-9 and 3-10 show the actuarial assumption rates used by the survey companies for the years 1995-1998 in accounting for pension benefits. Table 3-11 shows the health care cost trend rate used by the survey companies in 1998 to account for other postretirement benefits. As shown in Table 3-11, 373 survey companies disclosed the health care cost trend rate. Of the 373 survey companies, 325 disclosed one rate for all employees and 48 disclosed two rates—the rate for employees under age 65 and the rate for employees age 65 and over.

In addition to standardizing disclosure requirements, SFAS No. 132 suggests a parallel format for presenting information about pensions and other postretirement benefits. Examples of such presentations follow.

TABLE 3-8: ASSUMED DISCOUNT RATE

%	1998	1997	1996	1995
4.5 or less	—	—	—	—
5	1	1	—	—
5.5	4	—	—	—
6	17	1	2	3
6.5	194	10	5	10
7	201	229	67	188
7.5	27	159	256	155
8	6	43	113	75
8.5	1	7	10	30
9	—	—	—	5
9.5	—	—	—	—
10	—	—	—	—
10.5	—	—	—	—
11	—	—	—	—
11.5 or greater	1	—	—	—
Not disclosed	6	3	7	5
Companies Disclosing Defined Benefit Plans	**458**	**453**	**460**	**471**

TABLE 3-9: ASSUMED RATE OF COMPENSATION INCREASE

%	1998	1997	1996	1995
4.5 or less	256	219	201	189
5	115	139	154	158
5.5	22	32	46	49
6	17	23	21	28
6.5	2	2	3	6
7	2	2	5	3
7.5	1	—	—	—
8	2	1	1	—
8.5	1	—	—	—
9	—	—	—	—
9.5	—	—	—	—
10	—	—	—	—
10.5	1	—	—	—
11	—	—	—	—
11.5 or greater	—	—	—	—
Not disclosed	39	35	29	38
Companies Disclosing Defined Benefit Plans	**458**	**453**	**460**	**471**

TABLE 3-10: EXPECTED RATE OF RETURN

%	1998	1997	1996	1995
4.5 or less	—	—	—	—
5	1	—	—	—
5.5	—	—	—	—
6	4	2	—	2
6.5	3	1	3	—
7	8	5	4	8
7.5	10	7	9	14
8	36	37	44	42
8.5	48	54	56	62
9	135	143	150	158
9.5	103	105	99	92
10	67	66	59	62
10.5	20	18	17	13
11	7	7	7	6
11.5 or greater	1	2	2	2
Not disclosed	15	6	10	10
Companies Disclosing Defined Benefit Plans	**458**	**453**	**460**	**471**

TABLE 3-11: HEALTH CARE COST TREND RATE—1998

%	All employees	Employees under age 65	Employees age 65 and over
5.5 or less	37	3	12
6-6.5	51	8	18
7-7.5	109	9	8
8-8.5	75	13	6
9-9.5	37	7	2
10-10.5	10	6	1
11-11.5	2	1	—
12-12.5	3	—	—
13-13.5	—	1	—
14 or greater	1	—	1
Companies Disclosing Rate	**325**	**48**	**48**

Defined Benefit Plans

ASARCO INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Benefit Plans

Pension Benefits

The Company maintains several noncontributory, defined benefit pension plans covering substantially all domestic employees. Benefits for salaried plans are based on salary and years of service. Hourly plans are based on negotiated benefits and years of service.

The Company's funding policy is to contribute amounts to the plans sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional tax deductible amounts as may be advisable under the circumstances. Plan assets are invested principally in commingled stock funds, mutual funds and securities issued by the United States Government.

The components of net periodic benefit costs are as follows:

(In millions)	For the years ended December 31, 1998	1997	1996
Service cost	$ 9.7	$ 9.1	$ 8.6
Interest cost	14.0	12.6	11.0
Expected return on plan assets	(20.2)	(17.0)	(13.9)
Amortization of prior service cost	2.3	2.2	1.6
Amortization of transitional obligation	0.5	0.5	0.5
Recognized actuarial loss	—	0.3	0.7
Net periodic benefit cost	$ 6.3	$ 7.7	$ 8.5

The change in benefit obligation and plan assets and reconciliation of funded status are as follows:

(In millions)	At December 31, 1998	1997
Change in benefit obligation		
Projected benefit obligation at beginning of year	$202.9	$181.3
Service cost	9.7	9.1
Interest cost	14.0	12.6
Plan amendments	1.1	3.1
Benefits paid	(5.9)	(7.0)
Actuarial loss	0.8	3.8
Projected benefit obligation at end of year	$222.6	$202.9
Change in plan assets		
Fair value of plan assets at beginning of year	$226.3	$178.1
Actual return on plan assets	37.2	41.5
Plan amendment	—	2.5
Employer contributions	1.5	11.7
Benefits paid	(5.9)	(7.0)
Administrative expenses	(1.0)	(0.5)
Fair value of plan assets at end of year	$258.1	$226.3
Reconciliation of funded status		
Funded status	$ 35.5	$ 23.4
Unrecognized actuarial gain	(27.1)	(11.9)
Unrecognized transition obligation	1.9	2.4
Unrecognized prior service cost	15.2	16.4
Net amount of asset reflected in consolidated balance sheet	$ 25.5	$ 30.3
Weighted average assumptions		
Discount rate	7.0%	7.0%
Expected long-term rate of return on plan assets	10.0%	10.0%
Rate of compensation increase	4.0%	4.0%

Postretirement Benefits

Noncontributory postretirement health care coverage under the Asarco Health Plan is provided to substantially all U.S. retirees not eligible for Medicare. A cost sharing Medicare supplement plan is available for retired salaried employees and life insurance coverage is provided to substantially all retirees.

The components of net periodic benefit costs are as follows:

(In millions)	For the years ended December 31, 1998	1997	1996
Service cost	$ 3.5	$ 3.6	$ 3.5
Interest cost	8.6	8.2	8.1
Amortization of prior service costs	(0.1)	0.1	0.1
Recognized actuarial loss	1.4	1.2	1.3
Net periodic benefit costs	$13.4	$13.1	$13.0

The change in benefit obligation and plan assets and reconciliation of funded status are as follows:

(In millions)	At December 31, 1998	1997
Change in benefit obligation		
Benefit obligation at beginning of year	$124.4	$122.7
Service cost	3.5	3.6
Interest cost	8.6	8.2
Plan amendments	(1.7)	0.7
Benefits paid	(8.9)	(8.0)
Actuarial (gain) loss	5.3	(2.8)
Benefit obligation at end of year	$131.2	$124.4
Reconciliation of funded status		
Funded status	$(131.2)	$(124.4)
Unrecognized actuarial loss	23.5	19.3
Unrecognized prior service cost	(1.0)	0.6
Postretirement benefit obligation reflected in consolidated balance sheet	$(108.7)	$(104.5)
Weighted average assumptions		
Discount rate	7.0%	7.0%
Expected long-term rate of return on plan assets	N/A	N/A
Rate of compensation increase	4.0%	4.0%

The annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to be 5.0% in 1999 and thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point would increase the accumulated postretirement benefit obligation by $12.5 million and the service and interest cost components of net periodic postretirement benefit costs by $1.4 million for 1998. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the accumulated postretirement benefit obligation and the service and interest cost components of net periodic postretirement benefit costs for 1998 by $11.2 million and $1.2 million respectively. The discount rate used in determining the accumulated postretirement benefit obligation was 7% at December 31, 1998 and 1997. The plans are unfunded.

BESTFOODS (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pension and Other Postretirement Benefits

The Company sponsors several qualified and non-qualified pension plans and other postretirement benefit plans for its employees. A reconciliation of changes in the plan's benefit obligations, fair value of assets, and statement of funded status for the years ended December 31, 1998, and 1997 are as follows:

	Pension benefits		Other benefits	
$ Millions	1998	1997	1998	1997
Reconciliation of benefit obligation:				
Obligation at January 1,	$1,156	$1,326	$ 266	$ 286
Service cost	30	36	5	7
Interest cost	79	82	19	20
Plan amendments	2	3	—	—
Actuarial (gain) loss	10	(149)	(7)	(17)
Acquisitions (divestitures)	(7)	(95)	—	(16)
Benefit payments	(44)	(64)	(17)	(16)
Curtailments	—	3	—	—
Special termination benefits	—	13	—	2
Foreign currency exchange rates	1	1	—	—
Obligation at December 31,	1,227	1,156	266	266
Reconciliation of fair value of plan assets:				
Fair value of plan assets at January 1,	1,302	1,177	—	—
Actual return on plan assets	(23)	273	—	—
Acquisitions (divestitures)	—	(112)	—	—
Employer contributions	56	2	17	16
Benefit payments	(39)	(38)	(17)	(16)
Rabbi trust	(115)	—	—	—
Fair value of plan assets at December 31,	1,181	1,302	—	—
Funded status:				
Funded status at January 1,	(46)	146	(266)	(266)
Unrecognized transition (asset) obligation	5	8	—	—
Unrecognized prior service cost	(139)	33	(1)	(2)
Unrecognized (gain) loss	(60)	(301)	(59)	(55)
Net amount recognized	$(240)	$(114)	$(326)	$(323)

The amounts recognized in the accompanying Consolidated Balance Sheets at December 31, 1998, and 1997, are as follows:

	Pension benefits		Other benefits	
$ Millions	1998	1997	1998	1997
Accrued benefit liability	$(270)	$(156)	$(326)	$(323)
Prepaid benefit cost	30	42	—	—
Net amount recognized	$(240)	$(114)	$(326)	$(323)

The aggregate benefits obligation for those plans where the accumulated benefits obligation exceeded the fair value of plan assets was $212 million and $201 million at December 31, 1998, and 1997, respectively. There are no plan assets in non-qualified plans. All of the Company's plans for postretirement benefits other than pensions also have no plan assets. The aggregate benefit obligation for these plans is $326 million and $323 million at December 31, 1998, and 1997, respectively.

Components of the net periodic benefit cost for the plan are as follows:

	Pension benefits			Other benefits		
$ Millions	1998	1997	1996	1998	1997	1996
Service cost	$ 30	$ 39	$ 42	$ 5	$ 7	$ 8
Interest cost	79	82	88	19	20	19
Expected return on plan assets	(95)	(270)	(138)	—	—	—
Amortization of net (gain) loss	4	190	65	(3)	(3)	(2)
Net periodic benefit cost	18	41	57	21	24	25
Curtailment (gain) loss	—	(2)	(4)	—	(5)	(4)
Special termination benefits	—	—	—	—	1	—
Net periodic benefit cost after curtailments and settlements	$ 18	$ 39	$ 53	$21	$20	$21

The prior service costs are amortized on the straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

The Company has multiple non-pension postretirement benefit plans. The health care and life insurance plans are contributory, with participants' contributions adjusted annually. The accounting for the health care plans anticipates future cost-sharing changes to the written plan that are consistent with the Company's expressed intent that retirees share a fixed percentage of the overall cost of benefits each year.

The weighted average assumptions used in accounting for the Company's plans at December 31 are as follows:

	Pension benefits			Other benefits		
	1998	1997	1996	1998	1997	1996
Discount rate	7.1%	7.5%	7.4%	7.0%	7.5%	7.0%
Expected return on plan assets	8.7%	9.4%	8.0%	—	—	—
Rate of compensation increase	3.7%	4.2%	5.3%	—	—	—

For measurement purposes, a 6.75% pre-65 and a 4.75% post-65 annual rate of increase in per-capita costs of covered health care benefits were assumed for 1999. These rates are assumed to decrease 1% per year to an ultimate level of 4.25% by 2005 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have the following effects:

$ Millions	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$ 3.4	$ (3.2)
Effect on health care cost component of the accumulated postretirement benefit obligation	$30.9	$(28.9)

BRUNSWICK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Pension and Other Postretirement Benefits

The Company has qualified and nonqualified pension plans and other postretirement benefit plans covering substantially all of its employees. The Company's domestic pension and retiree health care and life insurance benefit plans are discussed below. The Company's foreign plans and other defined contribution plans are not significant individually or in the aggregate.

Pension and other postretirement benefit costs included the following components for 1998, 1997 and 1996:

	Pension benefits			Other postretirement benefits		
(In millions)	1998	1997	1996	1998	1997	1996
Service cost	$17.2	$14.2	$15.5	$1.6	$1.5	$1.7
Interest cost	45.8	44.7	42.1	4.1	4.1	4.0
Expected return on plan assets	(63.6)	(56.5)	(48.1)	—	—	—
Amortization of prior service cost	3.3	2.2	2.1	(0.5)	(0.3)	(0.3)
Amortization of net loss (gain)	0.3	0.2	2.2	(0.6)	(0.6)	(0.4)
Amortization of transition asset	—	—	(5.6)	—	—	—
Net pension and other benefit costs	$ 3.0	$ 4.8	$ 8.2	$4.6	$4.7	$5.0

A reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending December 31, 1998, and a statement of the funded status at December 31 for these years for the Company's domestic pension plans follows. Pension plan assets include 1.8 million shares of the Company's common stock at December 31, 1998 and 1997.

(In millions)	Pension benefits 1998	1997	Other postretirement benefits 1998	1997
Reconciliation of benefit obligation:				
Benefit obligation at previous December 31	$656.9	$572.5	$75.3	$68.1
Service cost	17.2	14.2	1.6	1.5
Interest cost	45.8	44.7	4.1	4.1
Participant contributions	—	—	1.8	1.9
Plan amendments	1.1	13.1	(2.7)	—
Actuarial loss	36.3	44.3	1.5	3.0
Acquisitions	—	—	—	0.7
Benefit payments	(35.5)	(31.9)	(4.7)	(4.0)
Benefit obligation at December 31	721.8	656.9	76.9	75.3
Reconciliation of fair value of plan assets				
Fair value of plan assets at January 1	687.4	610.5	—	—
Actual return on plan assets	66.8	107.3	—	—
Employer contributions	1.5	1.5	2.9	2.1
Participant contributions	—	—	1.8	1.9
Benefit payments	(35.5)	(31.9)	(4.7)	(4.0)
Fair value of plan assets at December 31	720.2	687.4	—	—
Funded status				
Funded status at December 31	(1.6)	30.5	(76.9)	(75.3)
Unrecognized prior service cost	26.0	28.3	(5.1)	(2.8)
Unrecognized actuarial loss (gain)	28.0	(5.0)	(9.1)	(11.1)
Prepaid (accrued) benefit cost	$ 52.4	$ 53.8	$(91.1)	$(89.2)

The amounts recognized in the Company's balance sheets as of December 31 were as follows:

(In millions)	Pension benefits 1998	1997	Other postretirement benefits 1998	1997
Prepaid benefit cost	$76.1	$75.9	$ —	$ —
Accrued benefit liability	(24.5)	(23.0)	(91.1)	(89.2)
Accumulated other comprehensive income	0.8	0.9	—	—
Net amount recognized	$52.4	$53.8	$(91.1)	$(89.2)

The Company's nonqualified pension plan and one of the qualified pension plans had accumulated benefit obligations in excess of plan assets. The unfunded nonqualified plan's accumulated benefit obligation was $24.3 million and $23.0 million at December 31, 1998 and 1997, respectively. The qualified pension plan's accumulated benefit obligation was $1.5 million and $1.2 million at December 31, 1998 and 1997, respectively. This plan's fair value of assets was $1.2 million at December 31, 1998 and 1997. The Company's other postretirement benefit plans are not funded.

Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Accumulated gains and losses in excess of 10 percent of the greater of the benefit obligation or the market-related value of assets are amortized over the remaining service period of active plan participants. The Company's benefit obligations were determined using assumed discount rates of 6.75 percent in 1998 and 7.25 percent in 1997 and an assumed compensation increase of 5.5 percent in 1998 and 1997. The assumed long-term rate of return on plan assets was 9.5 percent in 1998 and 1997.

The health care cost trend rate for 1999 for pre-65 benefits was assumed to be 7.3 percent gradually declining to 5.0 percent in 2002 and to remain at that level thereafter.

The heath care cost trend rate assumption has a significant effect on the amounts reported. A one percent increase in the assumed health care trend rate would increase the service and interest cost components of net postretirement health care benefit cost by $1.0 million in 1998 and increase the health care component of the accumulated postretirement benefit obligation by $8.3 million at December 31, 1998. A one percent decrease in the assumed health care trend rate would decrease the service and interest cost components of net postretirement health care benefit cost by $0.8 million in 1998 and the health care component of the accumulated postretirement benefit obligation by $6.6 million at December 31, 1998. The Company monitors the cost of health care and life insurance benefit plans and reserves the right to make additional changes or terminate these benefits in the future.

R.R. DONNELLEY & SONS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Retirement Plans

The Company's restated Retirement Benefit Plan (the Plan) is a non-contributory defined benefit plan. Substantially all U.S. employees age 21 or older are covered by the Plan. Normal retirement age is 65, but reduced early retirement benefits are paid to fully vested participants at or after age 55. As required, the Company uses the projected unit credit actuarial cost method to determine pension cost for financial reporting purposes. In conjunction with this method, the Company amortizes deferred gains and losses (using the corridor method) and prior service costs over the average remaining service life of its active employee population. In addition, a transition credit (the excess of Plan assets plus balance sheet accruals over the projected obligation as of January 1, 1987) is amortized over 19 years. For tax and funding purposes, the entry age normal actuarial cost method is used. Plan assets include primarily government and corporate debt securities, marketable equity securities, commingled funds and group annuity contracts purchased from a life insurance company. In the event of Plan termination, the Plan provides that no funds can revert to the Company and any excess assets over Plan liabilities must be used to fund retirement benefits.

In addition to pension benefits, the Company provides certain healthcare and life insurance benefits for retired employees. Substantially all of the Company's regular full-time U.S. employees become eligible for these benefits upon reaching age 55 while working for the Company and having 10 years of continuous service at retirement. The Company funds a portion of the liabilities associated with these plans through a tax-exempt trust. The assets of the trust are invested primarily in life insurance covering some of the company's employees.

The following represents the obligations and plan assets at fair value for the Company's pension and postretirement plans at December 31:

	Pension benefits		Postretirement benefits	
(In thousands)	1998	1997	1998	1997
Benefit obligation at end of prior year	$ 950,223	$838,005	$233,437	$220,970
Service cost	38,030	31,886	9,508	8,585
Interest cost	65,317	61,337	15,626	16,010
Plan participants' contributions	—	—	1,848	1,618
Amendments	9,651	(1,640)	—	—
Actuarial loss/(gain)	33,794	70,610	(1,894)	3,616
Acquistions/plan initiations/curtailments	3,008	—	244	380
Expected benefits paid	(50,794)	(49,975)	(18,115)	(17,742)
Benefit obligation at end of year	$1,049,229	$950,223	$240,654	$233,437

(In thousands)	Pension benefits 1998	1997	Postretirement benefits 1998	1997
Fair value of plan assets at end of prior year	$1,421,849	$1,238,315	$262,813	$219,719
Actual return on plan assets	100,024	233,509	54,773	43,094
Acquisition	4,099	—	—	—
Employer contribution	—	—	—	—
Plan participants' contributions	—	—	—	—
Expected benefits paid	(50,794)	(49,975)	—	—
Fair value of plan assets at end of year	$1,475,178	$1,421,849	$317,586	$262,813

The following represents the funded status of these plans at December 31:

(In thousands)	Pension benefits 1998	1997	Postretirement benefits 1998	1997
Funded status	$425,949	$471,626	$76,933	$29,376
Unrecognized transition obligation	(68,948)	(78,798)	—	—
Unrecognized net actuarial (gain)/loss	(143,023)	(192,562)	(77,739)	(43,638)
Unrecognized prior service cost	29,219	22,908	(18,215)	(24,950)
Prepaid (accrued) benefit cost	$243,197	$223,174	$(19,021)	$(39,212)

The weighted average assumptions used in the actuarial computations that derived the above amounts were as follows:

	Pension benefits 1998	1997	1996	Postretirement benefits 1998	1997	1996
Discount rate	6.75%	7.00%	7.50%	6.75%	7.00%	7.50%
Expected return on plan assets	9.50	9.50	9.50	9.00	9.00	9.00
Average rate of compensation increase	4.00	4.00	4.00	4.00	4.00	4.00

For the measurement purposes of other retirement benefits, a 7.6% annual rate of increase in the per-capita cost of covered healthcare benefits was assumed for 1999. The rate was assumed to decrease gradually to 5.0% for 2008 and remain at that level thereafter.

The components of the net periodic benefit cost and total income and expense were as follows:

(In thousands)	Pension benefits 1998	1997	1996	Postretirement benefits 1998	1997	1996
Service cost	$ 38,030	$ 31,886	$ 32,619	$ 9,508	$ 8,584	$ 8,626
Interest cost	65,317	61,337	58,121	15,626	16,010	14,712
Expected return on plan assets	(115,769)	(104,516)	(96,497)	(20,671)	(18,304)	(16,509)
Amortization of transition obligation	(9,850)	(9,850)	(9,850)	—	—	—
Amortization of prior service cost	2,249	1,803	1,804	(6,345)	(6,463)	(6,754)
Net periodic benefit cost	(20,023)	(19,340)	(13,803)	(1,882)	(173)	75
Curtailment (gain)/loss	—	(1,400)	(1,426)	244	—	(4,166)
Total (income)/expense	$ (20,023)	$ (20,740)	$ (15,229)	$ (1,638)	$ (173)	$ (4,091)

Assumed healthcare cost trend rates have a significant effect on the amounts reported for postretirement benefits. A 1-percentage-point change in assumed healthcare cost trend rates would have the following effects for the year ended December 31, 1998:

(In thousands)	1% Increase	1% Decrease
Effect on total of service and interest cost components	$ 526	$ (514)
Effect on postretirement benefit obligation	7,460	(7,236)

FORTUNE BRANDS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Pension and Other Retiree Benefits

In 1998, the Company adopted FAS Statement No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." FAS 132 standardizes the disclosure requirements for pensions and other postretirement benefits. Prior years' information has been restated to conform with the new requirements.

The Company has a number of pension plans, principally in the United States, covering substantially all employees. The plans provide for payment of retirement benefits, mainly commencing between the ages of 60 and 65, and also for payment of certain disability and severance benefits. After meeting certain qualifications, an employee acquires a vested right to future benefits. The benefits payable under the plans are generally determined on the basis of an employee's length of service and earnings. Annual contributions to the plans are sufficient to satisfy legal funding requirements.

The Company provides postretirement health care and life insurance benefits to certain employees and retirees in the United States and certain employee groups outside the United States. Most employees and retirees outside the United States are covered by government health care programs.

The components of net pension and postretirement costs are as follows:

	Pension benefits			Postretirement benefits		
(In millions)	1998	1997	1996	1998	1997	1996
Service cost	$ 31.4	$ 26.2	$ 24.0	$ 2.1	$ 1.9	$ 2.5
Interest cost	50.5	46.5	42.4	8.5	8.2	9.1
Expected return on plan assets	(66.3)	(58.5)	(52.6)	—	—	—
Net amortization and deferral	4.2	3.3	4.3	(1.5)	(2.8)	(1.2)
	$ 19.8	$ 17.5	$ 18.1	$ 9.1	$ 7.3	$10.4

The reconciliation of the beginning and ending balances of benefit obligations and fair value of plan assets, and the funded status of the plans are as follows:

(In millions)	Pension benefits 1998	1997	Postretirement benefits 1998	1997
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 718.7	$ 608.2	$ 125.2	$ 118.5
Service cost	31.4	26.2	2.1	1.9
Interest cost	50.5	46.5	8.5	8.2
Actuarial loss (gain)	22.8	67.4	(6.8)	0.7
Participants' contributions	4.3	4.2	0.9	0.9
Acquistions	15.1	—	1.2	—
Exchange rate changes	0.1	(2.1)	(0.2)	—
Benefits paid	(39.6)	(42.1)	(9.3)	(7.9)
Other items	0.4	10.4	—	2.9
Benefit obligation at end of year	803.7	718.7	121.6	125.2
Change in plan assets:				
Fair value of plan assets at beginning of year	750.2	651.8	—	—
Actual return on plan assets	59.2	107.6	—	—
Employer contributions	14.3	27.5	8.4	7.0
Participants' contributions	4.3	4.2	0.9	0.9
Acquistions	12.0	—	—	—
Exchange rate changes	(1.2)	0.1	—	—
Benefits paid	(35.4)	(38.8)	(9.3)	(7.9)
Other items	3.1	(2.2)	—	—
Fair value of plan assets at end of year	806.5	750.2	—	—
Funded status	2.8	31.5	(121.6)	(125.2)
Unrecognized actuarial loss (gain)	39.1	12.6	(24.0)	(18.5)
Unrecognized transition gain	(4.2)	(5.9)	—	—
Unrecognized prior service cost	25.0	27.4	(2.7)	(3.0)
Other	(1.8)	(2.2)	—	—
Net amount recognized	$ 60.9	$ 63.4	$(148.3)	$(146.7)

Amounts recognized in the balance sheet are as follows:

(In millions)	Pension benefits 1998	1997	Postretirement benefits 1998	1997
Pension benefit cost	$73.9	$77.0	$ —	$ —
Accrued benefit liability	(43.4)	(43.4)	(148.3)	(146.7)
Intangible assets	17.5	16.8	—	—
Accumulated other comprehensive income	12.9	13.0	—	—
Net amount recognized	$60.9	$63.4	$(148.3)	$(146.7)
Weighted average assumptions:				
Discount rate	6.7%	7.0%	6.7%	7.0%
Expected long-term rate of return on plan assets	9.5%	10.0%	—	—
Rate of compensation increase	4.3%	4.5%	6.0%	6.0%

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefits obligations in excess of plan assets were $230.6 million, $215.3 million and $186 million, respectively, as of December 31, 1998 and $234.7 million, $213.5 million and $183.7 million, respectively, as of December 31, 1997.

The assumed health care cost trend rate used in measuring the health care portion of the postretirement cost for 1999 is 7.75%, gradually declining to 5% by the year 2007 and remaining at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for postretirement benefits. A 1% increase in assumed health care cost trend rates would increase the total of the service and interest cost components for 1998 and the postretirement benefit obligation as of December 31, 1998 by $1 million and $10.8 million, respectively. A 1% decrease in assumed health care cost trend rates would decrease the total of the service and interest cost components for 1998 and the postretirement benefit obligation as of December 31, 1998 by approximately $0.9 million and $9.6 million, respectively.

The Company sponsors a number of defined contribution plans. Contributions are determined under various formulas. Costs related to such plans amounted to $22.7 million, $21.4 million and $18.1 million in 1998, 1997 and 1996, respectively.

GENERAL ELECTRIC COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Pension Benefits

GE and its affiliates sponsor a number of pension plans. Principal pension plans are discussed below; other pension plans are not significant individually or in the aggregate.

Principal pension plans are the GE Pension Plan and the GE Supplementary Pension Plan.

The GE Pension Plan covers substantially all GE employees in the United States as well as approximately two-thirds of GECS employees in the United States. Generally, benefits are based on the greater of a formula recognizing career earnings or a formula recognizing length of service and final average earnings. Benefit provisions are subject to collective bargaining. At the end of 1998, the GE Pension Plan covered approximately 466,000 participants, including 127,000 employees, 149,000 former employees with vested rights to future benefits, and 190,000 retirees and beneficiaries receiving benefits.

The GE Supplementary Pension Plan is a pay-as-you-go plan providing supplementary retirement benefits primarily to higher-level, longer-service U.S. employees.

The effect on operations of principal pension plans is as follows:

Effect on operations

(In millions)	1998	1997	1996
Expected return on plan assets	$3,024	$2,721	$2,587
Service cost for benefits earned (a)	(625)	(596)	(550)
Interest cost on benefit obligation	(1,749)	(1,686)	(1,593)
Prior service cost	(153)	(145)	(99)
SFAS No. 87 transition gain	154	154	154
Net actuarial gain recognized	365	295	210
Special early retirement cost	—	(412)	—
Total pension plan income	$1,016	$ 331	$ 709

(a) Net of participant contributions.

Funding policy for the GE Pension Plan is to contribute amounts sufficient to meet minimum funding requirements as set forth in employee benefit and tax laws plus such additional amounts as GE may determine to be appropriate. GE has not made contributions since 1987 because the fully funded status of the GE Pension Plan precludes current tax deduction and because any GE contribution would require payment of annual excise taxes.

Changes in the projected benefit obligation for principal pension plans follow.

Projected benefit obligation

December 31 (In millions)	1998	1997
Balance at January 1	$25,874	$23,251
Service cost for benefits earned (a)	625	596
Interest cost on benefit obligation	1,749	1,686
Participant contributions	112	120
Plan amendments	—	136
Actuarial loss	1,050	1,388
Benefits paid	(1,838)	(1,715)
Special early retirement cost	—	412
Balance at December 31	$27,572	$25,874

(a) Net of participant contributions.

Changes in the fair value of assets for principal pension plans follow.

Fair value of assets

December 31 (In millions)	1998	1997
Balance at January 1	$38,742	$33,686
Actual return on plan assets	6,363	6,587
Employer contributions	68	64
Participant contributions	112	120
Benefits paid	(1,838)	(1,715)
Balance at December 31	$43,447	$38,742

Plan assets are held in trust and consist mainly of common stock and fixed-income investments. GE common stock represented about 7% and 6% of trust assets at year-end 1998 and 1997, respectively.

GE recorded assets and liabilities for principal pension plans as follows:

Prepaid pension asset

December 31 (In millions)	1998	1997
Fair value of plan assets	$43,447	$38,742
Add (deduct) unrecognized balances		
SFAS No. 87 transition gain	(308)	(462)
Net actuarial gain	(9,462)	(7,538)
Prior service cost	850	1,003
Projected benefit obligation	(27,572)	(25,874)
Pension liability	797	703
Prepaid pension asset	$ 7,752	$ 6,574

Actuarial assumptions used to determine costs and benefit obligations for principal pension plans follow.

Actuarial assumptions

December 31	1998	1997	1996
Discount rate	6.75%	7.0%	7.5%
Compensation increases	5.0	4.5	4.5
Return on assets for the year	9.5	9.5	9.5

Experience gains and losses, as well as the effects of changes in actuarial assumptions and plan provisions, are amortized over the average future service period of employees.

6. Retiree Health and Life Benefits

GE and its affiliates sponsor a number of retiree health and life insurance benefit plans. Principal retiree benefit plans are discussed below; other such plans are not significant individually or in the aggregate.

Principal retiree benefit plans generally provide health and life insurance benefits to employees who retire under the GE Pension Plan (see note 5) with 10 or more years of service. Retirees share in the cost of health care benefits. Benefit provisions are subject to collective bargaining. At the end of 1998, these plans covered approximately 250,000 retirees and dependents.

The effect on operations of principal retiree benefit plans is shown in the following table.

Effect on operations

(In millions)	1998	1997	1996
Retiree health plans			
Service cost for benefits earned	$ 79	$ 90	$ 77
Interest cost on benefit obligation	205	183	166
Prior service cost	14	(3)	(20)
Net actuarial loss recognized	28	16	20
Special early retirement cost	—	152	—
Retiree health plan cost	326	438	243
Retiree life plans			
Expected return on plan assets	(149)	(137)	(132)
Service cost for benefits earned	17	17	16
Interest cost on benefit obligation	114	116	106
Prior service cost	(6)	(8)	(11)
Net actuarial loss recognized	11	16	23
Special early retirement cost	—	13	—
Retiree life plan cost (income)	(13)	17	2
Total cost	$313	$455	$245

Funding policy for retiree health benefits is generally to pay covered expenses as they are incurred. GE funds retiree life insurance benefits at its discretion.

Changes in the accumulated postretirement benefit obligation for retiree benefit plans follow.

Accumulated postretirement benefit obligation

	Health plans		Life plans	
December 31 (In millions)	1998	1997	1998	1997
Balance at January 1	$3,098	$2,415	$1,677	$1,539
Service cost for benefits earned	79	90	17	17
Interest cost on benefit obligation	205	183	114	116
Participant contributions	24	21	—	—
Plan amendments	—	325	—	44
Actuarial loss	177	245	91	56
Benefits paid	(363)	(333)	(112)	(108)
Special early retirement cost	—	152	—	13
Balance at December 31	$3,220	$3,098	$1,787	$1,677

Changes in the fair value of assets for retiree benefit plans follow.

Fair value of assets

	Health plans		Life plans	
December 31 (In millions)	1998	1997	1998	1997
Balance at January 1	$ —	$ —	$1,917	$1,682
Actual return on plan assets	—	—	316	343
Employer contributions	339	312	—	—
Participant contributions	24	21	—	—
Benefits paid	(363)	(333)	(112)	(108)
Balance at December 31	$ —	$ —	$2,121	$1,917

Plan assets are held in trust and consist mainly of common stock and fixed-income investments. GE common stock represented about 5% and 4% of trust assets at year-end 1998 and 1997, respectively.

GE recorded assets and liabilities for retiree benefit plans as follows:

Retiree benefit liability/asset

	Health plans		Life plans	
December 31 (In millions)	1998	1997	1998	1997
Accumulated postretirement benefit obligation	$3,220	$3,098	$ 1,787	$ 1,677
Add (deduct) unrecognized balances				
Net actuarial gain/(loss)	(572)	(423)	214	127
Prior service cost	(157)	(171)	49	55
Fair value of plan assets	—	—	(2,121)	(1,917)
Retiree benefit liability/(asset)	$2,491	$2,504	$ (71)	$ (58)

Actuarial assumptions used to determine costs and benefit obligations for principal retiree benefit plans are shown below.

Actuarial assumptions

December 31	1998	1997	1996
Discount rate	6.75%	7.0%	7.5%
Compensation increases	5.0	4.5	4.5
Health care cost trend (a)	7.8	7.8	8.0
Return on assets for the year	9.5	9.5	9.5

(a) For 1998, gradually declining to 5.0% after 2003.

Increasing or decreasing the health care cost trend rates by one percentage point would not have had a material effect on the December 31, 1998, accumulated postretirement benefit obligation or the annual cost of retiree health plans.

Experience gains and losses, as well as the effects of changes in actuarial assumptions and plan provisions, are amortized over the average future service period of employees.

Defined Contribution Plans

MARK IV INDUSTRIES, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Pension and Other Postretirement Benefit Plans

The Company also has defined contribution pension plans for a significant number of its employees in the United States, as well as for certain of its employees outside of the United States. The Company's contributions to these plans are based on various percentages of compensation, and in some instances are based upon the amount of the employees' contributions to the plans. The annual cost of these plans amounted to approximately $15.3 million, $16.9 million and $13.0 million in fiscal 1998, 1997 and 1996, respectively, the substantial part of which was funded currently.

SUNOCO, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Retirement Benefit Plans

Defined Contribution Pension Plans

Sunoco has defined contribution pension plans which provide retirement benefits for most of its employees. Sunoco's contributions, which are principally based on a percentage of employee's annual base compensation and are charged against income as incurred, amounted to $18, $17 and $18 million in 1998, 1997 and 1996, respectively.

Sunoco's principal defined contribution plan is SunCAP. Sunoco matches 100 percent of employee contributions to this plan up to 5 percent of an employee's base compensation. SunCAP is a combined profit sharing and employee stock ownership plan which contains a provision designed to permit SunCAP, only upon approval by the Company's Board of Directors, to borrow in order to purchase shares of Company common stock. As of December 31, 1998, no such borrowings had been approved.

Supplemental Retirement Plans

ALPHA INDUSTRIES, INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Common Stock

Long-Term Compensation Plan

On October 1, 1990 the Company adopted a Supplemental Executive Retirement Plan (SERP) for certain key executives. Benefits payable under this plan are based upon the participant's base pay at retirement reduced by proceeds from the exercise of certain stock options. Options vest over a five-year period. Benefits earned under the SERP are fully vested at age 55, however, the benefit is ratably reduced if the participant retires prior to age 65. Compensation expense related to the plan was $127 thousand, $106 thousand, and $62 thousand in fiscal 1998, 1997 and 1996, respectively. Total benefits accrued under these plans were $308 thousand at March 29, 1998 and $180 thousand at March 30, 1997.

ROCK-TENN COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Retirement Plans

The Company has a Supplemental Executive Retirement Plan ("SERP") which provides unfunded supplemental retirement benefits to certain executives of the Company. The SERP provides for incremental pension payments partially to offset the reduction in amounts that would have been payable from the Company's principal pension plan if it were not for limitations imposed by federal income tax regulations. Expense relating to the plan of $219,000, $174,000 and $162,000 was recorded for the years ended September 30, 1998, 1997 and 1996, respectively. Amounts accrued as of September 30, 1998 and 1997 related to the plan were $688,000 and $482,000, respectively.

SEQUA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Pension Plans and Postretirement Benefits

Sequa sponsors various noncontributory defined benefit pension plans covering certain hourly and most salaried employees. The defined benefit plans provide benefits based primarily on the participants' years of service and compensation. Sequa's pension plans are funded to accumulate sufficient assets to provide for accrued benefits. Sequa also has several unfunded supplemental executive retirement plans for certain key executives. These plans provide for benefits and supplement those provided by Sequa's other retirement plans.

The status of all of Sequa's significant domestic and foreign defined benefit plans was as follows:

(Amounts in thousands)	Funded defined benefit pension plans		Unfunded supplemental retirement plans	
At December 31,	1998	1997	1998	1997
Change in benefit obligation				
Benefit obligation at beginning of year	$265,442	$241,364	$ 15,050	$ 11,426
Service cost	10,005	7,886	(76)	79
Interest cost	19,208	17,966	1,121	989
Actuarial loss	34,962	11,198	1,716	1,157
Plan amendments	2,767	1,025	186	1,613
Curtailments	(1,401)	402	245	—
Benefits paid	(16,136)	(13,479)	(295)	(214)
Translation adjustment	208	(920)	—	—
Benefit obligation at end of year	$315,055	$265,442	$ 17,947	$ 15,050
Change in plan assets				
Fair value of plan assets at beginning of year	$292,085	$244,902	$ —	$ —
Actual return on plan assets	24,825	57,657	—	—
Employer contributions	4,160	3,929	295	214
Benefits paid	(16,136)	(13,479)	(295)	(214)
Translation adjustment	245	(924)	—	—
Fair value of plan assets at end of year	$305,179	$292,085	$ —	$ —
Reconciliation of funded status				
Funded status	$ (9,876)	$ 26,643	$(17,947)	$(15,050)
Unrecognized net actuarial (gain) loss	12,032	(23,572)	258	(1,458)
Unrecognized prior service cost	5,475	4,063	1,649	1,673
Unrecognized transition obligation	(1,745)	(2,469)	—	—
Translation adjustment	(21)	—	—	—
Net amount recognized	$ 5,865	$ 4,665	$(16,040)	$(14,835)
Included in:				
Deferred charges	$ 10,626	$ 8,846	$ —	$ —
Accrued expenses	(1,040)	(1,625)	—	—
Other noncurrent liabilities	(3,721)	(2,556)	(16,040)	(14,835)
Net amount recognized	$ 5,865	$ 4,665	$(16,040)	$(14,835)

The funded plans' assets consist primarily of listed common stock, pooled equity funds, index funds, debt instruments and real estate funds. At December 31, 1998 and 1997, the plans' assets included Sequa stock with market values of $32,109,000 and $34,889,000, respectively.

Assumptions used in accounting for all of Sequa's significant domestic and foreign defined benefit plans were:

At December 31	1998	1997	1996
Discount rate for obligations	6.5%	7.25%	7.5%
Rate of increase in compensation levels	4.5%	4.5%	4.5%
Expected long-term rate of return on plan assets	9.0%	9.0%	9.0%

The periodic net pension cost of all of Sequa's significant domestic and foreign defined benefit plans includes the following components:

(Amount in thousands) At December 31	1998	Funded defined benefit pension plans 1997	1996
Service cost	$10,005	$ 7,886	$ 6,886
Interest cost	19,208	17,966	16,147
Expected return on assets	(25,847)	(21,588)	(18,109)
Amortization of net transition amount	(730)	(734)	(715)
Amortization of prior service cost	929	733	638
Recognized net (gain) loss	(353)	3	7
Net periodic pension cost	3,212	4,266	4,854
(Gain) loss due to curtailments	(961)	402	—
Total amount reflected in earnings	$ 2,251	$ 4,668	$ 4,854

(Amount in thousands) Year ended December 31	1998	Unfunded supplemental retirement plans 1997	1996
Service cost	$ (76)	$ 79	$ 47
Interest cost	1,121	989	766
Amortization of prior service cost	211	302	1,310
Recognized net gain	—	(49)	(175)
Net periodic pension cost	1,256	1,321	1,948
Loss due to curtailments	245	—	—
Total amount reflected in earnings	$1,501	$1,321	$1,948

Employees not covered by the defined benefit plans discussed above generally are covered by multiemployer plans as part of collective bargaining agreements or by small local plans. Pension expense for these multiemployer plans and small local plans was not significant in the aggregate.

Multiemployer Plans

AMERON INTERNATIONAL CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Employee Benefit Plans

Approximately 18% of the Company's employees are covered by union-sponsored, collectively bargained, multi-employer pension plans. The Company contributed and charged to expense $2,900,000, $2,700,000 and $2,600,000 in 1998, 1997 and 1996, respectively. These contributions are determined in accordance with the provisions of negotiated labor contracts and generally are based on the number of hours worked. Information from the plans' administrators is not available to permit the Company to determine its share of unfunded vested benefits, if any. The Company has no intention of withdrawing from any of these plans, nor is there any intention to terminate such plans.

ARDEN GROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Retirement Plans

The Company contributes to multi-employer union pension plans administered by various trustees which may be deemed to be defined benefit plans. Contributions to these plans are based upon negotiated wage contracts. Information relating to accumulated benefits and fund assets as they may be allocable to the participants at January 2, 1999 is not available. The Company's total union pension expense for all plans for 1998, 1997 and 1996 amounted to $2,127,000, $937,000 and $906,000, respectively. The Company's 1998 expense is higher due to the reinstatement in April 1998 of an average monthly union pension contribution of $275,000 which was not in effect in 1997 or 1996. The contribution was suspended again in September 1998, but could be reinstated in 1999.

HARTMARX CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Employee Benefits (In Part)

Pension Plans

The Company participates with other companies in the apparel industry in making collectively-bargained payments to pension funds, which are not administered by the Company. The contribution rate of applicable payroll is based on the amounts negotiated between the union and the participating industry employers. Pension costs relating to multi-employer plans were approximately $6.4 million in 1998, $7.6 million in 1997 and $7.9 million in 1996. The Multi-Employer Pension Plan Amendments Act of 1980 (the "Act") amended ERISA to establish funding requirements and obligations for employers participating in multi-employer plans, principally related to employer withdrawal or termination of such plans.

The present value of accumulated benefits of one multi-employer plan has been substantially in excess of the plan assets currently available for such benefits. The employer participants in this underfunded multi-employer plan along with the Union of Needletrades, Industrial & Textile Employees ("UNITE") and the Pension Benefit Guaranty Corporation ("PBGC") entered into an agreement during 1996 intended to provide further clarity regarding the future of the plan. Among other things, employee benefits were frozen at existing levels and each employer's current and future contribution rate was frozen at 10.33% of wages. Each participating employer's maximum contingent withdrawal liability was individually capped as of December 31, 1994 and is being reduced by approximately 90% of the amounts contributed subsequent to January 1, 1996. Withdrawal liabilities arising from the bankruptcy of any participating employer will no longer be reallocated to the remaining participating employers. If a funding deficiency, as defined under the Act, occurs in the future, each employer's mass withdrawal liability would be fixed at the December 31, 1994 amount less the cumulative credited contributions (the "net withdrawal liability"). That net withdrawal liability would be payable over 20 years in quarterly installments plus interest at a fixed annualized rate of 6.2%. Through September 30, 1998, approximately $15.5 million of the contributions made by the Company were applied to reduce the amount which would represent its contingent net withdrawal liability, estimated at approximately $56.1 million as of September 30, 1998.

Effective October 1, 1998, the Company entered into a separate agreement with the trustees of the underfunded multi-employer plan as discussed above, along with UNITE which, among other things, provides for an assumption by the Company sponsored pension plan of the retirement liabilities of certain current and retired employees of the Company who were participants in the underfunded multi-employer plan. The Company's remaining contingent net actuarial withdrawal liability to the underfunded multi-employer plan of approximately $56.1 million was satisfied by the assumption of a near equivalent amount of these liabilities. Also effective October 1, 1998, the Company ceased future contributions to the multi-employer plan for the applicable employees (aggregating approximately $6 million on an annualized basis.) The costs associated with the accrual of benefits going forward along with the interest associated with prior service cost will be reflected by the Company sponsored pension plan. This agreement is subject to approval from the Internal Revenue Service and the Pension Benefit Guaranty Corporation.

SAFEWAY INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

H (In Part): Employee Benefit Plans and Collective Bargaining Agreements

Multi-Employer Pension Plans

Safeway participates in various multi-employer pension plans, covering virtually all Company employees not covered under the Company's non-contributory pension plans, pursuant to agreements between the Company and employee bargaining units which are members of such plans. These plans are generally defined benefit plans; however, in many cases, specific benefit levels are not negotiated with or known by the employer-contributors. Contributions of $119 million in 1998, $130 million in 1997 and $112 million in 1996 were made and charged to expense.

Under U.S. legislation regarding such pension plans, a company is required to continue funding its proportionate share of a plan's unfunded vested benefits in the event of withdrawal (as defined by the legislation) from a plan or plan termination. Safeway participates in a number of these pension plans, and the potential obligation as a participant in these plans may be significant. The information required to determine the total amount of this contingent obligation, as well as the total amount of accumulated benefits and net assets of such plans, is not readily available. During 1988 and 1987, the Company sold certain operations. In most cases the party acquiring the operation agreed to continue making contributions to the plans. Safeway is relieved of the obligations related to these sold operations to the extent the acquiring parties continue to make contributions. Whether such sales could result in withdrawal under ERISA and, if so, whether such withdrawals could result in liability to the Company, is not determinable at this time.

Amendment Of Plan

PRIMEDIA INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

18. Retirement Plans and Other Employee Costs

Retirement Plans

Substantially all of the Company's employees are eligible to participate in defined contribution plans. The expense recognized for all of these plans was approximately $7,700 in 1998, $6,300 in 1997 and $5,400 in 1996.

In addition, the employees at Primedia Magazines and the non-union employees at *The Daily Racing Form* were eligible to participate in a non-contributory defined benefit pension plan ("Pension Plan"). The benefits paid under the Pension Plan were based on years of service and compensation amounts for the highest consecutive five years of service in the most current years. The Pension Plan was funded by means of contributions by the Company to the plan's trust. The pension funding policy was consistent with the funding requirements of U.S. Federal and other governmental laws and regulations. Plan assets consisted primarily of fixed income, equity and other short-term investments.

In January 1998, the Company amended the Pension Plan. The amendment specifically froze plan participation effective December 31, 1997. The Company received approval from the Pension Benefit Guaranty Corporation during the third quarter to terminate this plan and distribute all the plan's assets. In November 1998, the Company terminated this plan and settled all of its obligations by making lump-sum distributions and purchasing annuity contracts.

The following tables set forth the Pension Plan's funded status as of December 31, 1998 and 1997 and amounts recognized in the Company's statement of operations for the years ended December 31, 1998, 1997 and 1996:

December 31,	1998	1997
Change in benefit obligation:		
Projected benefit obligation at beginning of period	$ 18,036	$ 12,077
Service cost	—	1,387
Interest cost	668	1,073
Amendments	4,536	2,404
Actuarial loss	—	1,570
Benefits paid	(866)	(475)
Curtailment	(6,448)	—
Settlement	(15,926)	—
Projected benefit obligation at end of period	—	18,036
Change in plan assets:		
Fair value of plan assets at beginning of period	13,391	5,473
Actual return on plan assets	1,692	1,763
Employer contributions	1,859	1,715
Benefits paid	(866)	(475)
Other income	—	4,915
Settlement	(15,926)	—
Fair value of plan assets at end of period	150	13,391
Funded status	150	(4,645)
Unrecognized net actuarial loss	—	697
Unrecognized prior service cost	—	(2,137)
Unrecognized initial obligation	—	2,587
Prepaid (accrued) pension cost	$ 150	$(3,498)

The amendments included in the change in benefit obligation represent the Pension Plan termination during the year ended December 31, 1998 and the merger of the predecessor Daily Racing Form plan into the Pension Plan during the year ended December 31, 1997.

The obligation recorded at the acquisition date of Primedia Magazines and Daily Racing Form was the excess of the projected benefit obligation over the plan assets at the date of acquisition which was included in other non-current liabilities for the year ended December 31, 1997.

As of December 31,	1998	1997
Weighted-average assumptions:		
Discount rate	7.00%	7.00%
Expected rate of return on plan assets	N/A	8.50%
Rate of compensation increases	N/A	4.00%

The components of net periodic pension (income) expense for 1998, 1997 and 1996 are as follows:

	1998	1997	1996
Service cost	$ —	$1,387	$1,203
Interest cost	668	1,073	769
Expected return on plan assets	(978)	(1,763)	(610)
Amortization of initial obligation	—	274	274
Amortization of prior service cost	—	(159)	(27)
Amortization of net actuarial loss	—	830	215
Curtailment gain	(5,301)	—	—
Settlement loss	3,823	—	—
Net periodic pension (income) expense	$(1,788)	$1,642	$1,824

In 1998, the Company acquired American Guidance Service, Inc. ("AGS"). AGS sponsors a defined benefit pension plan (the "AGS Plan") for the benefit of its employees. The allocation of the purchase price of AGS included a liability of approximately $792 related to this plan. The benefits to be paid under the AGS Plan are based on years of service and compensation amounts for the average of the highest five consecutive plan years. The AGS Plan is funded by means of contributions by the Company to the plan's trust. The pension funding policy is consistent with the funding requirements of U.S. Federal and other governmental laws and regulations. Plan assets consist primarily of fixed income, equity and other short-term investments. The following tables set forth the AGS Plan's funded status as of December 31, 1998 and the amounts recognized in the Company's statement of operations from the acquisition date through December 31, 1998.

Change in benefit obligation:	
Projected benefit obligation at beginning of period	$ 8,682
Service cost	318
Interest cost	287
Actuarial loss	308
Benefits paid	(137)
Projected benefit obligation at end of period	9,458
Change in plan assets:	
Fair value of plan assets at beginning of period	8,198
Actual return on plan assets	(276)
Benefits paid	(137)
Fair value of plan assets at end of period	7,785
Funded status	(1,673)
Unrecognized net actuarial loss	637
Accrued pension cost	$(1,036)
Components of net periodic pension expense:	
Service cost	$ 318
Interest cost	287
Expected return on plan assets	(361)
Net periodic pension expense	$ 244

As of December 31,	1998
Weighted-average assumptions:	
Discount rate	6.50%
Expected rate of return on plan assets	9.00%
Rate of compensation increases	4.50%

Other Employee Costs

During the third quarter of 1998, the Company recorded management reorganization costs of approximately $8,500, which primarily represented severance costs. This charge is recorded in the caption (gain) loss on the sales of businesses, net and other on the accompanying statement of consolidated operations.

Change to Managed-care Health Plan

EASTMAN KODAK COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Retirement Plans

Substantially all U.S. employees are covered by a noncontributory plan, the Kodak Retirement Income Plan (KRIP), which is funded by Company contributions to an irrevocable trust fund. The funding policy for KRIP is to contribute amounts sufficient to meet minimum funding requirements as determined by employee benefit and tax laws plus additional amounts the Company determines to be appropriate. Generally, benefits are based on a formula recognizing length of service and final average earnings. Assets in the fund are held for the sole benefit of participating employees and retirees. The assets of the trust fund are comprised of corporate equity and debt securities, U.S. government securities, partnership and joint venture investments, interests in pooled funds, and various types of interest rate and foreign currency financial instruments. Kodak common stock represents approximately 8.0% of trust assets.

The benefit obligation of KRIP excludes amounts for all employees (both retired and active) of the non-imaging health businesses sold in 1994 since those obligations were transferred to the buyers of such businesses. The transfer of assets from the KRIP trust fund to the buyers of the non-imaging health businesses was not completed as of December 31, 1998. The Company retained the obligation for employees of the Office Imaging business as a result of the sale of this buisness in 1996.

Most subsidiaries and branches operating outside the U.S. have retirement plans covering substantially all employees. Contributions by the Company for these plans are typically deposited under government or other fiduciary-type arrangements. Retirement benefits are generally based on contractual agreements that provide for benefit formulas using years of service and/or compensation prior to retirement. The actuarial assumptions used for these plans reflect the diverse economic environments within the various countries in which the Company operates.

The Company adopted the disclosure provisions of SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," in 1998.

Changes in the Company's benefit obligation, plan assets and funded status for major plans are as follows:

(In millions)	1998		1997	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Change in benefit obligation				
Projected benefit obligation at January 1	$6,810	$1,809	$6,425	$1,610
Service cost	122	33	122	36
Interest cost	444	118	480	118
Participant contributions	—	13	—	9
Benefit payments	(1,113)	(145)	(705)	(98)
Actuarial loss	224	144	488	229
Curtailments	36	11	—	5
Currency adjustments	—	16	—	(100)
Projected benefit obligation at December 31	$6,523	$1,999	$6,810	$1,809
Change in plan assets				
Fair value of plan assets at January 1	$6,950	$1,749	$6,709	$1,673
Actual return on plan assets	706	129	946	226
Employer contributions	—	76	—	35
Participant contributions	—	13	—	9
Benefit payments	(1,113)	(156)	(705)	(97)
Currency adjustments	—	13	—	(97)
Fair value of plan assets at December 31	$6,543	$1,824	$6,950	$1,749
Funded status at December 31	$ 20	$ (175)	$ 140	$ (60)
Unrecognized:				
Transition asset	(232)	(46)	(330)	(55)
Net actuarial loss	256	280	193	107
Prior service cost	94	31	120	39
Net amount recognized at December 31	$ 138	$ 90	$ 123	$ 31

Amounts recognized in the Statement of Financial Position for major plans are as follows:

(In millions)	1998 U.S.	1998 Non-U.S.	1997 U.S.	1997 Non-U.S.
Prepaid pension cost	$138	$104	$123	$72
Accrued benefit liability	—	(14)	—	(41)
Net amount recognized at December 31	$138	$90	$123	$31

Pension expense for all plans included:

(In millions)	1998 U.S.	1998 Non-U.S.	1997 U.S.	1997 Non-U.S.	1996 U.S.	1996 Non-U.S.
Service cost	$122	$ 33	$122	$ 36	$131	$ 42
Interest cost	444	118	480	118	476	112
Expected return on plan assets	(551)	(137)	(565)	(134)	(534)	(123)
Amortization of:						
Transition asset	(60)	(9)	(67)	(8)	(66)	(8)
Prior service cost	12	8	13	8	15	9
Actuarial loss	11	5	4	1	35	3
	(22)	18	(13)	21	57	35
Curtailment charge (credit)	7	1	—	—	14	(3)
Settlement charge (credit)	—	2	—	—	—	(1)
Net pension expense	(15)	21	(13)	21	71	31
Other plans, including unfunded plans	36	46	31	76	31	65
Total net pension expense	$ 21	$ 67	$ 18	$ 97	$102	$ 96

The Company recorded an $8 million curtailment loss and a $2 million settlement charge in 1998 as a result of the reduction in employees in 1998 from the 1997 restructuring program. The Company recorded an $11 million curtailment loss and a $1 million settlement credit in 1996 as a result of the sale of the Office Imaging business, which were included in the loss on the sale.

The weighted assumptions used to compute pension amounts for major plans were as follows:

	1998		1997	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Discount rate	6.8%	5.8%	7.0%	6.7%
Salary increase rate	4.3%	3.1%	4.5%	3.7%
Long-term rate of return on plan assets	9.5%	8.1%	9.5%	8.5%

The Company also sponsors an unfunded plan for certain U.S. employees, primarily executives. The benefits of this plan are obtained by applying KRIP provisions to all compensation, including amounts being deferred, and without regard to the legislated qualified plan maximums, reduced by benefits under KRIP. At December 31, 1998 and 1997, the projected benefit obligations of this plan amounted to $232 million and $222 million, respectively. The Company had recorded long-term liabilities at those dates of $208 million and $195 million, respectively. Pension expense recorded in 1998, 1997 and 1996 related to this plan was $26 million, $25 million and $24 million, respectively.

13. Nonpension Postretirement Benefits

The Company provides health care, dental and life insurance benefits to U.S. eligible retirees and eligible survivors of retirees. In general, these benefits are provided to U.S. retirees that are covered by the Company's principal pension plan (KRIP). These benefits are funded from the general assets of the Company as they are incurred. Certain non-U.S. subsidiaries offer health care benefits; however, the cost of such benefits is insignificant to the Company.

Changes in the Company's benefit obligation and funded status are as follows:

(In millions)	1998	1997
Net benefit obligation at beginning of year	$ 2,366	$ 2,281
Service cost	19	21
Interest cost	161	159
Plan participants' contributions	3	1
Plan amendments	(158)	—
Actuarial loss	78	55
Curtailments	(29)	—
Benefit payments	(160)	(151)
Net benefit obligation at end of year	$ 2,280	$ 2,366
Funded status at end of year	$(2,280)	$(2,366)
Unrecognized net actuarial loss	443	410
Unrecognized plan amendments	(773)	(788)
Net amount recognized and recorded at end of year	$(2,610)	$(2,744)

Weighted-average assumptions were as follows:

	1998	1997
Discount rate	6.8%	7.0%
Salary increase rate	4.3%	4.5%
Health care cost trend[a]	7.0%	8.0%

[a] decreasing to 5.0% by 2002

(In millions)	1998	1997	1996
Components of net postretirement benefit cost			
Service cost	$ 19	$ 21	$ 25
Interest cost	161	159	166
Amortization of:			
Prior service cost	(70)	(69)	(71)
Recognized actuarial loss	16	2	8
	126	113	128
Curtailment credit	(103)	—	(97)
Total net postretirement benefit cost	$ 23	$113	$ 31

The Company recorded a $103 million curtailment gain in 1998 as a result of the reduction in employees in 1998 from the 1997 restructuring program. The Company recorded a $97 million curtailment gain in 1996 as a result of the sale of the Office Imaging business, which was included in the loss on the sale.

In 1998, the Company moved to a new managed-care base health plan in order to effectively manage health care costs while maintaining the quality of care. This change resulted in a reduction of $25 million for 1998 postretirement benefit costs.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

	1% increase	1% decrease
Effect on total service and interest cost components	$ 8	$ (6)
Effect on postretirement benefit obligation	68	(56)

Merger of Plans

FORT JAMES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Pension and Other Postretirement Benefit Plans

During 1998, the Company adopted FASB Statement No. 132, "Employer's Disclosures about Pensions and Other Postretirement Benefits—an amendment to FASB Statements No. 87, No. 88, and No. 106" which revised the Company's disclosures about pension and other postretirement benefit plans.

The Company sponsors various pension plans covering certain employees. Benefits under these plans are based primarily on years of service and compensation levels. The Company makes contributions to these plans sufficient to meet the minimum funding requirements of applicable laws and regulations plus additional discretionary amounts. Contributions to multiemployer plans are generally based on negotiated labor contracts. Plan assets principally consist of equity securities and corporate and government obligations.

The Company provides certain health care and life insurance benefits to eligible retired employees, their covered dependents, and their beneficiaries. All of the Company's retiree medical plans are unfunded.

The following schedules present changes in, and components of, the Company's net asset/(liability) for pension and other postretirement benefits at December 27, 1998 and December 28, 1997:

	Pension benefits		Other postretirement benefits	
(In millions)	1998	1997	1998	1997
Change in benefit obligation				
Benefit obligation, beginning of year	$1,400.0	$1,314.4	$371.5	$353.7
Service cost	23.9	16.8	6.4	6.6
Interest cost	99.3	86.1	26.1	26.9
Participant contributions	2.2	—	2.9	2.9
Amendments	(6.3)	1.4	—	—
Actuarial loss	91.6	74.1	18.2	9.4
Acquisitions/divestitures/transfers	—	(.8)	—	—
Curtailments	(1.9)	—	(2.9)	—
Special termination benefits	4.7	—	1.2	—
Benefits paid	(100.3)	(92.0)	(28.5)	(28.0)
Benefit obligation, end of year	$1,513.2	$1,400.0	$394.9	$371.5
Change in plan assets				
Fair value of plan assets, beginning of year	$1,773.5	$1,550.6	$ —	$ —
Actual return on plan assets	91.1	303.1	—	—
Employer contributions	12.5	12.7	25.6	25.1
Participant contributions	2.2	—	2.9	2.9
Acquisitions/divestitures/transfers	—	(.9)	—	—
Benefits paid	(100.3)	(92.0)	(28.5)	(28.0)
Fair value of plan assets, end of year	$1,779.0	$1,773.5	$ —	$ —

(In millions)	Pension benefits 1998	1997	Other postretirement benefits 1998	1997
Funded status				
Funded status at end of year	$265.8	$373.5	$(394.9)	$(371.5)
Unrecognized net transition assets	(15.2)	(8.3)	—	—
Unrecognized prior service cost (gain)	43.5	58.9	(62.9)	(73.5)
Unrecognized net actuarial gain	(38.9)	(184.3)	(23.1)	(52.3)
Net amount recognized	$255.2	$239.8	$(480.9)	$(497.3)
Amounts recognized in the statement of financial position consist of:				
Prepaid benefit cost	$255.2	$239.8	$ —	$ —
Accrued benefit liability	(9.2)	(22.5)	(480.9)	(497.3)
Intangible asset	7.6	18.9	—	—
Deferred tax asset	.7	1.5	—	—
Accumulated other comprehensive loss	.9	2.1	—	—
Net amount recognized	$255.2	$239.8	$(480.9)	$(497.3)

The Company merged its domestic pension plans into four plans effective as of the end of the 1998 plan year. The funded status information for 1998 reflects this merger. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets were $6.0 million, $3.4 million, and $0.2 million, respectively, as of December 27, 1998 and $113.8 million, $111.9 million and $103.2 million, respectively, as of December 28, 1997.

Benefit obligations were determined using the following weighted-average assumptions:

(In millions)	Pension benefits 1998	1997	Other postretirement benefits 1998	1997
Discount rate	6.75%	7.25%	6.75%	7.10%
Expected return on plan assets	10.00%	10.00%	—	—
Rate of compensation increase	4.50%	5.00%	—	—

The Company utilizes a method for amortizing unrecognized actuarial gains and losses for other postretirement benefits that accelerates the minimum amount required to be recognized for the year.

During 1998 and 1996, the Company incurred termination benefit costs as part of enhanced benefit programs offered to certain employees. Charges of $5.5 million and $17.3 million were recorded as restructure and other unusual items for the years ended December 27, 1998 and December 29, 1996.

The components of net periodic benefit cost recognized in the Consolidated Statements of Operations and Comprehensive Income were as follows:

(In millions)	Pension benefits 1998	1997	1996	Other postretirement benefits 1998	1997	1996
Service cost	$ 23.9	$ 16.8	$ 16.7	$ 6.4	$ 6.6	$ 8.1
Interest cost	99.3	86.1	84.8	26.1	26.9	29.0
Expected return on plan assets	(145.0)	(116.2)	(103.8)	—	—	—
Amortization of:						
Transition asset	(3.5)	(2.4)	(2.4)	—	—	—
Prior service cost (gain)	6.4	6.6	6.8	(7.4)	(7.6)	(7.7)
Actuarial loss (gain)	.9	1.1	7.5	(7.0)	(2.2)	—
Curtailment charge (credit)	(1.7)	3.8	1.0	.6	(11.4)	(12.2)
Contributions to multiemployer pension plans	4.7	4.5	4.6	—	—	—
Net periodic benefit (income) expense	$(15.00)	$ .3	$ 15.2	$ 18.7	$ 12.3	$ 17.2

For purposes of determining the cost and obligation for postretirement medical benefits, the Company has assumed a health care cost trend rate of 7.0% for 1999, decreasing ratably to 4.5% in 2006 and thereafter. The assumed health care cost trend rate has a significant effect on the amounts reported for retiree medical benefits. A one-percentage point change in the assumed health care cost trend rate would have had the following effects:

(In millions)	1 percentage point Increase	(Decrease)
Effect on service and interest components of net periodic cost	$ 4.0	$ (3.6)
Effect on accumulated postretirement benefit obligation	42.6	(37.1)

In 1995, the Company transferred certain employee benefit plans to Crown Vantage, Inc. ("Crown Vantage"). Under certain conditions, including the inability of Crown Vantage to fund required contributions, the Company has agreed to assume the liability for any underfunded benefits for these plans. Management believes that if any amounts were to be funded, they would not have a material adverse affect on the Company's financial position or results of operations.

Curtailment Gains/Losses

PHILIP MORRIS COMPANIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pension Plans

Net pension cost (income) consisted of the following for the years ended December 31, 1998, 1997 and 1996:

(In millions)	U.S. plans 1998	1997	1996	Non-U.S. plans 1998	1997	1996
Service cost	$ 156	$ 137	$ 143	$ 91	$ 83	$ 80
Interest cost	406	382	373	165	163	166
Expected return on plan assets	(615)	(564)	(533)	(150)	(135)	(131)
Amortization:						
Net gain on adoption of SFAS No. 87	(24)	(24)	(25)	—	—	—
Unrecognized net loss (gain) from experience differences	—	—	9	(4)	(1)	—
Prior service cost	15	14	14	6	6	3
Termination, settlement and curtailment	251	(22)	(35)	—	—	—
Net pension cost (income)	$ 189	$ (77)	$ (54)	$ 108	$ 116	$ 118

During 1998, 1997 and 1996, the Company instituted early retirement and workforce reduction programs and, during 1997 and 1996, the Company also sold businesses. These actions resulted in additional termination benefits and curtailment losses of $279 million, net of settlement gains of $28 million in 1998, settlement gains of $22 million in 1997 and settlement gains of $69 million, net of additional termination benefits of $34 million in 1996.

The changes in benefit obligations and plan assets, as well as the funded status of the Company's pension plans at December 31, 1998 and 1997 were as follows:

(In millions)	U.S. plans 1998	1997	Non-U.S. plans 1998	1997
Benefit obligation at				
January 1	$5,523	$4,880	$2,701	$2,642
Service cost	156	137	91	83
Interest cost	406	382	165	163
Benefits paid	(396)	(309)	(129)	(79)
Termination, settlement and curtailment	305	(22)	—	—
Actuarial losses	238	461	263	80
Currency	—	—	95	(188)
Other	(12)	(6)	15	—
Benefit obligation at December 31	6,220	5,523	3,201	2,701
Fair value of plan assets at				
January 1	8,085	7,101	2,189	1,927
Actual return on plan assets	973	1,308	116	269
Contributions	14	15	53	49
Benefits paid	(372)	(292)	(93)	(70)
Currency	—	—	39	(26)
Actuarial (losses) gains	3	(47)	(56)	40
Fair value of plan assets at December 31	8,703	8,085	2,248	2,189
Excess (Deficit) of plan assets versus benefit obligations at				
December 31	2,483	2,562	(953)	(512)
Unrecognized actuarial (gains) losses	(1,718)	(1,659)	171	(187)
Unrecognized prior service cost	107	121	37	40
Unrecognized net transition obligation	(58)	(83)	12	11
Net prepaid pension asset (liability)	$ 814	$ 941	$(733)	$(648)

The combined domestic and foreign pension plans resulted in a net prepaid pension asset of $81 million and $293 million at December 31, 1998 and 1997, respectively. These amounts were recognized in the Company's consolidated balance sheets at December 31, 1998 and 1997 as other assets of $1.9 billion and $1.7 billion, respectively, for those plans in which plan assets exceeded their accumulated benefit obligations and other liabilities of $1.8 billion and $1.4 billion, respectively, for those plans in which the accumulated benefit obligations exceeded their plan assets.

For domestic plans with accumulated benefit obligations in excess of plan assets, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets were $1,484 million, $1,374 million and $1,123 million, respectively, as of December 31, 1998 and $297 million, $229 million and $54 million, respectively, as of December 31, 1997. For foreign plans with accumulated benefit obligations in excess of plan assets, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets were $1,111 million, $996 million and $155 million, respectively, as of December 31, 1998 and $935 million, $814 million and $115 million, respectively, as of December 31, 1997.

The following weighted-average assumptions were used to determine the Company's obligations under the plans:

	U.S. plans		Non-U.S. plans	
	1998	1997	1998	1997
Discount rate	7.00%	7.25%	5.37%	6.30%
Expected rate of return on plan assets	9.00	9.00	7.63	7.18
Rate of compensation increase	4.50	4.50	3.73	4.18

The Company and certain of its subsidiaries sponsor deferred profit-sharing plans covering certain salaried, nonunion and union employees. Contributions and costs are determined generally as a percentage of pre-tax earnings, as defined by the plans. Certain other subsidiaries of the Company also maintain defined contribution plans. Amounts charged to expense for defined contribution plans totaled $201 million, $200 million and $199 million in 1998, 1997 and 1996, respectively.

Adoption of Plan

GULFSTREAM AEROSPACE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Employee Benefit Plans

Pension Plans

The Company maintains four defined benefit pension plans covering substantially all employees. Benefits paid to retirees are based primarily on age at retirement, years of credited service and compensation earned during employment. The Company's funding policy complies with the requirements of Federal law and regulations. The Company's total pension fund contributions were $25.0 million, $25.0 million, and $34.4 million in 1998, 1997 and 1996, respectively. Effective August 19, 1998 and as part of the acquisition described in Note 2, the Company adopted a new pension plan, covering all employees of the acquired company and all non-vested employees of the Company except for those covered under a collective bargaining agreement.

Other Benefit Plans

In addition to pension benefits, the Company provides certain health care insurance benefits to retired Company employees and their dependents. The Company currently funds these plans on a pay-as-you-go basis. Substantially all of the Company's salaried employees and certain hourly employees become eligible for such benefits when they attain certain age and service requirements while employed by the Company. In December 1998, a Voluntary Employees' Beneficiary Association Trust was established and funded with $14.3 million of Company funds for the purpose of paying retiree claims. The Company will periodically obtain reimbursement from the Trust for retiree claims.

The Company has supplemental benefit plans covering certain key executives. These plans provide for benefits which supplement those provided by the Company's other retirement plans.

The following table is based on an actuarial valuation date as of September 30, and amounts recognized in the Company's consolidated financial statements as of December 31. The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans:

(In thousands)	Pension benefits 1998	Pension benefits 1997	Other benefits 1998	Other benefits 1997
Change in benefit obligation				
Benefit obligation at beginning of year	$255,074	$213,080	$ 96,788	$ 87,231
Service cost	17,599	12,466	5,616	4,283
Interest cost	18,842	16,743	7,277	6,820
Amendments	—	—	(2,742)	(879)
Actuarial (gain) loss	41,451	20,470	(34)	1,983
Benefits paid	(7,995)	(7,685)	(3,900)	(2,650)
Benefit obligation at end of year	$324,971	$255,074	$ 103,005	$ 96,788
Change in plan assets				
Fair value of plan assets at beginning of year	$239,001	$163,598	$ —	$ —
Actual return on plan assets	9,164	49,892	—	—
Company contributions	25,000	33,196	3,900	2,650
Benefits paid	(7,995)	(7,685)	(3,900)	(2,650)
Fair value of plan assets at end of year	$265,170	$239,001	$ —	$ —
Funded status of the plans	$(59,801)	$(16,073)	$(103,005)	$(96,788)
Unrecognized actuarial (gain) loss	48,718	(3,900)	(15,472)	(15,839)
Unrecognized prior service cost (benefit)	5,393	5,860	(16,079)	(7,599)
Contributions paid in fourth quarter	6,250	6,250	15,168	809
Prepaid (accrued) benefit cost	$ 560	$ (7,863)	$(119,388)	$(119,417)
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid benefit cost	$ 190	$ 2,453	$ —	$ —
Accrued benefit liability	(5,125)	(10,316)	(120,341)	(120,343)
Intangible asset	2,334	—	209	164
Accumulated other comprehensive income	3,161	—	744	762
Net amount required	$ 560	$ (7,863)	$(119,388)	$(119,417)

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were $20.9 million, $20.9 million, and $19.8 million, respectively, as of December 31, 1998, and $17.0 million, $17.0 million, and $17.8 million, respectively, as of December 31, 1997.

Accumulated other comprehensive income represents minimum pension liability adjustments.

Net periodic pension and other benefit costs include the following components:

(In thousands) Year ended December 31,	Pension benefits 1998	Pension benefits 1997	Pension benefits 1996	Other benefits 1998	Other benefits 1997	Other benefits 1996
Service cost	$17,599	$12,466	$11,258	$5,616	$4,283	$4,162
Interest cost	18,842	16,743	14,966	7,277	6,820	6,581
Expected return on plan assets	(20,442)	(16,385)	(12,950)	—	—	—
Amortization of prior service cost	467	467	313	(873)	(489)	(430)
Recognized actuarial (gain) loss	111	—	—	(400)	(648)	(377)
Net periodic benefit cost	$16,577	$13,291	$13,587	$11,620	$9,966	$9,936
Weighted average assumptions:						
Discount rate	6.75%	7.50%	8.00%	6.75%	7.50%	8.00%
Expected return on plan assets	9.50%	9.50%	9.50%	—	—	—
Rate of compensation increase	4.75%	4.75%	4.75%	—	—	—

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(in thousands)	1 Percentage point increase	1 Percentage point decrease
Effect on total of service and interest cost components	$ 2,071	$ (1,685)
Effect on the postretirement benefit obligation	14,417	(11,989)

For measurement purposes, a 7.5% annual rate of increase in the per capita cost of medicare ineligible employees' covered health care benefits was assumed for 1998. The rate was assumed to decrease annually by 0.75% to 5.0% and remain at that level thereafter. For medicare eligible employees, a 5.25% annual rate of increase in the per capita cost of health care benefits was assumed for 1998. The rate was assumed to decrease annually by 0.75% to 4.5% and remain at that level thereafter.

Investment and Other Plans

The Company sponsors two voluntary 401(k) investment plans which cover all eligible employees and are designed to enhance existing retirement plans. The Company matches either 37.5% or 50.0% of the employee's contribution up to a maximum of four percent of the employee's eligible compensation. Total expense for the plans were $3.1 million, $2.6 million and $2.2 million for 1998, 1997 and 1996, respectively.

The Company has an Incentive Compensation Plan administered by the Compensation Committee of the Board of Directors which provides for payment of cash awards to officers and key employees based upon achievement of specific goals by the Company and the participating employees. For the years ended 1998, 1997 and 1996, provisions of approximately $6.3 million, $5.8 million and $5.5 million, respectively, were charged against income related to the plan. Payouts are based entirely on achievement of financial and business objectives.

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.

BECTON, DICKINSON AND COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars)

4 (In Part): Benefit Plans

The Company utilizes a service-based approach in applying the provisions of SFAS No. 112, "Employers' Accounting for Postemployment Benefits," for most of its postemployment benefits. Such an approach recognizes that actuarial gains and losses may result from experience that differs from baseline assumptions. In 1997, the Company recorded a $5,963 curtailment loss for severance in connection with productivity programs in the United States and Europe.

	1998	1997	1996
Postemployment benefit costs	$24,000	$25,500	$12,200

GENERAL MOTORS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Postemployment Benefits and Employee Termination Benefits

GM's postemployment benefits primarily relate to GM's extended disability benefit program in the United States and employee job security and supplemental unemployment compensation benefits (mainly pursuant to union or other contractual agreements). Extended disability benefits are accrued on a service-driven basis and employee job security and supplemental unemployment compensation benefits are accrued on an event-driven basis. Accruals for postemployment benefits represent the discounted future cash expenditures expected during the period between the idling of affected employees and the time when such employees are redeployed, retire, or otherwise terminate their employment.

Voluntary termination benefits are accrued when the employees accept the offer. Involuntary termination benefits are accrued when management has committed to a termination plan and the benefit arrangement is communicated to affected employees.

NATIONAL SERVICE INDUSTRIES, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Postemployment Benefits

SFAS No. 112, "Employers' Accounting for Postemployment Benefits," requires the accrual of the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement. The company's accrual, which is not material, relates primarily to serverance agreements and the liability for life insurance coverage for certain eligible employees.

THE NEW YORK TIMES COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Postretirement Benefits Other Than Pensions and Postemployment Benefits

In accordance with SFAS No. 112, Employers' Accounting for Postemployment Benefits, the Company accrues the cost of certain benefits provided to former or inactive employees after employment but before retirement (such as workers' compensation, disability benefits and health care continuation coverage) during the employee's active years of service.

USX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Principal Accounting Policies

Postemployment Benefits
USX recognizes an obligation to provide postemployment benefits, primarily for disability-related claims covering indemnity and medical payments. The obligation for these claims and the related periodic costs are measured using actuarial techniques and assumptions, including an appropriate discount rate, analogous to the required methodology for measuring pension and other postretirement benefit obligations. Actuarial gains and losses are deferred and amortized over future periods.

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 employee compensatory plan disclosures follow.

TABLE 3-12: EMPLOYEE COMPENSATORY PLANS

	Number of Companies			
	1998	**1997**	**1996**	**1995**
Stock options	590	591	584	577
Stock award	291	302	298	269
Savings/investment	263	257	248	232
Stock purchase	123	132	108	103
Employee stock ownership	121	124	132	141
Profit-sharing	117	104	105	123
Incentive compensation	68	67	70	69
Deferred compensation	67	53	50	47

Stock Option Plans

ANHEUSER-BUSCH COMPANIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock-Based Compensation
The company accounts for employee stock options in accordance with Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." Under APB 25, the company recognizes no compensation expense related to employee stock options, as no options are granted at a price below the market price on the day of grant.

In 1996, FAS No. 123, "Accounting for Stock-Based Compensation," became effective for the company. FAS 123, which prescribes the recognition of compensation expense based on the fair value of options on the grant date, allows companies to continue applying APB 25 if certain pro forma disclosures are made assuming hypothetical fair value method application. See Note 6 for pro forma disclosures required by FAS 123 plus additional information on the company's stock options.

6. Stock Option Plans

Under terms of the company's incentive stock option plans, officers and certain other employees may be granted options to purchase the company's common stock at no less than 100% of the market price on the date the option is granted. Options generally vest over three years and have a maximum term of 10 years. At December 31, 1998, 1997 and 1996, a total of 44 million, 27 million and 31 million shares, respectively, were reserved for future issuance under the plans. Certain of the plans also provide for the granting of stock appreciation rights (SARs) in tandem with stock options. The exercise of an SAR cancels the related option and the exercise of an option cancels the related SAR. There were no SARs outstanding under the plans at December 31, 1998 and 1997.

Presented below is a summary of stock option plans activity for the years shown:

	Options	Wtd. avg. exercise price	Options exercisable	Wtd. avg. exercise price
Balance, December 31, 1995	25,292,878	$25.36	—	—
Granted	4,149,588	40.59	—	—
Exercised	(4,945,152)	22.37	—	—
Cancelled	(176,650)	28.22	—	—
Balance, December 31, 1996	24,320,664	$28.55	15,230,871	$24.67
Granted	5,558,073	43.37	—	—
Exercised	(3,971,384)	22.48	—	—
Cancelled	(185,377)	35.11	—	—
Balance, December 31, 1997	25,721,976	$32.64	15,908,186	$27.69
Granted	5,043,905	59.82	—	—
Exercised	(4,084,369)	24.70	—	—
Cancelled	(139,691)	40.81	—	—
Balance, December 31, 1998	26,541,821	$38.98	16,712,205	$31.79

The following table summarizes information for options outstanding and exercisable at December 31, 1998:

	Options Outstanding			Options exercisable	
Range of prices	Number	Wtd. avg. remaining life	Wtd. avg. exercise price	Number	Wtd. avg. exercise price
$15-26	5,246,849	4 yrs	$23.36	5,246,849	$23.36
27-37	6,962,821	6 yrs	31.29	6,944,575	31.29
38-48	9,297,246	8 yrs	42.26	4,388,004	41.80
49-60	5,034,905	10 yrs	59.85	132,777	59.93
$15-60	26,541,821	7 yrs	$38.98	16,712,205	$31.79

Option quantities and prices have been adjusted for the impact of the Earthgrains spin-off and the two-for-one stock split in September 1996.

The company's stock option plans provide for acceleration of exercisability of the options upon the occurrence of certain events relating to a change of control, merger, sale of assets or liquidation of the company (Acceleration Events). Certain of the plans also provide that optionees may be granted Limited Stock Appreciation Rights (LSARs). LSARs become exercisable, in lieu of an option, upon the occurrence, at least six months following the date of grant, of an Acceleration Event. The LSARs entitle the holder to a cash payment per share equivalent to the excess of the share value (under terms of the LSAR) over the grant price. As of December 31, 1998 and 1997, there were .1 million and .4 million, respectively, of LSARs outstanding.

Pro Forma Fair Value Disclosures

Had compensation expense for the company's stock options been recognized based on the fair value on the grant date under the methodology prescribed by FAS 123, the company's income from continuing operations and earnings per share for the three years ended December 31, would have been impacted as shown in the following table (in millions, except per share).

	1998	1997	1996
Reported income from continuing operations	$1,233.3	$1,179.2	$1,156.1
Pro forma income from continuing operations	1,209.3	1,165.0	1,149.0
Reported diluted earnings per share from continuing operations	2.53	2.36	2.27
Pro forma diluted earnings per share from continuing operations	2.48	2.33	2.26

The fair value of options granted, which is amortized to expense over the option vesting period in determining the pro forma impact, is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	1998	1997	1996
Expected life of option	5 yrs	5 yrs	5 yrs
Risk-free interest rate	4.7%	5.7%	6.2%
Expected volatility of Anheuser-Busch stock	16%	15%	15%
Expected dividend yield on Anheuser-Busch stock	1.7%	2.3%	2.3%

The weighted average fair value of options granted during 1998, 1997 and 1996 is as follows:

	1998	1997	1996
Fair value of each option granted	$11.72	$8.37	$8.30
Total number of options granted (in millions)	5.0	5.6	4.1
Total fair value of all options granted (in millions)	$ 58.6	$46.9	$34.0

In accordance with FAS 123, the weighted average fair value of stock options granted is required to be based on a theoretical statistical model using the preceding Black-Scholes assumptions. In actuality, because the company's incentive stock options are not traded on any exchange, employees can receive no value nor derive any benefit from holding stock options under these plans without an increase in the market price of Anheuser-Busch stock. Such an increase in stock price would benefit all stockholders commensurately.

THE BLACK & DECKER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Policies

Stock-Based Compensation

As described in Note 18, the Corporation has elected to follow the accounting provisions of Accounting Principles Board Opinion (APBO) No. 25, *Accounting for Stock Issued to Employees*, for stock-based compensation and to furnish the pro forma disclosures required under SFAS No. 123, *Accounting for Stock-Based Compensation.*

18. Stock-Based Compensation

The Corporation has elected to follow APBO No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its stock-based compensation and to provide the disclosures required under SFAS No. 123, *Accounting for Stock Based Compensation.*

APBO No. 25 requires no recognition of compensation expense for most of the stock-based compensation arrangements provided by the Corporation, namely, broad-based employee stock purchase plans and option grants where the exercise price is equal to the market value at the date of grant. However, APBO No. 25 requires recognition of compensation expense for variable award plans over the vesting periods of such plans, based upon the then-current market values of the underlying stock. In contrast, SFAS No. 123 requires recognition of compensation expense for grants of stock, stock options, and other equity instruments, over the vesting periods of such grants, based on the estimated grant-date fair values of those grants.

Under various stock option plans, options to purchase common stock may be granted until 2006. Options generally are granted at fair market value at the date of grant, are exercisable in installments beginning one year from the date of grant, and expire 10 years after the date of grant. The plans permit the issuance of either incentive stock options or non-qualified stock options, which, for certain of the plans, may be accompanied by stock or cash appreciation rights or limited stock appreciation rights. Additionally, certain plans allow for the granting of stock appreciation rights on a stand-alone basis.

As of December 31, 1998, 5,291,995 non-qualified stock options were outstanding under domestic plans. There were 44,615 stock options outstanding under the United Kingdom plan.

Under all plans, there were 2,699,676 shares of common stock reserved for future grants as of December 31, 1998. Transactions are summarized as follows:

	Stock options	Weighted-average exercise price
Outstanding at December 31, 1995	5,788,688	$20.66
Granted	1,410,050	33.92
Exercised	1,115,328	18.01
Forfeited	430,931	26.26
Outstanding at December 31, 1996	5,652,479	24.12
Granted	1,191,650	37.79
Exercised	429,402	19.74
Forfeited	241,333	29.74
Outstanding at December 31, 1997	6,173,394	26.86
Granted	1,101,000	53.46
Exercised	1,646,389	22.18
Forfeited	291,395	32.70
Outstanding at December 31, 1998	5,336,610	$33.47
Shares exercisable at December 31, 1996	3,424,497	$19.05
Shares exercisable at December 31, 1997	3,607,991	$20.87
Shares exercisable at December 31, 1998	2,663,535	$23.64

Exercise prices for options outstanding as of December 31, 1998, ranged from $9.88 to $53.72. The following table provides certain information with respect to stock options outstanding at December 31, 1998:

Range of exercise prices	Stock options outstanding	Weighted-average exercise price	Weighted-average remaining contractual life
Under $15.00	775,082	$12.58	2.1
$15.00-$22.49	708,352	19.97	3.4
$22.50-$33.74	1,055,061	29.10	7.4
$33.75-$50.62	1,770,115	38.87	8.2
Over $50.63	1,028,000	53.72	9.9
	5,336,610	$33.47	6.9

The following table provides certain information with respect to stock options exercisable at December 31, 1998:

Range of exercise prices	Stock options exercisable	Weighted-average exercise price
Under $15.00	775,082	$12.58
$15.00-$22.49	708,352	19.97
$22.50-$33.74	583,379	28.01
$33.75-$50.62	596,722	38.09
Over $50.63	—	—
	2,663,535	$23.64

In electing to continue to follow APBO No. 25 for expense recognition purposes, the Corporation is obliged to provide the expanded disclosures required under SFAS No. 123 for stock-based compensation granted in 1996 and thereafter, including, if materially different from reported results, disclosure of pro forma net income and earnings per share had compensation expense relating to 1998, 1997, and 1996 grants been measured under the fair value recognition provisions of SFAS No. 123.

The weighted-average fair values at date of grant for options granted during 1998, 1997, and 1996 were $17.67, $11.86, and $10.30, respectively, and were estimated using the Black-Scholes option valuation model with the following weighted-average assumptions:

	1998	1997	1996
Expected life in years	5.7	5.7	5.9
Interest rate	4.54%	5.91%	6.25%
Volatility	29.0%	24.8%	22.2%
Dividend yield	.90%	1.28%	1.43%

The Corporation's pro forma information for the years ended December 31, 1998, 1997, and 1996, prepared in accordance with the provisions of SFAS No. 123, is provided below. For purposes of pro forma disclosures, stock-based compensation is amortized to expense on a straight-line basis over the vesting period. The following pro forma information is not representative of the pro forma effect of the fair value provisions of SFAS No. 123 on the Corporation's net earnings in future years because pro forma compensation expense related to grants made prior to 1996 may not be taken into consideration:

(Dollars in millions except per share amounts)	1998	1997	1996
Pro forma net earnings (loss)	$(755.8)	$224.3	$227.5
Pro forma net earnings (loss) per common share—basic	$ (8.23)	$ 2.37	$ 2.46
Pro forma net earnings (loss) per common share—assuming dilution	$ (8.23)	$ 2.32	$ 2.37

THE BOEING COMPANY (DEC)

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

1 (In Part): Summary of Significant Accounting Policies

Share-Based Plans

In 1998 the Company adopted the expense recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation.* The Company values stock options issued based upon an option-pricing model and recognizes this value as an expense over the period in which the options vest. Potential distribution from the ShareValue Trust, described in Note 16, have been valued based upon an option-pricing model, with the related expense recognized over the life of the trust. Share-based expense associated with Performance

Shares described in Note 16 is determined based on the market value of the Company's stock at the time of the award applied to the maximum number of shares contingently issuable based on stock price, and is amortized over a five-year award period. Performance Shares were first issued in 1998. Prior to 1998, the Company recognized no expense for stock options, and ShareValue Trust expense was determined based on the change in the distributable market value of the trust. Share-based plans expenses for stock options, the ShareValue Trust, Performance Shares and other share-based awards are offset by a credit to additional paid-in capital.

16. Share-Based Plans

The Share-based plans expense caption on the Consolidated Statements of Operations represents the total expense recognized for all company plans that are payable only in stock. These plans are described below.

In 1998 the Company adopted the expense recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation.* Had the Company not adopted SFAS No. 123, 1998 net earnings would have been $1,229, and basic and diluted earnings per share would have been $1.27 and $1.26. The following table compares 1997 and 1996 results as reported to the results had the Company adopted the expense recognition provisions of SFAS No. 123:

	1997	1996
Net earnings (loss)		
As reported	$(178)	$1,818
Pro forma under SFAS No. 123	(332)	1,852
Basic earnings (loss) per share		
As reported	$ (.18)	$ 1.88
Pro forma under SFAS No. 123	(.34)	1.91
Diluted earnings (loss) per share		
As reported	$ (.18)	$ 1.85
Pro forma under SFAS No. 123	(.34)	1.89

Performance Shares

Performance Shares are stock units that are convertible to common stock contingent upon stock price performance. If, at any time up to five years after award, the stock price reaches and maintains a price equal to 161.0% of the stock price at the date of the award (representing a growth rate of 10% compounded annually for five years), 25% of the Performance Shares awarded are convertible to common stock. Likewise, at stock prices equal to 168.5%, 176.2%, 182.4%, 192.5% and 201.1% of the stock price at the date of award, the cumulative portion of awarded Performance Shares convertible to common stock are 40%, 55%, 75%, 100% and 125%, respectively. Performance Shares awards not converted to common stock expire five years after the date of the award; however, the Compensation Committee of the Board of Directors may, in its discretion, allow vesting of up to 100% of the target Performance Shares if the Company's total shareholder return (stock price appreciation plus dividends) during the five-year performance period exceeds the average total shareholder return of the S&P 500 over the same period.

As of December 31, 1998, the following number of Performance Shares were outstanding: 3,586,268 at an issue price of $50^{11}/16$ and an expiration date of February 23, 2003; and 45,771 at an issue price of $33^{9}/16$ and an expiration date of December 14, 2003. The Company recognized a share-based expense of $38 in 1998 attributable to Performance Shares.

Other Stock Unit Awards

The total number of stock unit awards that are convertible only to common stock and not contingent upon stock price were 1,161,652, 301,631 and 376,628 as of December 31, 1998, 1997 and 1996, respectively.

ShareValue Trust

The ShareValue Trust, established effective July 1, 1996, is a 14-year irrevocable trust that holds Boeing common stock, receives dividends, and distributes to employees appreciation in value above a 3% per annum threshold rate of return. As of December 31, 1998, the Trust had acquired 26,025,460 shares of the Company's common stock, equivalent to $1,150 of market value based upon the average price per share on June 28, 1996, which was $44^{3}/16$, plus 11,253,197 shares of stock, equivalent to $550 of market value based upon the average price per share on January 1, 1998, which was $48^{7}/8$. The Trust has additionally acquired 887,944 shares representing reinvested dividends, net of shares used to pay the nominal administrative costs borne by the Trust.

As of December 31, 1998, 21,681,000 shares were available for grant under the 1997 Incentive Stock Plan, and 9,548,000 shares were available for grant under the Incentive Compensation Plan.

The following table summarizes information about stock options outstanding at December 31, 1998 (shares in thousands).

	Options outstanding		
Range of exercise prices	Shares	Weighted average remaining contractual life (years)	Weighted average exercise price
$10 to $19	4,315	4.5	$16.35
$20 to $29	8,480	5.0	23.32
$30 to $39	1,779	7.1	38.44
$40 to $49	4,598	7.4	41.25
$50 to $59	9,481	8.7	53.37
	28,653		

	Options exercisable	
Range of exercise prices	Shares	Weighted average exercise price
$10 to $19	3,847	$16.61
$20 to $29	6,673	23.29
$30 to $39	101	37.68
$40 to $49	2,148	41.04
$50 to $59	2,808	53.18
	15,577	

The Company has determined the weighted average fair values of stock-based arrangements granted, including the ShareValue Trust, during 1998, 1997 and 1996 to be $19.99, $20.67 and $8.39, respectively. The fair values of stock-based compensation awards granted and of potential distributions under the ShareValue Trust arrangement were estimated using a binomial option-pricing model with the following assumptions.

	Grant date	Expected Option term	Expected Volatility
1998	4/13/98	9 years	20%
1997	1/13/97	9 years	19%
	2/24/97	9 years	19%
1996	1/11/96	5 years	17%
	7/1/96	2 years	17%
	7/1/96	4 years	17%
	2/26/96	9 years	21%

	Grant date	Expected dividend yield	Risk-free interest rate
1998	4/13/98	1.1%	5.9%
1997	1/13/97	1.1%	6.6%
	2/24/97	1.1%	6.6%
1996	1/11/96	1.3%	5.3%
	7/1/96	—	6.3%
	7/1/96	—	6.3%
	2/26/96	1.2%	6.0%

The Company recognized a share-based expense of $31 in 1998 attributable to stock options with an offset to additional paid-in capital, and recognized no expense in 1997 and 1996.

FANSTEEL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Stock-Based Compensation Plan

The Shareholders approved the 1998 Long-Term Incentive Plan (Incentive Plan) on May 20, 1998. The Incentive Plan is administered by the Compensation and Nominating Committee of the Board of Directors. No member of the Committee is eligible to receive awards under the Incentive Plan. Officers, key employees and non-employees, who in the judgment of the Committee, render significant service to the Company, are eligible to participate. The Incentive Plan provides for the award of a broad variety of stock-based compensation alternatives such as non-qualified stock options, incentive stock options, restricted stock, performance awards and stock appreciation rights. The Incentive Plan provided 400,000 shares of common stock to be offered from either authorized and unissued shares or issued shares which have been reacquired by the Company. Options granted will vest equally over three years and expire ten years after the grant date. The exercise price is equal to 100% of the fair market value of a common stock on the grant date.

On May 20, 1998, the Board of Directors granted 175,000 incentive stock options to officers and key employees of the Company with an exercise price of $9.19 per option. The status of the stock options is as follows:

	Number of shares
Granted on May 20, 1998	175,000
Forfeited	(12,200)
Outstanding at December 31, 1998	162,800
Options exercisable at:	
December 31, 1998	—
December 31, 1999	54,267
December 31, 2000	54,267
December 31, 2001	54,266

Pursuant to SFAS No. 123 "Accounting for Stock-Based Compensation," the Company has elected to account for its stock option plan under APB Opinion 25 "Accounting for Stock Issued to Employees" and adopt the disclosure only provisions of SFAS No. 123. Under APB 25, no compensation costs are recognized because the option exercise price is equal to the fair market price of the common stock on the date of the grant. Under SFAS No. 123, stock options are valued at grant date using the Black-Scholes valuation model and compensation costs are recognized ratably over the vesting period. Had compensation costs been determined as prescribed by SFAS No. 123, the Company's net earnings and earnings per share would have been reduced to pro forma amounts indicated below:

	1998
Net earnings	
As reported	$5,406,357
Pro forma	5,329,072
Net earnings per share	
As reported	$ .63
Pro forma	.62

Pro forma diluted income per common share has not been presented for 1998 because assuming the conversion of stock options would have an anti-dilutive effect.

The fair value of the Company stock options estimated on the date of grant using the Black Scholes option-pricing model was $3.90 with the following assumptions: expected stock price volatility of 24.4%; expected dividend yield of 0.0%; risk-free interest rate of 5.71%; and an expected 8 year life.

INTERSTATE BAKERIES CORPORATION (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Stock-Based Compensation

The 1996 Stock Incentive Plan (the "Plan") allows the Company to grant to employees and directors various stock awards, including stock options, which are granted at prices not less than the fair market value at the date of grant, and restricted stock. A maximum of 13,683,000 shares were approved to be issued under the Plan. On May 30, 1998, shares totaling 5,007,000 were authorized but not awarded under the Plan.

The stock options may be granted over a period not to exceed 10 years and generally vest from one to three years from the date of grant. The changes in outstanding options are as follows:

	Shares under option	Weighted average exercise price per share
Balance June 3, 1995	3,176,000	$7.37
Issued	503,000	10.30
Surrendered	(122,000)	10.25
Exercised	(1,496,000)	7.58
Balance June 1, 1996	2,061,000	7.76
Issued	2,246,000	18.50
Surrendered	(38,000)	16.71
Exercised	(1,040,000)	7.83
Balance May 31, 1997	3,229,000	15.10
Issued	2,648,000	33.90
Surrendered	(63,000)	22.39
Exercised	(553,000)	12.17
Balance May 30, 1998	5,261,000	$24.78

Stock options outstanding and exercisable on May 30, 1998 are as follows:

Range of exercise prices per share	Shares under option	Weighted average exercise price per share	Weighted average remaining contractual life in years
Outstanding:			
$ 6.13-$10.63	703,000	$ 7.86	6.2
18.50- 18.50	1,926,000	18.50	8.3
33.28- 33.91	2,632,000	33.90	9.3
$ 6.13-$33.91	5,261,000	$24.78	8.5
Exercisable:			
$ 6.13-$10.63	703,000	$7.86	—
18.50- 18.50	596,000	18.50	—
33.28- 33.91	140,000	33.91	—
$ 6.13-$33.91	1,439,000	$14.80	—

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB25"), and related interpretations in accounting for the Plan, and, therefore, no compensation expense has been recognized for stock options issued under the Plan. For companies electing to continue the use of APB25, SFAS No. 123, "Accounting for Stock-Based Compensation," requires pro forma disclosures determined through the use of an option-pricing model as if the provisions of SFAS No. 123 had been adopted.

The weighted average fair value at date of grant for options granted during fiscal 1998, 1997 and 1996 was $11.94, $6.48 and $3.32 per share, respectively. The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

	1998	1997	1996
Expected dividend yield	.9%	1.0%	1.0%
Expected volatility	27.2%	26.5%	27.9%
Risk-free interest rate	6.0%	6.4%	5.9%
Expected term in years	4	4	4

If the Company had adopted the provisions of SFAS No. 123, the impact on reported net income and earnings per share would have been as follows:

	52 weeks ended May 30, 1998	52 weeks ended May 31, 1997	52 weeks ended June 1, 1996
Net income (in thousands)	$11,242	$4,050	$565
Earnings per share:			
Basic	.15	.05	.01
Diluted	.15	.05	.01

During fiscal 1998, the Company also awarded 200,000 shares of restricted stock under the Plan, with a weighted average fair value at the date of grant of $33.91 per share. These restricted shares vest ratably after one, two and three years of continued employment. Compensation expense related to this award was $1,565,000 for fiscal 1998.

At May 30, 1998, 10,700,000 total shares of common stock were reserved for issuance under various employee benefit plans.

ELI LILLY AND COMPANY (DEC)

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

7. Stock Plans

Stock options are granted to employees at exercise prices equal to the fair market value of the company's stock at the dates of grant. Generally, options vest 100 percent three years from the grant date and have a term of 10 years. Performance awards are granted to officers and key employees and are payable in shares of the company's common stock. The number of performance award shares actually issued varies depending upon the achievement of certain earnings targets. In general, performance awards vest 100 percent at the end of the second fiscal year following the grant date.

The company has elected to follow Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock options and performance awards. Under APB No. 25, because the exercise price of the company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Total compensation expense for stock-based performance awards reflected in income on a pretax basis was $257.8 million, $242.1 million and $164.2 million in 1998, 1997 and 1996, respectively. However, SFAS No. 123, "Accounting for Stock-Based Compensation," requires presentation of pro forma information as if the company had accounted for its employee stock options and performance awards granted subsequent to December 31, 1994, under the fair value method of that statement. For purposes of pro forma disclosure, the estimated fair value of the options and performance awards at the date of the grant is amortized to expense over the vesting period. Under the fair value method, the company's net income (loss) and earnings (loss) per share would have been as follows:

	1998	1997	1996
Net income (loss)	$2,120.9	$(339.5)	$1,508.3
Earnings (loss) per share—diluted	1.89	(.30)	1.35

Because SFAS No. 123 is applicable only to options and performance awards granted subsequent to December 31, 1994, and the options and performance awards have three-year and two-year vesting periods, respectively, the pro forma effect was not fully reflected until 1998.

The weighted-average per-share fair value of the individual options and performance awards granted during 1998, 1997 and 1996 were as follows on the date of grant:

	1998	1997	1996
Employee stock options	$16.64	$15.55	$8.25
Performance awards	88.88	69.63	36.50

The fair values of the options were determined using a Black-Scholes option-pricing model with the following assumptions:

	1998	1997	1996
Dividend yield	2.96%	3.14%	3.24%
Volatility	23.5%	21.5%	21.0%
Risk-free interest rate	4.29%	6.18%	6.36%
Forfeiture rate	0	0	0
Expected life	7 years	7 years	7 years

Stock option activity during 1996–1998 is summarized below:

	Shares of common stock attributable to options	Weighted average exercise price of options
Unexercised at January 1, 1996	75,233,590	$16.51
Granted	6,340,874	33.55
Exercised	(14,583,420)	12.94
Forfeited	(1,081,168)	20.93
Unexercised at December 31, 1996	65,909,876	18.86
Granted	5,854,408	64.73
Exercised	(10,072,728)	13.88
Forfeited	(797,912)	22.30
Unexercised at December 31, 1997	60,893,644	24.05
Granted	6,803,350	74.18
Exercised	(13,696,906)	16.88
Forfeited	(1,047,023)	24.29
Unexercised at December 31, 1998	52,953,065	32.35

The following table summarizes information concerning outstanding and exercisable options at December 31, 1998 (shares in millions, contractual life in years):

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
$10-$20	17.70	4.57	$13.90	17.70	$13.90
$20-$30	16.90	6.37	$23.14	16.90	$23.14
$30-$75	18.35	8.85	$58.63	1.22	$52.36

Shares exercisable at December 31, 1998, were 35.8 million (1997—29.6 million shares, 1996—30.6 million shares).

As noted above, the number of shares ultimately issued pursuant to the performance award program is dependent upon the earnings achieved during the vesting period. Pursuant to this plan, 1,543,047 shares, 1,119,487 shares and 1,064,899 shares were issued in 1998, 1997 and 1996, respectively. At December 31, 1998, plan participants had the right to receive up to 7,719,450 additional shares (reduced to the extent necessary to satisfy payroll tax withholdings), contingent upon earnings achieved.

At December 31, 1998, additional options, performance awards or restricted stock grants may be granted under the 1998 Lilly Stock Plan for not more than 45.8 million shares (1.3 million shares and 6.6 million shares in 1997 and 1996, respectively, under the 1994 Lilly Stock Plan).

TEXAS INDUSTRIES, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Option Plans

The Company's stock option plans provide that non-qualified and incentive stock options to purchase Common Stock may be granted to directors, officers and key employees at market prices at date of grant. Generally, options become exercisable in installments beginning one or two years after date of grant and expire six or ten years later depending on the initial date of grant. The Company has elected to continue utilizing the accounting prescribed by APB No. 25 for stock issued under these plans. If compensation cost had been recognized based on the fair value at the date of grant consistent with the method prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

(In thousands)	1998	1997	1996
Net income			
As reported	$102,130	$75,474	$79,954
Pro forma	100,055	74,272	79,548
Basic earnings per share			
As reported	4.85	3.48	3.61
Pro forma	4.75	3.42	3.59
Diluted earnings per share			
As reported	4.69	3.42	3.53
Pro forma	4.64	3.39	3.53

Because the method of accounting under SFAS No. 123 has not been applied to options granted prior to June 1, 1995, the pro forma compensation cost may not be representative of that to be expected in future years.

The weighted-average fair value of options granted in 1998, 1997 and 1996 were $16.57, $9.46 and $7.98, respectively. The fair value of each option grant was estimated on the date of grant for purposes of the pro forma diclosures using the Black-Scholes option-pricing model based on the following weighted average assumptions:

(In thousands)	1998	1997	1996
Dividend yield	.65%	1.05%	.89%
Volatility factor	.258	.240	.240
Risk-free interest rate	5.45%	6.38%	6.15%
Expected life in years	6.4	6.4	6.4

A summary of option transactions for the three years ended May 31, 1998, follows:

	Shares under option	Weighted average option price
Outstanding at May 31, 1995	1,096,882	$12.70
Granted	374,400	22.74
Exercised	(192,444)	11.05
Canceled	(46,240)	13.45
Outstanding at May 31, 1996	1,232,598	15.98
Granted	809,200	26.96
Exercised	(234,067)	10.35
Canceled	(10,600)	22.66
Outstanding at May 31, 1997	1,797,131	21.62
Granted	365,550	46.27
Exercised	(301,678)	16.05
Canceled	(44,040)	21.35
Outstanding at May 31, 1998	1,816,963	$27.51

Options exercisable as of May 31 were 430,213 shares in 1998, 347,491 shares in 1997 and 329,918 shares in 1996 at a weighted-average option price of $19.87, $15.18 and $11.04, respectively. The option shares outstanding at May 31, 1998 have an exercise price between $11.47 and $46.38 and a weighted-average remaining life of 7.9 years. The Company has reserved 1,918,530 shares for future grants.

Stock Award Plans

BAXTER INTERNATIONAL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted Stock and Performance-Share Plans

Under various plans, the company has made grants of restricted stock and performance shares in the form of the company's common stock to provide incentive compensation to key employees and non-employee directors. Under the long-term incentive plan, grants are generally made annually and are earned based on the achievement of financial performance targets, adjusted up or down by the company's stock performance against the change in the Standard & Poor's Medical Products and Supplies Index. The restricted shares vest one year after they are earned.

At December 31, 1998, 240,510 shares were subject to restrictions, which lapse between 1999 and 2002, and 1,036,419 shares were subject to restrictions that lapse upon achievement of future performance objectives and related vesting periods. During 1998, 1997 and 1996, 242,740, 24,930 and 720,043 shares, respectively, of restricted stock and performance shares were granted at weighted-average grant-date fair values of $58.74, $51.29 and $41.89 per share, respectively.

GUILFORD MILLS, INC. (SEP)

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

12 (In Part): Capital Stock and Stock Compensation

The Company has authorized 2,250,000 shares of common stock for the 1989 Restricted Stock Plan, which covers certain key salaried employees, of which 1,188,850 are available for grant at September 27, 1998. A total of 334,200 shares were outstanding (held in trust) under the plan at September 27, 1998. These shares carry voting and dividend rights; however, sale of the shares is restricted prior to vesting. Of the 58,000 shares granted in fiscal year 1998, 40,000 vest evenly over a three year period commencing September 30, 1998 and 18,000 vest evenly over a four year period commencing May 27, 2001, subject generally to continued employment. Of the 322,750 shares granted in fiscal yeer 1997, 20% vested on the date of grant. The remaining 80% of the grant vests over a four year period (20% annually) commencing on the fourth anniversary of the grant date, subject to continued employment. Shares granted prior to fiscal 1997 vest evently over three years, subject to continued employment. Dividend payments are made to an escrow account. The accrual for shares issued under the plan is recorded at fair market value on the date of grant with a corresponding charge to stockholders' investment representing the unearned portion of the award. The unearned portion is being amortized as compensation expense on a straight-line basis over the related vesting period. Compensation expense totaled $1,468, $1,783 and $1,248 during 1998, 1997, and 1996, respectively.

MURPHY OIL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

G (In Part): Incentive Plans

The Company's 1992 Stock Incentive Plan (the Plan) authorized the Executive Compensation and Nominating

Committee (the Committee) to make annual grants of the Company's Common Stock to executives and other key employees as follows: (1) stock options (nonqualified or incentive), (2) stock appreciation rights (SAR), and/or (3) restricted stock. Annual grants may not exceed .5% of shares outstanding at the end of the preceding year; allowed shares not granted may be granted in future years. The Company uses APB Opinion No. 25 to account for stock-based compensation, accruing costs of options and restricted stock over the vesting/performance periods and adjusting costs for subsequent changes in fair market value of the shares. Compensation cost charged against (credited to) income for stock-based plans was $(4,646,000) in 1998, $2,026,000 in 1997 and $5,566,000 in 1996; outstanding awards were not significantly modified in the last three years. Had compensation cost of these stock-based plans been based on the fair value of the instruments at date of grant using the provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation,* the Company's net income and earnings per share would be the pro forma amounts shown in the following table. The pro forma effects on net income in the table may not be representative of the pro forma effects on net income of future years because the SFAS No. 123 provisions used in these calculations were only applied to stock options and restricted stock granted after 1994.

Thousands of dollars except per share data)	1998	1997	1996
Net income (loss)—			
As reported	$(14,394)	132,406	137,855
Pro forma	(18,182)	132,089	138,570
Earnings per share—			
As reported, basic	$ (.32)	2.95	3.07
Pro forma, basic	(.40)	2.94	3.09
As reported, diluted	(.32)	2.94	3.07
Pro forma, diluted	(.40)	2.94	3.09

Restricted Stock

Since 1992, shares of restricted stock have been granted in alternate years. Each grant will vest if the Company achieves specific financial objectives at the end of a five-year performance period. Additional shares may be awarded if objectives are exceeded, but some or all shares may be forfeited if objectives are not met. During the performance period, a grantee may vote and receive dividends on the shares, but shares are subject to transfer restrictions and are all or partially forfeited if a grantee terminates. The Company may reimburse a grantee up to 50% of the award value for personal income tax liability on stock awarded. For the pro forma net income calculation, the fair values per share of restricted stock granted in 1998 and 1996 were $49.50 and $42.88, the respective market prices of the stock at the dates granted. On December 31, 1996, 50% of eligible shares granted in 1992 were awarded and the remaining shares were forfeited based on financial objectives achieved. The number of restricted shares outstanding at January 1, 1997, was adjusted to preserve the existing economic value of the stock at the time of the Deltic spin-off. On December 31, 1998, all shares granted in 1994 were forfeited because financial objectives were not achieved. Changes in restricted stock outstanding were:

(Number of shares)	1998	1997	1996
Balance at beginning of year	39,856	36,512	38,011
Granted	59,750	—	24,250
Grant adjustment to reflect Deltic spin-off	—	5,977	—
Awarded	—	(1,336)*	(10,563)
Forfeited	(16,242)	(1,297)	(15,186)
Balance at end of year	83,364	39,856	36,512

* Additional shares awarded related to Deltic spin-off.

PHILIP MORRIS COMPANIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Stock Plans

Under the Philip Morris 1997 Performance Incentive Plan (the "Plan"), the Company may grant to eligible employees stock options, stock appreciation rights, restricted stock, and other stock-based awards, as well as cash-based annual and long-term incentive awards. Up to 120 million shares of common stock may be issued under the Plan, of which no more than 36 million shares may be awarded as restricted stock. Shares available to be granted at December 31, 1998 were 85,883,360.

The Company may grant shares of restricted stock and rights to receive shares of stock to eligible employees, giving them in most instances all of the rights of stockholders, except that they may not sell, assign, pledge or otherwise encumber such shares and rights. Such shares and rights are subject to forfeiture if certain employment conditions are not met. During 1998, 1997 and 1996 the Company granted 603,650, 692,100 and 180,000 shares, respectively, of restricted stock to eligible U.S. based employees and also issued to eligible non-U.S. employees rights to receive 120,500 and 392,400 like shares, respectively, during 1998 and 1997. At December 31, 1998, restrictions on the stock, net of forfeitures, lapse as follows: 1999—120,300 shares; 2000—654,000 shares; 2002—1,263,450 shares; 2003—290,250 shares; and 2004 and thereafter—636,000 shares.

The fair value of the restricted shares and rights at the date of grant is amortized to expense ratably over the restriction period. The Company recorded compensation expense related to restricted stock and other stock awards of $34 million, $29 million and $37 million for the years ended December 31, 1998, 1997 and 1996, respectively. The unamortized portion is reported as a reduction of earnings reinvested in the business and was $59 million and $49 million at December 31, 1998 and 1997, respectively.

CLARCOR INC. (NOV)

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

L (In Part): Incentive Plan

In 1994, the shareholders of CLARCOR adopted the 1994 Incentive Plan, which allows the Company to grant stock options, restricted stock and performance awards to officers, directors and key employees. The 1994 Incentive Plan incorporates the various incentive plans in existence prior to March 1994, including the 1984 Stock Option Plan, the 1987 Long Range Performance Share Plan, and the 1990 Directors' Restricted Stock Compensation Plan. In addition, the Company has, in connection with the acquisition of UAS, assumed the stock option plans of UAS. The Company has reserved 191,385 shares of the Company's common stock for issuance under the assumed UAS stock option plans.

At the inception of the 1994 Incentive Plan, there were 1,500,000 shares authorized for future grants. In 1998, the shareholders approved an amendment to the 1994 Incentive Plan to allow grants and awards of up to 1.5% of the outstanding common stock as of January 1 of each calendar year. Any portion of the 1.5% that is not granted in a given year is available for future grants. In addition, the Compensation and Stock Option Committee of the Company's Board of Directors may approve an additional 1% of outstanding common stock to be awarded during any calendar year. After the close of fiscal year 1998, 274,831 shares were granted.

Long Range Performance Awards

Officers and key employees may be granted target awards of Company shares of common stock and performance units, which represent the right to a cash payment. The awards are earned and shares are issued only to the extent that the Company achieves performance goals determined by the Board of Directors during a three-year performance period. The Company granted 15,063 and 18,015 performance shares on December 1, 1997 and 1996, respectively. As of November 30, 1998, none of these shares have been cancelled. The shares vest at the end of three years.

During the performance period, officers and key employees are permitted to vote the restricted stock and receive compensation equal to dividends declared on common shares. The Company accrues compensation expense for the performance opportunity ratably during the performance cycle. Compensation expense for the plan totaled $435, $547, and $522 in 1998, 1997, and 1996, respectively. Distribution of Company common stock and cash for the performance periods ended November 30, 1998, 1997, and 1996 were $537, $341, and $291, respectively.

ROBBINS & MYERS, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Stock (In Part):

The Company sponsors a long-term incentive stock plan to provide for the granting of stock based compensation to officers and other key employees. In addition, the Company sponsors stock option and stock compensation plans for non-employee directors. Under the plans, the stock option price per share may not be less than the fair market value as of the date of grant and the options for officers and other key employees become exercisable on a vesting schedule determined by the plan, while options for non-employee directors are immediately vested. For officers and other key employees outstanding grants become exercisable over a three year period. Proceeds from the sale of stock issued under option arrangements are credited to common stock. The Company makes no charges or credits against earnings with respect to options.

Also, under the long-term incentive stock plan, selected participants receive performance units which convert into a variable number of restricted shares based on a three year measurement of how favorably the total return on Company shares compares to the total shareholder return of the Russell 2000 Company Group ("Group"). The restricted shares earned range from 75% to 200% of the performance units awarded. The 75% threshold is earned when the Company's return is at the 50th percentile of total shareholder return of the Group and 200% is earned when the Company's return is at the 80th percentile or greater. No restricted shares are earned if the Company's return is less than the median return of the Group. Restricted shares earned under the program are issued to the participants at the end of the three year measurement period and are subject to forfeit if the participant leaves the employment of the Company within the following two years.

For the three year performance period ended August 31, 1996, 146,000 restricted shares had been earned under the program. Of these restricted shares 15,313 and 111,260 were issued in 1998 and 1997, respectively. In 1997, 47,200 performance units were awarded for the three year performance period ending August 31, 1999. The weighted average fair value of the 1997 performance units at the date of grant was $22.00. The Company has computed the fair value of restricted shares earned for the performance period ended August 31, 1996 and has estimated the fair value of the restricted shares that will be earned for the performance period ending August 31, 1999 and is recognizing the cost over the respective restriction periods.

Total compensation expense recognized in the income statement for all stock based awards was $646,000, $1,360,000 and $1,050,000 for the years ended August 31, 1998, 1997 and 1996, respectively.

Savings/Investment Plans

THE ESTÉE LAUDER COMPANIES INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Pension, Deferred Compensation and Postretirement Benefit Plans

Incentive Thrift Plan (U.S.)

The Company's Incentive Thrift Plan ("Thrift Plan") is a contributory defined contribution plan covering substantially all regular full-time U.S. employees who have completed one year of service, as defined by the plan document. The Thrift Plan is subject to the applicable provisions of the Employ Retirement Income Security Act of 1974 as amended and subsequent pension legislation. The Company matches a portion of the participant's contributions under a predetermined formula based on the participant's contribution level and years of service. The Company's contributions were approximately $4.6 million for the fiscal year ended June 30, 1998 and $4.5 million in both fiscal 1997 and 1996.

MEREDITH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Common Stock and Stock Option Plans

Savings and Investment Plan

The company maintains a 401(k) Savings and Investment Plan which permits eligible employees to contribute funds on a pre-tax basis. The plan provides for employee contributions of up to 12.0 percent of eligible compensation. Beginning January 1, 1998, the company matched 100 percent of the first 3 percent and 50 percent of the next 2 percent of employee contributions. Previously, the company matched 75 percent of the first 5 percent contributed. In recognition of all employees' contributions to the company's financial performance in fiscal 1997, a special one-time additional company match of 25 cents per regularly matched $1 was charged against fiscal 1997 earnings. The 401(k) Savings and Investment Plan allows employees to choose among various investment options, including the company's common stock.

Activity under this plan included the following:

(In thousands) Years ended June 30	1998	1997	1996
Company contribution expense	$3,679	$4,562	$2,993
Company shares issued	129	147	169
Market value of company shares issued	$4,502	$3,442	$3,083

A total of 17.0 million shares has been reserved for this plan, of which approximately 16.4 million shares have been issued as of June 30, 1998. A total of 1.3 million shares is outstanding under this plan as of June 30, 1998.

TEKTRONIX, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Benefit Plans (In Part):

Employee Savings Plan

The Company has an employee savings plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Participating U.S. employees may defer up to 15% of their compensation, subject to certain regulatory limitations. Employee contributions are invested, at the employees' direction, among a variety of investment alternatives. The Company's matching contribution, which was previously invested entirely in Company stock, was increased from 3% to 4% of compensation effective January 1, 1998, and may now be invested in any one of the 401(k) plan funds. In addition, the Company contributes Company stock to the plan for all eligible employees equal to 2% of compensation. The Company's total contributions were approximately $16.4 million in 1998, $14.2 million in 1997, and $12.1 million in 1996.

TERADYNE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

J. Savings Plans

The Company sponsors a Savings Plan covering substantially all U.S. employees. Under this plan, employees may contribute up to 12% of their compensation (subject to Internal Revenue Service limitations). The Company annually matches employee contributions up to 6% of such compensation at rates ranging from 50% to 100%. The Company's contributions vest after two years, although contributions for those employees with five years of service vest immediately. The Company has also established a Supplemental Savings Plan to provide savings benefits in excess of those allowed by ERISA. The provisions of this plan are the same as the Savings Plan. Under the Company's savings plans, amounts charged to operations were $9.3 million in 1998 and 1997, and $6.3 million in 1996.

Stock Purchase Plans

B/E AEROSPACE, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Employee Stock Purchase Plan

The Company has established a qualified Employee Stock Purchase Plan, the terms of which allow for qualified employees (as defined) to participate in the purchase of designated shares of the Company's common stock at a price equal to the lower of 85% of the closing price at the beginning or end of each semi-annual stock purchase period. The Company issued 87,561 and 58,490 shares of common stock during fiscal 1998 and 1997 pursuant to this plan at an average price per share of $20.52 and $9.70, respectively.

LEE ENTERPRISES, INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Stock Option, Restricted Stock and Stock Purchase Plans

At September 30, 1998, the Company has three stock-based compensation plans which are described below. As permitted under generally accepted accounting principles, grants under those plans are accounted for following APB Opinion No. 25 and related interpretations. Accordingly, no compensation cost has been recognized for grants under the stock option or the stock purchase plans. Had compensation costs for all of the stock-based compensation plans been determined based on the grant date fair values of awards (the method described in FASB Statement No. 123), reported net income and earnings per common share would have been reduced to the pro forma amounts shown below:

(In thousands except per share data) Years ended September 30	1998	1997	1996
Net income:			
As reported	$62,233	$64,230	$45,447
Pro forma	60,945	63,180	44,919
Earnings per share:			
Basic:			
As reported	1.39	1.38	0.97
Pro forma	1.36	1.36	0.96
Diluted:			
As reported	1.37	1.36	0.95
Pro forma	1.34	1.34	0.94

The pro forma effect of applying Statement No. 123 are not indicative of future amounts since, among other reasons, the pro forma requirements of the Statement have been applied only to options granted after October 1, 1995.

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Stock Purchase Plan

The Company has 1,293,000 additional shares of common stock available for issuance pursuant to an employee stock purchase plan. April 30, 1999 is the exercise date for the current offering. The purchase price is the lower of 85% of the fair market value at the date of the grant or the exercise date which is one year from the date of the grant. The weighted-average fair value per share of purchase rights granted in 1998, 1997 and 1996 computed using the Black-Scholes option-pricing model, was $6.65, $5.28 and $4.92, respectively.

In 1998, 1997, and 1996 employees purchased 95,000, 106,000 and 124,000 shares, respectively, at a per share price of $20.98 in 1998, $19.02 in 1997, and $15.26 in 1996.

SARA LEE CORPORATION (JUN)

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

Stock-Based Compensation (In Part):

The corporation has various stock award and stock option plans, and an employee stock purchase plan. Under the stock award and stock option plans, the corporation is authorized to grant up to 25 million shares of common stock. Under the employee stock purchase plan, the corporation is authorized to sell and issue up to 60 million shares of common stock to its full-time employees.

The corporation applies APB 25 and related interpretations in accounting for its stock-based compensation plans. During 1997, the corporation adopted Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," which requires pro forma disclosures regarding the corporation's plans.

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Employee Stock Purchase Plan (ESPP)

The ESPP permits full-time employees to purchase a limited number of shares of the corporation's common stock at 85% of market value. Under the plan, the corporation sold 1,151,556, 1,541,592 and 1,794,552 shares to employees in 1998, 1997 and 1996, respectively. Pro forma compensation expense is calculated for the fair value of the employee's purchase rights using the Black-Scholes model. Assumptions include an expected life of 1/4 of a year, weighted average risk-free interest rates of 5.2%, 5.1% and 5.0% in 1998, 1997 and 1996, respectively, and other assumptions that are consistent with those used for the corporation's stock option plans described above.

Under APB 25, no compensation cost is recognized for stock options and replacement stock options under the various stock-based compensation plans and shares purchased under the ESPP. Had compensation cost for the corporation's grants for stock-based compensation been determined consistent with SFAS 123, the pro forma net (loss) income and per share net (loss) income for 1998, 1997 and 1996 would have been as follows:

	1998	1997	1996
Net (loss) income	$(599)	$981	$897
Net (loss) income per share—basic	(1.31)	1.99	1.81
Net (loss) income per share—diluted	(1.31)	1.92	1.74

The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts. SFAS 123 does not apply to awards prior to 1996, and additional awards in future years are anticipated.

THE STANLEY WORKS (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

J (In Part): Capital Stock

Employee Stock Purchase Plan

The Employee Stock Purchase Plan enables substantially all employees in the United States and Canada to subscribe at any time to purchase shares of common stock on a monthly basis at the lower of 85% of the fair market value of the shares on the first day of the plan year ($37.19 per share for fiscal year 1998 purchases) or 85% of the fair market value of the shares on the last business day of each month. A maximum of 6,000,000 shares are authorized for subscription. During 1998, 1997 and 1996 shares totaling 367,498, 734,037 and 442,960, respectively, were issued under the plan at average prices of $35.16, $23.69 and $19.61 per share, respectively.

Stock Compensation Plans

The company accounts for stock option grants under its two stock-based compensation plans and stock purchases under the Employee Stock Purchase Plan in accordance with APB No. 25. Accordingly, no compensation cost has been recognized for the majority of stock option grants since the options have exercise prices equal to the market value of the company's common stock at the date of grant. If compensation cost for the company's stock-based compensation plans had been determined based on the fair value at the grant dates consistent with the method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," the company's net earnings (loss) and earnings (loss) per share would have been adjusted to the pro forma amounts indicated below:

(In millions)	1998	1997	1996
Pro forma net earnings (loss)	$128.9	$(56.1)	$90.4
Pro forma earnings (loss) per share:			
Basic	$ 1.44	$ (.63)	$1.01
Diluted	$ 1.43	$ (.63)	$1.01

During the initial phase-in period, as required by SFAS No. 123, the pro forma amounts were determined based on the stock option grants and employee stock purchases subsequent to January 1, 1995. Therefore, the pro forma amounts may not be indicative of the effects of compensation cost on net earnings (loss) and earnings (loss) per share in future years. Pro forma compensation cost relating to the stock options is recognized over the six month vesting period, while Employee Stock Purchase Plan compensation cost is recognized on the first day of the plan year. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1998, 1997 and 1996, respectively: dividend yield of 3.1%, 1.8% and 2.6%; expected volatility of 35% for 1998 and 25% for 1997 and 1996; risk-free interest rates of 5.4%, 6.0% and 6.1%; and expected lives of 7 years. The weighted average fair value of stock options granted in 1998, 1997 and 1996 was $10.90, $15.39 and $8.02, respectively. The fair value of the employees' purchase rights under the Employee Stock Purchase Plan was estimated using the following assumptions for 1998, 1997 and 1996, respectively: dividend yield of 3.1%, 1.8% and 2.6%; expected volatility of 35% for 1998 and 25% for 1997 and 1996; risk-free interest rates of 4.8%, 6.0% and 5.6%; and expected lives of 1.2 years. The weighted average fair value of those purchase rights granted in 1998, 1997 and 1996 was $7.21, $8.53 and $6.44, respectively.

Employee Stock Ownership Plans

EKCO GROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Employee Stock Ownership Plan

On February 23, 1989, the Company's Board of Directors adopted the EKCO Group, Inc. Employees' Stock Ownership Plan (the "ESOP") for non-union United States employees of the Company and subsidiaries designated by the Company's Board of Directors as participants in the ESOP. The ESOP holds Company preferred and common stock.

Series B ESOP Convertible Preferred Stock

The Company sold 1.8 million shares of the Series B ESOP Convertible Preferred Stock at a price of $3.61 per share to the ESOP trust in 1989. At January 3, 1999, approximately 1.3 million shares of the Company's common stock were reserved for conversion of Series B ESOP Convertible Preferred Stock.

During December 1998, the Company repurchased all of the unallocated shares of Series B ESOP Convertible Preferred Stock (127,109 shares) and common stock (593,360 shares) held by the ESOP in exchange for forgiveness of the outstanding loan from the Company. Prior to the occurrence of this transaction, an unearned ESOP compensation amount was reported as an offset to the Series B ESOP Convertible Preferred Stock amount in the consolidated balance sheets. The unearned compensation was amortized as shares in the Series B ESOP Convertible Preferred Stock were allocated to employees. Shares were allocated ratably over the life of the ESOP Loan (as defined below) or, if less, the actual period of time over which the indebtedness was repaid. The allocation of shares was based upon a formula equal to a percentage of the Company's payroll costs. The percentage was determined by the Company's Board of Directors annually and required principal prepayments. The Company's Board of Directors approved principal prepayments of $494,000 and $522,000 for Fiscal 1997 and Fiscal 1996 to be paid in Fiscal 1998 and Fiscal 1997, respectively. For Fiscal 1998, Fiscal 1997 and Fiscal 1996, $37,000, $740,000, and $816,000, respectively, has been charged to operations. The actual cash contributions, excluding the above mentioned prepayments, to the ESOP by the Company during Fiscal 1998, Fiscal 1997 and Fiscal 1996 were $302,000, $402,000, and $402,000, respectively.

Upon retirement or termination from the Company, each employee has the option to either convert the vested Series B ESOP Convertible Preferred Stock into common stock of the Company or redeem the Series B ESOP Convertible Preferred Stock for cash at a price of $3.61 per share. The change in the principal amount of the Series B ESOP Convertible Preferred Stock from year to year is solely due to redemptions and conversions by vested employees retiring or leaving the Company. The Series B ESOP Convertible Preferred Stock pays a dividend equal to any dividend on the Company's common stock.

Series B ESOP Convertible Preferred Stock, net, consisted of the following:

(Amounts in thousands)	January 3, 1999	December 28, 1997
Series B ESOP convertible preferred stock, par value $.01	$3,868	$4,757
Unearned compensation	—	(358)
	$3,868	$4,399

ESOP Common Stock

In October 1990, the Company's Board of Directors authorized the Trustee of the ESOP to purchase up to 1.0 million shares of the Company's common stock. The Company financed the purchase through a 20-year 10% loan from the Company to the ESOP (the "ESOP Loan"). The ESOP purchased, in open market transactions, a total of 1.0 million shares of the Company's common stock at a total cost of approximately $3.3 million. Unearned compensation equal to such cost (previously included as a component of stockholders' equity) was amortized as shares of the Company's common stock were allocated to employee accounts. Shares were allocated ratably over the life of the ESOP Loan or, if less, the actual period of time over which the indebtedness was repaid, subject to a minimum allocation of 50,000 shares each year. For each of Fiscal 1997 and Fiscal 1996, 50,000 shares were allocated to employees' accounts. For each of Fiscal 1997 and Fiscal 1996, $165,000 was charged to operations. During Fiscal 1998, 35,000 shares were allocated to employees' accounts and $112,000 was charged to operations. As noted above, the Company repurchased all of the unallocated shares in exchange for forgiveness of the ESOP Loan in December 1998. The unallocated shares of common stock held by the ESOP were returned to the Company to be held as treasury stock. The value of these shares was equal to approximately $2.0 million in unearned compensation previously reflected as a component of stockholders equity.

For Fiscal 1998, the Company's Board of Directors approved an additional cash contribution of $610,000 to the ESOP. This contribution, along with the Series B ESOP Convertible Preferred Stock and common stock held by the ESOP will be merged into a single 401(k) plan during Fiscal 1999. The additional cash contribution was charged to results of operations for Fiscal 1998.

GENERAL MILLS, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Retirement Plans (In Part):

The General Mills Savings Plan is a defined contribution plan that covers our salaried and non-union employees. It had net assets of $876.2 million at May 31, 1998 and $768.2 million at May 25, 1997. This plan is a 401(k) savings plan that includes several investment funds and an Employee Stock Ownership Plan (ESOP). The ESOP's only assets are Company common stock and temporary cash balances. Expense recognized in 1998, 1997 and 1996 was $4.9 million, $3.2 million and $6.9 million, respectively. The ESOP's share of this expense was $4.5 million, $2.7 million and $6.6 million, respectively. The ESOP's expense is calculated by the "shares allocated" method.

The ESOP uses Company common stock to convey benefits to employees and, through increased stock ownership, to further align employee interests with those of shareholders. The Company matches a percentage of employee contributions with a base match plus a variable year-end match that depends on annual results. Employees receive the Company match in the form of common stock.

The ESOP originally purchased Company common stock principally with funds borrowed from third parties (and guaranteed by the Company). The ESOP shares are included in net shares outstanding for the purposes of calculating earnings per share. The ESOP's third-party debt is described in Note Nine.

The Company treats cash dividends paid to the ESOP the same as other dividends. Dividends received on leveraged shares (i.e., all shares originally purchased with the debt proceeds) are used for debt service, while dividends received on unleveraged shares are passed through to participants.

The Company's cash contribution to the ESOP is calculated so as to pay off enough debt to release sufficient shares to make the Company match. The ESOP uses the Company's cash contributions to the plan, plus the dividends received on the ESOP's leveraged shares, to make principal and interest payments on the ESOP's debt. As loan payments are made, shares become unencumbered by debt and committed to be allocated. The ESOP allocates shares to individual employee accounts on the basis of the match of employee payroll savings (contributions), plus reinvested dividends received on previously allocated shares. In 1998, 1997 and 1996, the ESOP incurred interest expense of $5.3 million, $5.7 million and $6.3 million, respectively. The ESOP used dividends of $9.4 million, $8.1 million and $9.1 million, along with Company contributions of $4.4 million, $2.7 million and $6.7 million to make interest and principal payments in the respective years.

The number of shares of Company common stock in the ESOP are summarized as follows:

Number of Shares	May 31, 1998	May 25, 1997
Unreleased shares	1,873,000	2,164,000
Committed to be allocated	19,000	29,000
Allocated to participants	2,329,000	2,185,000
Total shares	4,221,000	4,378,000

MAYTAG CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Employee Stock Ownership Plan

The Company established an Employee Stock Option Plan (ESOP), and a related trust issued debt and used the proceeds to acquire shares of the Company's stock for future allocation to ESOP participants. ESOP participants generally consist of all U.S. employees except a select group covered by a collective bargaining agreement. The Company guarantees the ESOP debt and reflects it in the Consolidated Balance Sheets as Long-term Debt with a related amount shown in the Shareowners' equity section as part of Employee stock plans.

Dividends earned on the allocated and unallocated ESOP shares are used to service the debt. The Company is obligated to make annual contributions to the ESOP trust to the extent the dividends earned on the shares are less than the debt service requirements. As the debt is repaid, shares are released and allocated to plan participants based on the ratio of the current year debt service payment to the total debt service payments over the life of the loan. If the shares released are less than the shares earned by the employees, the Company contributes additional shares to the ESOP trust to meet the shortfall. All shares held by the ESOP trust are considered outstanding for earnings per share computations and dividends earned on the shares are recorded as a reduction of retained earnings.

The ESOP shares held in trust consisted of the following:

(In thousands)	December 31 1998	1997
Original shares held in trust:		
Released and allocated	1,700,757	1,460,105
Unreleased shares (fair value; 1998—$71,985,029; 1997—$50,904,572)	1,156,386	1,397,038
	2,857,143	2,857,143
Additional shares contributed and allocated	666,295	666,158
Shares withdrawn	(514,211)	(428,227)
Total shares held in trust	3,009,227	3,095,074

The components of the total contribution to the ESOP trust consisted of the following:

(In thousands)	Year Ended December 31 1998	1997	1996
Debt service requirement	$ 9,325	$ 9,831	$ 8,005
Dividends earned on ESOP shares	(2,086)	(1,960)	(1,550)
Cash contribution to ESOP trust	7,239	7,871	6,455
FMV of additional shares contributed	6	726	2,312
Total contribution to ESOP trust	$ 7,245	$ 8,597	$ 8,767

The components of expense recognized by the Company for the ESOP contribution consisted of the following:

(In thousands)	Year Ended December 31 1998	1997	1996
Contribution classified as interest expense	$2,265	$4,636	$4,991
Contribution classified as compensation expense	4,980	3,961	3,776
Total expense for the ESOP contribution	$7,245	$8,597	$8,767

MEDTRONIC, INC. (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands of dollars)

7. Employee Stock Ownership Plan

The company has an Employee Stock Ownership Plan (ESOP) for eligible U.S. employees. In December 1989, the ESOP borrowed $40,000 from the company and used the proceeds to purchase 9,466,464 shares of the company's common stock. The company makes contributions to the plan which are used, in part, by the ESOP to make loan and interest payments. Expenses related to the ESOP are based on debt service requirements less any dividends received by the ESOP on the company's common stock. This amount is further adjusted by any additional company contribution necessary to meet an annual targeted benefit level. Compensation and interest expense recognized were as follows:

Year ended April 30,	1998	1997	1996
Interest expense	$2,511	$2,580	$2,698
Dividends paid	1,957	1,798	1,310
Net interest expense	554	782	1,388
Compensation expense	1	779	1,316
Total expense	$ 555	$1,561	$2,704

Shares of common stock acquired by the plan are allocated to each employee in amounts based on company performance and the employee's annual compensation. Allocations of 2.5%, 3.0%, and 4.0% of qualified compensation were made to plan participants' accounts in fiscal 1998, 1997, and 1996, respectively. At April 30, 1998 and 1997, cumulative allocated shares remaining in the trust were 3,870,704 and 3,663,724, respectively, and unallocated shares were 5,396,014 and 5,788,440, respectively, of which, 228,297 and 392,426, respectively, were committed-to-be allocated. Unallocated shares are released based on the ratio of current debt service to total remaining principal and interest. The loan from the company to the ESOP is repayable over 20 years, ending on April 30, 2010. Interest is payable annually at a rate of 9.0%. The receivable from the ESOP is recorded as a reduction of the company's shareholders' equity and allocated and unallocated shares of the ESOP are treated as outstanding common stock in the computation of earnings per share.

Profit Sharing Plans

ABM INDUSTRIES INCORPORATED (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Employee Benefit Plans

(b) 401(k) and Profit Sharing Plan

The Company has a profit sharing and 401(k) plan covering certain qualified employees, which includes employer participation in accordance with the provisions of Section 401(k) of the Internal Revenue Code. The plan allows participants to make pretax contributions and the Company matches certain percentages of employee contributions depending on the participant's length of service. The profit sharing portion of the plan is discretionary and noncontributory. All amounts contributed to the plan are deposited into a trust fund administered by independent trustees.

The Company provided for profit sharing contributions of $1,084,000, $1,336,000 and $1,534,000 for 1996, 1997 and 1998, respectively. The Company's matching 401(k) contributions required by the 401(k) plan for 1996, 1997 and 1998 were approximately $664,000, $873,000 and $1,066,000, respectively.

CONCORD FABRICS INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Profit Sharing Plan

The Company has a noncontributory profit sharing plan, for the benefit of eligible full-time employees, which provides for a minimum annual contribution to a trust fund based on percentages of pretax profits (as defined). The Board of Directors may increase such minimum annual contribution at its sole discretion, but all contributions are limited to the maximum amount deductible for Federal income tax purposes. Contributions of $335,000, $345,000 and $150,000 were made for the years ended August 30, 1998, August 31, 1997 and September 1, 1996, respectively.

SUNRISE MEDICAL INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

11. Profit Sharing/Savings Plan

The company has 401(k) profit sharing/savings plans covering most U.S. employees (Associates). Under the profit sharing portion of the plan, the company will contribute to Associates' accounts a percentage of their salary for the fiscal year ranging from 4 to 6 percent. The percentage amount is based upon attainment of certain earnings targets by the company as a whole in the case of corporate office Associates, or by the subsidiary where the Associate works. The plan is discretionary with the amounts determined by the Board of Directors. During 1998, 1997 and 1996, $2,534, $2,533, $2,518, respectively, were accrued for this plan. Under the savings feature of the plan, individual Associates may make contributions to the plan, which are matched by the company in an amount determined by the Board of Directors. During 1998, 1997 and 1996, $655, $767 and $790, respectively, of Associate contributions were matched by the company.

Incentive Compensation Plans

BROWN & SHARPE MANUFACTURING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

4 (In Part): Incentive and Retirement Plans

Profit Incentive Plan

Under the provisions of the Company's Amended Profit Incentive Plan as originally approved in 1979, awards of cash could be made as bonuses to certain management employees. Plan awards provisions under the Plan in the amounts of $2,194, $2,293, and $1,682 were made in 1998, 1997, and 1996, respectively, based on performance objectives for the respective year.

WTD INDUSTRIES, INC. (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Stock Options and Employee Benefit Plans

The Company maintains a weekly discretionary bonus program for its mill workers based on the performance of each production shift at individual mills. The bonus program for mill workers is designed to reward productivity, safety and regular attendance. This bonus program is open-ended but designed to attract good production workers by giving them the reasonable opportunity to reach high-end pay levels for similar work in the industry when average bonuses are added to base wages. It is also designed so that manufacturing labor costs, per unit of lumber produced, go down as the average bonus level goes up.

The Company also has a monthly profit sharing discretionary bonus plan for all levels of salaried employees, based upon pre-tax profits at each operating unit. This bonus program, which automatically moves the Company's total general and administrative expense up or down in cyclical earnings periods, is vital to the Company's ability to attract desirable salaried employees at lower than industry average rates and to retain such employees through cyclical down earnings periods.

The following summarizes the amounts paid pursuant to the Company's bonus programs (in thousands):

	Year Ended April 30,		
	1998	1997	1996
Hourly employee bonus	$5,200	$4,700	$3,800
Salaried employee bonus	1,200	3,600	700
	$6,400	$8,300	$4,500

STEELCASE INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Employee Benefit Plan Obligations

Employee benefit plan obligations consist of:

(In millions)	Feb. 27, 1998	Feb. 28, 1997
Profit-sharing and pension plans	$ 44.3	$ 32.5
Postretirement insurance benefits	150.4	143.1
Management incentive, executive supplemental retirement and deferred compenstion plans	55.6	44.1
	250.3	219.7
Current portion	59.1	43.1
Long-term portion	$191.2	$176.6

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Management Incentive, Executive Supplemental Retirement and Deferred Compensation Plans

Management Incentive Plan

The Amended and Restated Steelcase Inc. Management Incentive Plan is an annual and long-term incentive compensation program that provides eligible key employees of the Company with cash payments based upon the achievement by the Company of specified financial performance goals as measured by Economic Value Added ("EVA"), as defined in the plan. Annual bonuses are payable after the end of the year and, therefore, are included in accrued compensation in the accompanying consolidated balance sheets, whereas long-term bonus amounts are paid out over a three-year period commencing after the end of the year following the year in which the incentive amount is earned. The long-term amounts are paid in substantially equal installments over the three-year payment period and unpaid long-term amounts are adjusted based on the Company's return on equity as determined each year.

Executive Supplemental Retirement Plan

The Steelcase Inc. 1994 Executive Supplemental Retirement Plan (the "Supplemental Plan") is a non-qualified deferred compensation and supplemental retirement plan that is limited to a select group of management or highly compensated employees. The Supplemental Plan is intended to attract and retain highly qualified corporate executives and to enable such executives to devote their full-time efforts to the Company by providing, in consideration of these efforts, supplemental retirement income.

In general, upon satisfying the requirements of the Supplemental Plan executives are entitled to receive five annual payments each equal to 70% of the participant's average base salary for the three consecutive years prior to retirement or death and 15 annual payments each equal to $50,000 multiplied by the participant's vested percentage. A participant's vested percentage begins at 20% after three completed years of service following such participant's eligibility under the Supplemental Plan and increases by 20% increments annually until it becomes fully vested upon seven completed years of service following such eligibility.

Deferred Compensation Agreements

The Company has future retirement obligations to certain employees in return for agreeing not to receive part of their compensation for a period of three to five years. Compensation withheld has been invested in corporate-owned life insurance, which is expected to be sufficient to cover such future obligations.

Long-term management incentive and total executive supplemental retirement and deferred compensation expense approximated $23.2 million, $9.7 million and $13.5 million for 1998, 1997 and 1996, respectively.

Deferred Compensation Plans

ENGELHARD CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Stock Option and Bonus Plans

Engelhard has certain deferred compensation arrangements where shares earned under the Engelhard stock bonus plan are deferred and placed in a "Rabbi Trust." Under certain conditions, the plan permits the employees to convert their deferred stock balance to deferred cash. In the third quarter of 1998, the Company adopted the provisions of Emerging Issues Task Force ("EITF") 97-14 "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested." This EITF requires

Engelhard to consolidate into its financial statements the net assets of the trust. The impact to the third quarter, 1998 consolidated financial statements was a $20.1 million increase in treasury stock (measured at historical cost); the recording of a $23.7 million deferred compensation obligation (measured on the reporting date by fair value of the Engelhard common stock held in the trust on behalf of the employees); and a charge to equity for the $3.6 million difference (referred to as the "transition differential"). After the transition date but prior to final settlement, increases/decreases in the deferred compensation liability will be recognized (1) in equity to the extent that the share price change falls within the transition differential, or (2) in income to the extent that the share change falls outside the transition differential.

During the fourth quarter of 1998, the Company recognized a charge to expense of $2.4 million as a result of an increase in the stock price from $17.69 at September 30, 1998 to $19.50 at December 31, 1998. For the year ended December 31, 1998, the total charge to expense as a result of adopting EITF 97-14 was $2.4 million. The total value of the Rabbi Trust at December 31, 1998 was $26.1 million.

LABARGE, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Employee Benefit Plans

The Company has a contributory savings and profit-sharing plan covering certain employees. The Company's policy is to expense and fund savings plan and profit-sharing costs as incurred.

The Company offers a non-qualified deferred compensation program to certain key employees whereby they may defer a portion of annual compensation for payment upon retirement plus a guaranteed return. The program is unfunded; however, the Company purchases Company-owned life insurance contracts through which the Company will recover a portion of its cost upon the death of the employee.

9 (In Part): Employee Benefit Plans

The Company has a contributory profit-sharing plan which qualifies under Section 401(k) of the Internal Revenue Code for employees meeting certain service requirements. The plan allows eligible employees to contribute up to 15% of their compensation, with the Company matching 50% of the first $25 per month and 25% of the excess of the first 8% of this contribution. During fiscal 1998, 1997 and 1996, Company matching contributions were $236,000, $187,000 and $141,000, respectively.

At the discretion of the Board of Directors, the Company may also make contributions dependent on profits each year for the benefit of all eligible employees under the amended plan. There were no such contributions for the years ended June 28, 1998, June 29, 1997 and June 30, 1996.

The Company has a deferred compensation plan for selected employees who, due to Internal Revenue Service guidelines, cannot take full advantage of the contributory profit-sharing plan. This plan, which is not required to be funded, allows eligible employees to defer portions of their current compensation and the Company guarantees a return of 2% over the prime interest rate on the deferral (compounded daily from the date of deferral). To support the deferred compensation plan, the Company has elected to purchase Company-owned life insurance. The costs associated with the plan were $119,000, $63,000 and $45,000 for the guaranteed return and $13,000, $20,000 and $8,000 of income for the Company-owned insurance in fiscal 1998, 1997 and 1996, respectively. The cash surrender value of the Company-owned life insurance related to deferred compensation is included, along with other policies owned by the Company, in other assets and was $838,000 at June 28, 1998 compared to $669,000 at June 29, 1997. The liability for the deferred compensation and interest thereon is in accrued employee compensation and was $1.3 million at June 28, 1998 versus $906,000 at June 29, 1997.

SPEIZMAN INDUSTRIES, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Deferred Compensation Plans

The Company has deferred compensation agreements with two employees providing for payments amounting to $2,056,680 upon retirement and from $1,546,740 to $2,181,600 upon death prior to retirement. One agreement, as modified, has been in effect since 1972 and the second agreement was effective October 1989. Both agreements provide for monthly payments on retirement or death benefits over fifteen year periods. Both agreements are funded under trust agreements whereby the Company pays to the trust amounts necessary to pay premiums on life insurance policies carried to meet the obligations under the deferred compensation agreements.

Charges to operations applicable to those agreements were approximately $50,362, $48,885 and $53,885 for the fiscal years 1998, 1997 and 1996, respectively.

WINNEBAGO INDUSTRIES, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Employee Retirement Plans

The Company also has a non-qualified deferred compensation program which permits key employees to annually elect (via individual contracts) to defer a portion of their compensation until their retirement. The retirement benefit to be provided is fixed based upon the amount of compensation deferred and the age of the individual at the time of the contracted deferral. An individual generally vests at the later of age 55 and five years of service since the deferral was made. For deferrals prior to December 1992, vesting occurs at the later of age 55 and five years of service from first deferral or 20 years of service. Deferred compensation expense was $1,487,000, $1,558,000, and $1,556,000 in fiscal 1998, 1997 and 1996, respectively.

Total deferred compensation liabilities were $22,024,000 and $21,164,000 at August 29, 1998 and August 30, 1997, respectively.

To assist in funding the deferred compensation liability, the Company has invested in corporate-owned life insurance policies. The cash surrender value of these policies (net of borrowings of $9,254,000 and $10,335,000 at August 29, 1998 and August 30, 1997, respectively) are presented as assets of the Company in the accompanying balance sheets.

The Company has adopted a Directors' Deferred Compensation Plan which permits non-employee directors to receive their fees and retainers as members of the Board of Directors and committees of the Board in a form other than as direct payments.

Loan Program for Key Employees

TYCO INTERNATIONAL LTD. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Key Employee Loan Program

Loans are made to employees of the Company under the Former Tyco 1983 Key Employee Loan Program for the payment of taxes upon the vesting of shares granted under Former Tyco's Restricted Stock Ownership Plans. The loans are unsecured and bear interest, payable annually, at a rate which approximates the Company's incremental short-term borrowing rate. Loans are generally repayable in ten years, except that earlier payments are required under certain circumstances. During Fiscal 1998, the maximum amount outstanding was $143.5 million. Loans receivable under this program were $22.2 million and $12.3 million at September 30, 1998 and September 30, 1997, respectively.

VEBA

LONE STAR INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

12 (In Part): Employee Benefit Plans

As part of its emergence from Chapter 11 proceedings, the Company reached settlements with the salaried and union retirees with respect to reductions and modifications of retiree medical and life insurance benefits. As part of the settlement with salaried retirees, the Company established a Voluntary Employees Beneficiary Association ("VEBA"), a tax-exempt trust, and agreed to make defined quarterly contributions to the trust. The Company has the option to prepay all future quarterly contributions to the VEBA in a single cash amount equal to 110% of the discounted present value (using an 8.5% discount factor) of all future quarterly contributions. The Company made contributions of $4,318,000, $4,425,000 and $4,428,000 to the VEBA during the years ended December 31, 1998, 1997 and 1996, respectively.

Performance Unit Bonus

THE PERKIN-ELMER CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Stock Plans

Performance Unit Bonus Plan

The Company has a Performance Unit Bonus Plan whereby employees may be awarded performance units in conjunction with an equal number of stock options. The performance units vest upon shares of the Company's common stock attaining and maintaining specified stock price levels for a specified period, and are payable on or after June 26, 2000. As of June 30, 1998, 324,500 performance units were outstanding. Compensation expense recognized for these awards totaled $6.3 million in fiscal 1998.

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			
	1998	1997	1996	1995
Straight-line	577	578	575	572
Declining-balance	25	26	28	27
Sum-of-the-years'-digits	9	10	12	12
Accelerated method—not specified	43	50	48	49
Units-of-production	36	39	42	38
Other	9	10	12	11

Straight-Line Method

AULT INCORPORATED (MAY)

Consolidated Statements of Cash Flows

	1998	1997	1996
Cash flows from operating activities:			
Net income	$1,317,718	$2,365,079	$882,689
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	528,193	489,950	509,458
Amortization	36,306	3,025	2,363
Provision for doubtful accounts	(24,000)	50,000	67,000
Provision for inventory allowance	—	—	(130,000)
Loss (gain) on disposal of equipment	28,830	(4,117)	—
Deferred taxes	415,000	(681,000)	—
Tax benefit associated with stock options	—	131,000	—
Deferred rent expense	(53,005)	(40,805)	(28,905)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Nature of Business and Significant Accounting Policies

Depreciation

It is the Company's policy to include depreciation expense on assets acquired under capital leases with depreciation expense on owned assets. Depreciation is based on the estimated useful lives of the individual assets. The methods and estimated useful lives are as follows:

	Method	Years
Building	Straight-line	36
Machinery and equipment	Straight-line	3-10
Office furniture and equipment	Straight-line	5-15
Data processing equipment	Double declining balance and straight-line	3-5
Leasehold improvements	Straight-line	Life of lease

THE LUBRIZOL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS
(In thousands of dollars unless otherwise indicated)

2 (In Part): Accounting Policies

Property and Equipment

Property and equipment are carried at cost. Repair and maintenance costs are charged against income while renewals and betterments are capitalized as additions to the related assets. Costs incurred for computer software developed or obtained for internal use are capitalized for application development activities and immediately expensed for preliminary project activities or post-implementation activities. Accelerated depreciation methods are used in computing depreciation on certain machinery and equipment, which comprise approximately 23% of the depreciable assets. The remaining assets are depreciated using the straight-line method. The estimated useful lives are 10 to 40 years for buildings and land improvements and range from 3 to 20 years for machinery and equipment.

5 (In Part): Other Balance Sheet Information

	1998	1997
Property and equipment:		
Land and improvements	$ 107,712	$ 102,831
Buildings and improvements	299,024	270,237
Machinery and equipment	1,145,471	1,059,575
Construction in progress	56,293	81,181
	$1,608,500	$1,513,824

Depreciation and amortization of property and equipment was $79.7 million in 1998, $82.7 million in 1997 and $78.7 million in 1996.

Accelerated Methods

COMPUTER SCIENCES CORPORATION (MAR)

(In thousands)	1998	1997	1996
Revenues	$6,600,838	$5,616,048	$4,740,760
Costs of services	5,149,218	4,413,173	3,692,267
Selling, general and administrative	602,708	485,113	471,309
Depreciation and amortization	386,854	333,247	272,058
Interest expense	50,951	40,268	37,925
Interest income	(8,855)	(7,995)	(5,782)
Special charges	229,093	48,929	76,053
Total costs and expenses	6,409,969	5,312,735	4,543,830
Income before taxes	190,869	303,313	196,930

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

1 (In Part): Summary of Significant Accounting Policies

Depreciation and Amortization

The Company's depreciation and amortization policies are as follows:

Property and equipment:	
Buildings	10 to 40 years
Computers and related equipment	3 to 10 years
Furniture and other equipment	2 to 10 years
Leasehold improvements	Shorter of lease term or useful life
Investments and other assets:	
Purchased and internally developed software	2 to 10 years
Credit information files	10 to 20 years
Excess of cost of businesses acquired over related net assets	Up to 40 years
Deferred contract costs	Contract life

For financial reporting purposes, computer equipment is depreciated using either the straight-line or sum-of-the-years'-digits method, depending on the nature of the equipment's use. The cost of other property and equipment, less applicable residual values, is depreciated on the straight-line method. Depreciation commences when the specific asset is complete, installed and ready for normal use. Investments and other assets are amortized on a straight-line basis over the years indicated above.

HUGHES SUPPLY, INC. (JAN)

(In thousands)	1999	1998	1997
Net sales	$2,536,265	$1,945,446	$1,619,362
Cost of sales	1,977,266	1,519,323	1,276,481
Gross profit	558,999	426,123	342,881
Operating expenses:			
Selling, general and administrative	416,642	318,923	261,355
Depreciation and amortization	23,269	18,727	15,566
Provision for doubtful accounts	1,882	1,229	1,023
Total operating expenses	441,793	338,879	277,944
Operating income	117,206	87,244	64,937

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands)

1 (In Part): Description of Business and Summary of Significant Accounting Policies

Property and Equipment

Buildings and equipment are recorded at cost and depreciated using both straight-line and declining-balance methods based on the following estimated useful lives:

Buildings and improvements	5-40 years
Transportation equipment	2-7 years
Furniture, fixtures and equipment	2-12 years
Property under capital leases	20-40 years

Maintenance and repairs are charged to expense as incurred and major renewals and betterments are capitalized. Gains or losses are credited or charged to earnings upon disposition.

MOTOROLA, INC. (DEC)

Consolidated Statements of Cash Flows

(In millions)	1998	1997	1996
Operating			
Net earnings (loss)	$ (962)	$1,180	$1,154
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Restructuring and other charges	1,980	327	—
Depreciation	2,197	2,329	2,308
Deferred income taxes	(933)	(98)	(162)
Amortization of debt discount and issue costs	11	10	8
Gain on disposition of investments in affiliates, net of acquisition charges	(146)	(116)	(78)

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 less accumulated depreciation. Depreciation is recorded principally using the declining-balance method, based on the estimated useful lives of the assets (buildings and building equipment, 5-40 years; machinery and equipment, 2-12 years).

Units-of-Production Method

McDERMOTT INTERNATIONAL, INC. (MAR)

Consolidated Statement of Cash Flows

(In thousands)	1998	1997	1996
Cash flows from operating activities:			
Net income (loss)	$215,690	$(206,105)	$20,625
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	142,301	151,581	139,875
Income or loss of investees, less dividends	(13,913)	17,422	(5,963)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Depreciation, Maintenance and Repairs and Drydocking Expenses

Except for major marine vessels, property, plant and equipment is depreciated on the straight-line method, using estimated economic useful lives of 8 to 40 years for buildings and 2 to 28 years for machinery and equipment. Major marine vessels are depreciated on the units-of-production method based on the utilization of each vessel. Depreciation expense calculated under the units-of-production method may be less than, equal to, or greater than depreciation expense calculated under the straight-line method in any period. The annual depreciation based on utilization of each vessel will not be less than the greater of 25% of annual straight-line depreciation, or 50% of cumulative straight-line depreciation.

Maintenance, repairs and renewals which do not materially prolong the useful life of an asset are expensed as incurred except for drydocking costs for the marine fleet, which are estimated and accrued over the period of time between drydockings, and such accruals are charged to operations currently.

POTLATCH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Principal Accounting Policies (In Part):

Properties

Property, plant and equipment are valued at cost less accumulated depreciation. Depreciation of buildings, most equipment and other depreciable assets is determined by using the straight-line method. In 1998, the company placed certain equipment in service at one of its pulp manufacturing facilities, utilizing the units of production method of depreciation. Estimated useful lives range from 30 to 40 years for buildings and structures and 2 to 25 years for equipment.

2 (In Part): Plant and Equipment

(Dollars in thousands)	1998	1997
Land improvements	$ 58,252	$ 57,796
Buildings and structures	413,718	406,133
Machinery and equipment	2,114,567	1,993,776
Other	101,677	94,174
Construction in progress	218,932	234,777
	$2,907,146	$2,786,656

Depreciation charged against income amounted to $126.3 million in 1998 ($125.5 million in 1997 and $118.7 million in 1996).

Production-Variable Method

LTV CORPORATION (DEC)

(In millions)	1998	1997	1996
Sales	$4,273	$4,446	$4,135
Costs and expenses:			
Cost of products sold	3,773	3,801	3,596
Depreciation and amortization	259	263	266
Selling, general and administrative	184	164	143
Results of affiliates' operations	49	41	—
Net interest and other income	(23)	(42)	(43)
Special charges	55	150	—
Total	4,297	4,377	3,962
Income (loss) before income taxes	(24)	69	173

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part):

Property Costs, Depreciation and Amortization

Fixed assets are recorded on the cost basis and include land, buildings, machinery and equipment, and software and associated costs. Depreciation is computed principally using a modified straight-line method based upon estimated economic lives of assets and the levels of production providing depreciation within a range of 80% to 120% of the straight-line amount on individual major production facilities with decreased depreciation at lower and increased depreciation at higher operating levels. In addition, a units-of-production method is used for blast furnaces. In 1998, the modified straight-line depreciaton method was less than the straight-line amount by $8 million. During 1997 and 1996, depreciation expense under this method approximated the computed straight-line amounts. The cost of buildings is depreciated over 45 years, and machinery and equipment is depreciated over an average life of approximately 17 years. Goodwill and other intangible assets are amortized on a straight-line basis over periods ranging from 5 to 35 years.

When properties are retired or sold, their carrying value and the related allowance for depreciation are eliminated from the property and allowance for depreciation accounts, respectively. Generally, for normal retirements, gains or losses are credited or charged to allowance for depreciation accounts; for abnormal retirements, gains or losses are included in income in the year of disposal.

The Company reviews long-lived assets used in operations and goodwill when indicators of impairment are present. Impairment losses are recorded when the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount.

Depletion

IMC GLOBAL INC. (DEC)

Consolidated Statement of Cash Flows

(In millions)	1998	1997	1996
Cash flows from operating activities:			
Net earnings (loss)	$ (9.0)	$ 62.9	$127.1
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation, depletion and amortization	251.7	183.2	171.0
Merger and restructuring charges	144.0	—	67.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Property, Plant and Equipment/Other Assets

Property (including mineral deposits), plant and equipment, including assets under capital leases, 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 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 deposits, 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, ten 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.

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

	1998	1997	1996	1995
Descriptive Terms				
Income taxes	576	567	564	560
Federal income taxes	17	23	25	29
United States (U.S.) income taxes	3	1	2	3
	596	591	591	592
Other or no current year amount	4	9	9	8
Total Companies	**600**	**600**	**600**	**600**

Expense Provision

ALPHA INDUSTRIES, INC. (MAR)

(In thousands)	1998	1997	1996
Sales	$116,881	$85,253	$96,894
Cost of sales	72,799	68,519	65,986
Research and development expenses	10,035	9,545	9,148
Selling and administrative expenses	22,359	20,441	17,226
Repositioning expenses (credit)	—	2,074	(320)
	105,193	100,579	92,040
Operating income (loss)	11,688	(15,326)	4,854
Other income (expense)			
Interest expense	(471)	(554)	(743)
Interest income	396	415	372
Other (expense) income, net	(166)	(107)	(20)
	(241)	(246)	(391)
Income (loss) before income taxes	11,447	(15,572)	4,463
Provision for income taxes (Note 6)	1,145	—	669
Net income (loss)	$ 10,302	$ (15,572)	$ 3,794

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

6. Income Taxes

Income (loss) before income taxes consisted of (in thousands):

	1998	1997	1996
Domestic	$11,027	$(13,520)	$3,553
Foreign	420	(2,052)	910
	$11,447	$(15,572)	$4,463

The provision for income taxes consisted of (in thousands):

	1998	1997	1996
Current income taxes			
Federal	$ 221	$ —	$ 69
State	683	(119)	108
Foreign	241	119	492
	$1,145	$ —	$669

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):

	1998	1997	1996
Tax expense (benefit) at U.S. statutory rate	$3,892	$(5,294)	$1,517
Alternative minimum tax	221	—	—
State income taxes, net of federal benefit	451	79	71
Change in valuation allowance	(3,375)	5,189	(882)
Other net	(44)	26	(37)
	$1,145	$ —	$ 669

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 29, 1998 and March 30, 1997 are as follows (in thousands):

	1998	1997
Deferred tax assets:		
Accounts receivable due to bad debts	$ 235	$ 195
Inventories due to reserves and inventory capitalization	1,238	1,417
Accrued liabilities	2,494	1,584
Deferred compensation	140	102
Other	24	7
Net operating loss carryforward	8,723	13,109
Charitable contribution carryforward	30	37
Minimum tax credits and state tax credit carryforwards	1,045	555
Total gross deferred tax assets	13,929	17,006
Less valuation allowance	(10,128)	(13,503)
Net deferred tax assets	3,801	3,503
Deferred tax liabilities:		
Property, plant and equipment due to depreciation	(3,801)	(3,503)
Total gross deferred tax liability	(3,801)	(3,503)
Net deferred tax	$ —	$ —

The valuation allowance for deferred tax assets as of March 29, 1998 and March 30, 1997 was $10.1 million and $13.5 million, respectively. The net change in the total valuation allowance for the years ended March 29, 1998 and March 30, 1997 was a decrease of $3.4 million and an increase of $5.2 million, respectively.

Cash payments for income taxes were $342 thousand, $149 thousand and $241 thousand in fiscal 1998, 1997 and 1996, respectively. As of March 29, 1998, the Company has available for income tax purposes approximately $26 million 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 Company'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 $264 thousand 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 $781 thousand of which $244 thousand is available to reduce state income taxes over an indefinite period.

The Company has not recognized a deferred tax liability of approximately $306 thousand for the undistributed earnings of its 100 percent owned foreign subsidiaries that arose in 1998 and prior years because the Company currently does not expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable 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 29, 1998, the undistributed earnings of these subsidiaries were approximately $899 thousand.

CURTISS-WRIGHT CORPORATION (DEC)

(In thousands)	1998	1997	1996
Net sales	$249,413	$219,395	$170,536
Cost of sales	167,399	143,706	117,067
Gross profit	82,014	75,689	53,469
Research and development costs	1,346	1,877	997
Selling expenses	11,606	7,979	6,337
General and administrative expenses	34,277	32,694	28,207
Environmental remediation and administrative expenses, net of recovery	(1,562)	3,132	2,397
Operating income	36,347	30,007	15,531
Investment income, net	3,206	3,432	2,968
Rental income, net	3,299	3,342	2,816
Pension income, net	5,126	3,312	3,651
Other income (expense), net	87	2,193	(450)
Interest expense	485	387	387
Earnings before income taxes	47,580	41,899	24,129
Provision for income taxes	18,527	14,014	8,020
Net earnings	$ 29,053	$ 27,885	$ 16,109

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Income Taxes

There was no valuation allowance recorded in 1998 because it is more likely than not that all deferred tax assets will be realized. During 1997, the Corporation fully utilized its capital loss carryforward of $3,252,000 that would have expired on December 31, 1997. In 1997, the valuation allowance that was established to offset this deferred tax asset was reversed. The net change to the valuation allowance for deferred tax assets was a decrease of $1,212,000 in 1997 from the utilization of all remaining loss carryforwards.

Earnings before income taxes for the years ended December 31 are:

(In thousands)	1998	1997	1996
Domestic	$33,320	$29,965	$15,195
Foreign	14,260	11,934	8,934
Total	$47,580	$41,899	$24,129

The provisions (benefits) for taxes on earnings for the years ended December 31 consist of:

(In thousands)	1998	1997	1996
Current:			
Federal	$ 8,835	$ 7,523	$4,041
State	3,045	4,197	3,388
Foreign	5,019	1,910	995
	16,899	13,630	8,424
Deferred:			
Federal	1,231	332	3
State	397	126	(236)
	1,628	458	(233)
Federal income tax on net capital gains	—	1,135	184
Utilization of capital loss carry-forwards	—	(1,135)	(184)
Valuation allowance	—	(74)	(171)
Provision for income tax	$18,527	$14,014	$8,020

The effective tax rate varies from the U.S. Federal statutory tax rate for the years ended December 31 principally due to the following:

	1998	1997	1996
U.S. Federal statutory tax rate	35.0%	35.0%	35.0%
Add (deduct):			
Utilization of capital loss carry-forward	—	(2.7)	(.8)
Dividends receive deduction and tax exempt income	(1.4)	(1.2)	(2.3)
State and local taxes	4.7	3.3	1.7
Valuation allowance	—	(.2)	(.7)
All other	.6	(.8)	.3
Effective tax rate	38.9%	33.4%	33.2%

The components of the Corporation's deferred tax assets and liabilities at December 31 are as follows; however, 1997 figures have been reclassified for reporting purposes.

(In thousands)	1998	1997
Deferred tax assets:		
Environmental cleanup	$ 6,428	$ 6,838
Postretirement/employment benefits	4,065	4,177
Inventories	3,805	3,674
Supplemental retirement plans	1,000	869
Vacation pay	932	816
Legal matters	754	1,356
Other	4,002	3,314
Total deferred tax assets	20,986	21,044
Deferred tax liabilities:		
Pension	17,901	15,798
Depreciation	3,773	4,225
Gain on sale of properties	750	753
Other	435	261
Total deferred tax liabilities	22,859	21,037
Deferred tax asset valuation allowance	—	—
Net deferred tax assets (liabilities)	$(1,873)	$ 7

Deferred tax assets and liabilities are reflected on the Corporation's consolidated balance sheets at December 31 as follows:

(in thousands)	1998	1997
Current deferred tax assets	$ 7,841	$ 8,806
Non-current deferred tax liabilities	(9,714)	(8,799)
Net deferred tax assets (liabilities)	$(1,873)	$ 7

Income tax payments of $16,321,000 were made in 1998, $12,432,000 in 1997, and $8,553,000 in 1996.

HALLIBURTON COMPANY (DEC)

(Millions of dollars)	1998	1997	1996
Revenues:			
Services	$12,089.4	$11,256.3	$ 9,461.1
Sales	5,069.9	4,857.0	4,351.7
Equity in earnings of unconsolidated affiliates	193.8	163.2	133.8
Total revenues	$17,353.1	$16,276.5	$13,946.6
Operating costs and expenses:			
Cost of services	$11,058.8	$10,163.9	$ 8,708.0
Cost of sales	4,317.6	4,032.7	3,628.3
General and administrative	600.1	665.0	621.3
Special charges and credits	980.1	16.2	85.8
Total operating costs and expenses	16,956.6	14,877.8	13,043.4
Operating income	396.5	1,398.7	903.2
Interest expense	(136.8)	(111.3)	(84.6)
Interest income	27.8	21.9	26.9
Foreign currency losses	(12.4)	(0.7)	(19.1)
Other nonoperating income, net	3.7	4.5	4.6
Income before income taxes and minority interest	278.8	1,313.1	831.0
Provision for income taxes	(244.4)	(491.4)	(248.4)
Minority interest in net income of consolidated subsidiaries	(49.1)	(49.3)	(24.7)
Net income (loss)	$ (14.7)	$ 772.4	$ 557.9

NOTES TO ANNUAL FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Income Taxes

A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefit, or that future deductibility is uncertain. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been realized in the financial statements or tax returns.

6. Income Taxes

The components of the (provision) benefit for income taxes are:

(Millions of dollars)	1998	1997	1996
Current income taxes			
Federal	$(301.8)	$(167.2)	$(82.0)
Foreign	(228.5)	(306.1)	(169.8)
State	(7.5)	(15.5)	(10.0)
Total	(537.8)	(488.8)	(261.8)
Deferred income taxes			
Federal	291.8	5.4	61.2
Foreign and state	1.6	(8.0)	(47.8)
Total	293.4	(2.6)	13.4
Total	$(244.4)	$(491.4)	$(248.4)

Included in federal income taxes are foreign tax credits of $182.2 million in 1998, $154.0 million in 1997 and $109.2 million in 1996. The United States and foreign components of income (loss) before income taxes and minority interests are as follows:

(Millions of dollars)	1998	1997	1996
United States	$(306.4)	$ 736.8	$484.2
Foreign	585.2	576.3	346.8
Total	$ 278.8	$1,313.1	$831.0

The primary components of the Company's deferred tax assets and liabilities and the related valuation allowances are as follows:

(Millions of dollars)	1998	1997
Gross deferred tax assets		
Employee benefit plans	$314.9	$334.4
Special charges	135.3	—
Accrued liabilities	93.5	79.4
Insurance accruals	74.8	71.5
Construction contract accounting methods	93.0	70.6
Inventory	59.8	37.4
Intercompany profit	38.5	39.3
Net operating loss carryforwards	38.5	46.7
Intangibles	30.5	—
Foreign tax credits	—	21.2
Alternative minimum tax carryforward	15.1	15.1
All other	125.7	80.1
Total	1,019.6	795.7
Gross deferred tax liabilities		
Depreciation and amortization	85.0	124.5
Unrepatriated foreign earnings	25.5	35.6
Safe harbor leases	10.4	11.0
All other	99.6	85.0
Total	220.5	256.1
Valuation allowances		
Net operating loss carryforwards	26.3	30.7
All other	3.7	33.3
Total	30.0	64.0
Net deferred income tax asset	$769.1	$475.6

The Company has provided for the potential repatriation of certain undistributed earnings of its foreign subsidiaries and considers earnings above the amounts on which tax has been provided to be permanently reinvested. While these additional earnings could become subject to additional tax if repatriated, such a repatriation is not anticipated. Any additional amount of tax is not practicable to estimate.

The Company has net operating loss carryforwards which expire as follows: 1999 through 2003, $49.3 million; 2004 through 2008, $18.8 million; 2009 through 2010, $1.9 million. The Company also has net operating loss carryforwards of $43.6 million with indefinite expiration dates. Reconciliations between the actual provision for income taxes and that computed by applying the U.S. statutory rate to income from continuing operations before income taxes and minority interest are as follows:

(Millions of dollars)	1998	1997	1996
Provision computed at statutory rate	$(97.6)	$(459.6)	$(290.9)
Reductions (increases) in taxes resulting from:			
Tax differentials on foreign earnings	(19.8)	(4.3)	14.2
State income taxes, net of federal income tax benefit	(7.8)	(12.0)	(7.0)
Net operating losses	—	—	22.7
Special charges	(109.0)	(3.0)	(3.0)
Federal income tax settlement	—	—	16.1
Nondeductible goodwill	(12.2)	(12.5)	(8.9)
Other items, net	2.0	—	8.4
Total	$(244.4)	$(491.4)	$(248.4)

The Company has received statutory notices of deficiency for the 1990 and 1991 tax years from the Internal Revenue Service (IRS) of $92.9 million and $16.8 million, respectively, excluding any penalties or interest. The Company believes it has meritorious defenses and does not expect that any liability resulting from the 1990 or 1991 tax years will result in a material adverse effect on its results of operations or financial position. In 1996, the Company reached settlements with the IRS for certain matters including the 1989 taxable year. As a result of the settlement for the 1989 taxable year, the Company recognized tax benefits and net income was increased by $16.1 million in 1996.

SPS TECHNOLOGIES, INC. (DEC)

(Thousands of dollars)	1998	1997	1996
Net sales	$716,605	$588,616	$485,903
Cost of goods sold	533,770	460,159	386,403
Gross profit	162,835	128,457	99,500
Selling, general and administrative expense	83,501	70,379	61,322
Operating earnings	79,334	58,078	38,178
Other income (expense):			
Interest income	947	1,002	621
Interest expense	(10,860)	(8,998)	(7,989)
Equity in earnings (loss) of affiliates	(2,442)	230	853
Minority interest	(523)	(224)	(100)
Other, net	114	(788)	(513)
	(12,764)	(8,778)	(7,128)
Earnings before income taxes	66,570	49,300	31,050
Provision for income taxes	22,000	16,800	8,750
Net earnings	$ 44,570	$ 32,500	$ 22,300

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Thousands of dollars)

11. Income Taxes

The components of the provision for income taxes were as follows:

	1998	1997	1996
Currently payable:			
United States			
Federal	$13,203	$ 7,592	$1,205
State and local	1,947	940	500
Non-United States	3,176	1,071	1,810
	18,326	9,603	3,515
Deferred:			
United States			
Federal	4,646	4,774	3,557
State and local	313	196	150
Non-United States	(1,285)	2,227	1,528
	3,674	7,197	5,235
	$22,000	$16,800	$8,750

The tax expense that results from allocating certain tax benefits to reduce goodwill of an acquired entity was $407 in 1997. The income tax benefits of the employee stock option compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes credited to additional paid-in capital was $2,340 in 1998, $2,356 in 1997 and $1,534 in 1996.

The components of earnings from operations before income taxes were as follows:

	1998	1997	1996
United States	$58,652	$41,783	$25,114
Non-United States	7,918	7,517	5,936
	$66,570	$49,300	$31,050

Temporary differences comprising the net deferred income tax asset (liability) on the consolidated balance sheets were as follows:

	1998	1997
Inventory	$ 9,063	$ 7,313
Post-retirement benefits other than pensions	4,321	4,493
Other employee benefits and compensation	7,570	6,330
Alternative minimum tax credits	6	1,072
Advance corporate tax	913	148
Accrued expenses	3,305	3,768
Net operating loss carry forwards	7,432	4,256
Valuation allowances	(8,043)	(7,291)
Deferred income tax asset	24,567	20,089
Depreciation	(17,325)	(11,882)
Pension benefits	(4,526)	(4,161)
Other, net	(3,398)	(1,769)
Deferred income tax liability	(25,249)	(17,812)
Net deferred income tax asset (liability)	$ (682)	$ 2,277

Realization of the deferred tax asset is dependent on generating sufficient taxable income prior to expiration of any net operating loss carryforwards (NOL's). Although realization is not assured, management believes it is more likely than not that the recorded deferred tax asset, net of valuation allowance provided, will be realized. At December 31, 1998, the Company had the following NOL's available in the indicated geographic areas with the following expiration dates:

Brazil	$12,600	No expiration date
England	6,700	No expiration date
United States	1,300	Begin to expire in 2009
Australia	1,200	No expiration date

The NOL's available in England and the United States relate to operating losses of businesses acquired in 1998 and 1997. These losses must be used to offset future taxable income of the acquired businesses and are not available to offset taxable income of other subsidiaries located in these countries. The valuation allowance at December 31, 1998 relates to certain state and non-United States tax jurisdictions. The net change in the valuation allowance for 1998 results primarily from an increase in valuation allowances for additional NOL's generated by the Company's Brazilian subsidiary, net of the release of valuation allowance related to a 1996 business acquisition based on the re-evaluation of the likelihood of the realization of future benefits. Included in the valuation allowance at December 31, 1998 and 1997 is $255 for deferred tax assets for which subsequently recognized tax benefits, if any, will be allocated to reduce goodwill of an acquired entity.

The following sets forth the differences between the provision for income taxes computed at the United States federal statutory income tax rate of 35 percent and that reported for financial statement purposes:

	1998	1997	1996
Provision computed at the United States federal statutory income tax rate	$23,300	$17,255	$10,868
Earnings of certain subsidiaries taxed at different rates	(2,213)	(1,504)	(934)
Benefit of cash repatriation from non-United States subsidiaries	(494)	—	—
Permanent items	(227)	345	973
State income tax, net of federal benefit	1,374	583	246
Valuation allowances	752	150	(2,417)
Other, net	(492)	(29)	14
Provision for income taxes	$22,000	$16,800	$ 8,750

United States income taxes have not been provided on unremitted earnings of certain subsidiaries located outside the United States of approximately $33,800 because, in management's opinion, such earnings have been indefinitely reinvested in these operations, will be remitted in a tax-free liquidation, or will be remitted as dividends with taxes substantially offset by foreign tax credits. It is not practical to determine the amount of unrecognized deferred tax liabilities for temporary differences related to investments in these non-United States subsidiaries.

WAXMAN INDUSTRIES, INC. (JUN)

(In thousands)	1998	1997	1996
Net sales	$105,662	$120,081	$235,067
Cost of sales	69,429	86,425	160,556
Gross profit	36,233	33,656	74,511
Selling, general and administrative expenses	30,290	34,996	70,628
Restructuring and other non-recurring charges	24	746	19,507
Operating income (loss)	5,919	(2,086)	(15,624)
Gain on sale of Barnett stock	—	16,693	65,917
Equity earnings of Barnett	6,341	5,843	—
Interest expense, net of interest income	16,031	16,477	24,264
Income (loss) from continuing operations before income taxes, minority interest, discontinued operation, extraordinary loss and cumulative effective of change in accounting	(3,771)	3,973	26,029
Provision for income taxes	537	401	2,395
Income (loss) from continuing operations before minority interest, discontinued operation, extraordinary loss and cumulative effect of change in accounting	(4,308)	3,572	23,634

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Income Taxes

The Company accounts for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires the Company to recognize income tax benefits for loss carryforwards which have not previously been recorded. The tax benefits recognized must be reduced by a valuation allowance in certain circumstances. The benefit of the Company's net operating loss carryforwards have been reduced 100% by a valuation allowance.

The components of income (loss) from continuing operations before income taxes, minority interest, discontinued operation, extraordinary loss and cumulative effect of change in accounting are as follows (in thousands of dollars):

	Fiscal Year Ended June 30,		
	1998	1997	1996
Domestic	$(5,297)	$2,569	$27,279
Foreign	1,526	1,404	(1,250)
Total	$(3,771)	$3,973	$26,029

The components of the provision for income taxes are (in thousands of dollars):

	Fiscal Year Ended June 30, 1998	1997	1996
Currently payable:			
U.S. Federal	$ —	$210	$1,673
Foreign and other	537	191	1,222
Total current	537	401	2,895
Deferred: Federal	—	—	(500)
Total provision	$537	$401	$2,395

Barnett is not included in the Company's consolidated tax return for periods subsequent to the Barnett Initial Public Offering in April 1996.

The following table reconciles the U.S. statutory rate to the Company's effective tax rate:

	Fiscal Year Ended June 30, 1998	1997	1996
U.S. statutory rate	35.0%	35.0%	35.0%
Domestic losses not benefited	(43.9)	—	—
State taxes, net	(4.0)	2.1	3.3
Goodwill amortization	(1.1)	3.1	19.0
Foreign tax items	6.2	1.0	1.3
Change in valuation allowance	—	(38.3)	(49.9)
Original issue discount	(5.8)	4.8	—
Other, net	(0.6)	2.4	0.5
Effective tax rate	(14.2%)	10.1%	9.2%

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The deferred tax assets and liabilities as of June 30, 1998 and 1997 are as follows (in thousands of dollars):

	1998	1997
Net operating loss carryforwards	$ 18,433	$ 16,333
Original issue discount	11,113	7,872
Accrued expenses	1,206	1,283
Inventories	1,270	1,995
Accounts receivable	389	460
Alternative minimum tax credit	895	908
Other	372	435
Deferred tax assets	33,678	29,286
Investment in subsidiaries	(9,825)	(7,605)
Property	(494)	(245)
Other assets	(27)	(30)
Deferred tax liabilities	(10,346)	(7,880)
	23,332	21,406
Valuation allowance	(23,332)	(21,406)
	$ —	$ —

At June 30, 1998, the Company has $52.7 million of available domestic net operating loss carryforwards for income tax purposes, which expire 2008 through 2013. The Company also has alternative minimum tax carryforwards of approximately $0.9 million at June 30, 1998, which are available to reduce future regular income taxes over an indefinite period.

At June 30, 1998 the Company's net deferred tax assets are fully offset by a valuation allowance. The Company will continue to assess the valuation allowance and to the extent it is determined that such allowance is no longer required, the tax benefit of the remaining net deferred tax assets will be recognized in the future.

The Company made income tax payments of $0.3 million in fiscal 1998, $1.3 million in fiscal 1997 and $0.8 million in fiscal 1996. Refunds received totaled $39,000 in fiscal 1998, $47,000 in fiscal 1997 and $15,000 in fiscal 1996.

Credit Provision

IOMEGA CORPORATION (DEC)

(In thousands)	1998	1997	1996
Sales	$1,694,385	$1,739,972	$1,212,769
Cost of sales	1,271,451	1,192,310	879,989
Gross margin	422,934	547,662	332,780
Operating expenses:			
Selling, general and administrative	386,304	291,930	190,719
Research and development	101,496	78,026	42,101
Purchased in-process technology	11,100	—	—
Total operating expenses	498,900	369,956	232,820
Operating income (loss)	(75,966)	177,706	99,960
Interest income	4,239	6,931	3,080
Interest expense	(10,163)	(6,443)	(8,875)
Other expense	(1,535)	(879)	(182)
Income (loss) before income taxes	(83,425)	177,315	93,983
Benefit (provision) for income taxes	29,203	(61,963)	(36,655)
Net income (loss)	$ (54,222)	$ 115,352	$ 57,328

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Operations and Significant Accounting Policies

Income Taxes

The Company recognizes a liability or asset for the deferred tax consequences of temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements. These temporary differences will result in taxable or deductible amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. The deferred tax assets are reviewed periodically for recoverability and valuation allowances are provided, as necessary.

4. *Income Taxes*

Income (loss) before income taxes consisted of the following:

(In thousands)	1998	December 31, 1997	1996
U.S.	$(74,120)	$ 89,864	$88,095
Non-U.S.	(9,305)	87,451	5,888
	$(83,425)	$177,315	$93,983

The income tax benefit (provision) consists of the following:

(In thousands)	1998	December 31, 1997	1996
Current income taxes:			
U.S. Federal	$26,418	$(48,303)	$(36,341)
U.S. State	3,559	(6,141)	(4,153)
Non-U.S.	(497)	(2,183)	(1,278)
	29,480	(56,627)	(41,772)
Deferred income taxes:			
U.S. Federal	(247)	(4,790)	(201)
U.S. State	(30)	(546)	(23)
Non-U.S.	9,525	—	(6,000)
Change in valuation allowance	(9,525)	—	11,341
	(277)	(5,336)	5,117
Benefit (provision) for income taxes	$29,203	$(61,963)	$(36,655)

The tax benefits associated with nonqualified stock options and disqualifying dispositions of incentive stock options increased the current tax receivable by $7.4 million in 1998, and reduced taxes currently payable by $5.8 million and $24.3 million in 1997 and 1996, respectively. Such benefits were recorded as an increase to additional paid-in capital.

Deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities. They are measured by applying the enacted tax rates and laws in effect for the years in which such differences are expected to reverse. The significant components of the Company's deferred tax assets and liabilities are as follows:

(In thousands)	December 31, 1998	1997
Deferred tax assets:		
Accounts receivable	$17,405	$10,461
Inventory	4,752	3,743
Fixed asset	2,412	1,297
Accrued expense	28,112	29,505
Foreign tax credits	2,366	2,183
Accelerated depreciation	1,843	—
Foreign net operating loss carryovers	9,525	—
Other	531	807
Total deferred tax assets	66,946	47,996
Valuation allowance	(9,525)	—
Total net deferred tax assets	$57,421	$47,996
Deferred tax liabilities:		
Tax on unremitted foreign earnings	$12,497	$ 9,665
Accelerated depreciation	—	669
Total net deferred tax liabilities	12,497	10,334
Total net deferred tax assets	$44,924	$37,662
As reported in the balance sheet:		
Deferred tax assets	$49,827	$47,996
Deferred tax liabilities	4,903	10,334
	$44,924	$37,662

The Company has established a valuation allowance for net operating loss carryovers related to certain foreign operations. Management believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the realizability of these foreign net operating loss carryovers. These carryovers are dependent upon future income related to these foreign operations.

Although realization of the net deferred tax assets is not assured, management believes that it is more likely than not that all of the net deferred tax assets will be realized. The amount of net deferred tax assets considered realizable, however, could be reduced in the near term based on changing conditions.

The differences between the benefit (provision) for income taxes at the U.S. statutory rate and the Company's effective rate are summarized as follows:

(In thousands)	December 31 1998	1997	1996
Benefit (provision) at U.S. statutory rate	$29,199	$(62,061)	$(32,894)
Non-deductible items	(5,424)	(792)	(1,566)
State income taxes, net of federal benefit	3,337	(7,093)	(4,923)
Decrease (increase) in deferred asset valuation allowance	(9,525)	—	11,341
Foreign income taxes	(497)	(2,183)	(7,610)
Foreign earnings taxed at less than U.S. rates	17,589	11,598	—
Other	(5,476)	(1,432)	(1,003)
Benefit (provision) for income taxes	$29,203	$(61,963)	$(36,655)

Cash paid for income taxes was $28.5 million in 1998, $34.4 million in 1997 and $49.0 million in 1996. The Company also received tax refunds of approximately $29.9 million during 1998.

U.S. taxes have not been provided for unremitted foreign earnings of $74.8 million. These earnings are considered to be permanently invested in non-U.S. operations. The residual U.S. tax liability, if such amounts were remitted, would be approximately $29.2 million.

THE LAMSON & SESSIONS CO. (DEC)

(Dollars in thousands)	1998	1997	1996
Net sales	$270,914	$271,780	$289,052
Cost of products sold	218,097	226,449	227,778
Gross profit	52,817	45,331	61,274
Selling, general and administrative expenses	43,897	47,826	49,135
Operating income (loss)	8,920	(2,495)	12,139
Interest expense	(4,341)	(3,768)	(2,611)
Income (loss) before income taxes and cumulative effect of accounting change	4,579	(6,263)	9,528
Income tax benefit	2,100	1,550	4,100
Income (loss) before cumulative effect of accounting change	6,679	(4,713)	13,628

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Accounting Policies

Income Taxes

The Company accounts for income taxes using the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." Investment tax credits are recorded using the flow-through method.

H. Income Taxes

The Company has recognized net federal income tax benefits as follows:

(Dollars in thousands)	1998	1997	1996
Current	—	$ (100)	$ 200
Deferred	$(2,100)	(1,450)	(4,300)
	$(2,100)	$(1,550)	$(4,100)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

(Dollars in thousands)	Fiscal Years 1998	1997
Deferred tax assets:		
Net operating loss carryforwards	$18,200	$17,700
Other accruals, credits and reserves	8,100	7,200
General business and alternative minimum tax credits	2,700	2,700
Post-retirement benefits other than pensions	7,000	7,000
	36,000	34,600
Less: valuation allowance	(14,500)	(18,800)
Total deferred tax assets	21,500	15,800
Deferred tax liabilities:		
Tax in excess of book depreciation	5,750	4,350
Pensions	4,000	1,800
Total deferred tax liabilities	9,750	6,150
Total net deferred tax assets	$11,750	$9,650

The valuation allowance for net deferred tax assets decreased by $4,300,000 in 1998. The reduction was the result of net changes in temporary differences and the reversal of $2,100,000 of the valuation allowance, based on improved operating results in 1998 and projected operating results in 1999. The Company has available net operating loss carryforwards totaling approximately $52 million which expire in the years 2001 to 2012. The Company also has available general business tax credit carryforwards of $1.8 million which expire through 2012 and alternative minimum tax credit carryforwards of approximately $1 million which may be carried forward indefinitely.

The provision for income taxes is different than the amount computed using the applicable statutory federal income tax rate with the differences summarized below:

(Dollars in thousands)	1998	Fiscal Years 1997	1996
Tax expense (benefit) at statutory rates	$ 1,603	$(3,921)	$ 3,335
Adjustment due to:			
Change in valuation allowance	(4,300)	1,900	(6,600)
Other	597	471	(835)
	$(2,100)	$(1,550)	$(4,100)

Income taxes paid in 1998 and 1996 were $11,000 and $282,000, respectively. In 1997, the Company received an income tax refund of $175,000.

SMURFIT-STONE CONTAINER CORPORATION (DEC)

(In millions)	1998	1997	1996
Net sales	$3,469	$2,936	$3,087
Costs and expenses			
Cost of goods sold	2,934	2,514	2,500
Selling and administrative expenses	342	247	255
Restructuring charge	257	—	—
Income (loss) from operations	(64)	175	332
Other income (expense)			
Interest expense, net	(247)	(196)	(198)
Other, net	4	(2)	(3)
Income (loss) from continuing operations before income taxes, minority interest, extraordinary item and cumulative effect of accounting change	(307)	(23)	131
Benefit from (provision for) income taxes	114	3	(52)
Minority interest expense	(1)	—	—
Income (loss) from continuing operations before extraordinary item and cumulative effect of accounting change	(194)	(20)	79
Discontinued operations			
Income from discontinued operations, net of income taxes of $6 in 1998, $14 in 1997 and $25 in 1996	10	21	38
Income (loss) before extraordinary item and cumulative effect of accounting change	(184)	1	117
Extraordinary item			
Loss from early extinguishment of debt, net of income tax benefit of $9 in 1998 and $3 in 1996	(13)	—	(5)
Cumulative effect of accounting change			
Start-up costs, net of income tax benefit of $2	(3)	—	—
Net income (loss)	$ (200)	$ 1	$ 112

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Tabular amounts in millions, except share data)

7. Income Taxes

Significant components of the Company's deferred tax assets and liabilities at December 31 are as follows:

	1998	1997
Deferred tax liabilities		
Property, plant and equipment and timberland	$(1,622)	$(414)
Inventory	2	(13)
Prepaid pension costs	(41)	(31)
Investments in affiliates	(57)	—
Other	(153)	(114)
Total deferred tax liabilities	(1,871)	(572)
Deferred tax assets		
Employee benefit plans	225	96
Net operating loss, alternative minimum tax and tax credit carryforwards	559	99
Deferred gain	23	—
Purchase accounting liabilities	103	—
Deferred debt issuance cost	52	—
Restructuring	49	—
Other	115	58
Total deferred tax assets	1,126	253
Valuation allowance for deferred tax assets	(208)	(11)
Net deferred tax assets	918	242
Net deferred tax liabilities	$ (953)	$(330)

At December 31, 1998, the Company had approximately $1,055 million of net operating loss carryforwards for U.S. Federal income tax purposes that expire from the years 2009 to 2018, with a tax value of $369 million. A valuation allowance of $153 million has been established for a portion of these deferred tax assets. Further, the Company had net operating loss carryforwards for state purposes with a tax value of $106 million, which expire from 1999 to 2018. A valuation allowance of $55 million has been established for a portion of these deferred tax assets. The Company had approximately $84 million of alternative minimum tax credit carryforwards for U.S. federal income tax purposes, which are available indefinitely.

Benefit from (provision for) income taxes from continuing operations before income taxes, minority interest, extraordinary item and cumulative effect of accounting change is as follows:

	1998	1997	1996
Current			
Federal	$ 11	$10	$(18)
State and local	3	—	—
Foreign	(5)	—	—
Total current benefit (expense)	9	10	(18)
Deferred			
Federal	91	(5)	1
State and local	11	(2)	5
Foreign	3	—	—
Net operating loss carryforwards	—	—	(40)
Total deferred benefit (expense)	105	(7)	(34)
Total benefit from (provision for) income taxes	$114	$ 3	$(52)

The Company's benefit from (provision for) income taxes differed from the amount computed by applying the statutory U.S. federal income tax rate to income (loss) from continuing operations before income taxes, minority interest, extraordinary items, and cumulative effect of accounting change as follows:

	1998	1997	1996
U.S. federal income tax benefit (provision) at federal statutory rate	$107	$8	$(46)
Permanent differences from applying purchase accounting	(6)	(3)	(3)
Permanently non-deductible expenses	(2)	(8)	3
State income taxes, net of federal income tax effect	14	2	—
Effect of valuation allowances on deferred tax assets, net of federal benefit	1	7	(5)
Other	—	(3)	(1)
Total benefit from (provision for) income taxes	$114	$3	$(52)

The components of the income (loss) from continuing operations before income taxes, minority interests, extraordinary item and change in accounting method are as follows:

	1998	1997	1996
United States	$(309)	$23	$131
Foreign	2	—	—
Income (loss) from continuing operations before income taxes, minority interest, extraordinary item and change in accounting method	$(307)	$23	$131

The federal income tax returns for 1989 through 1994 are currently under examination. While the ultimate results of such examination cannot be predicted with certainty, the Company's management believes that the examination will not have a material adverse effect on its consolidated financial condition or results of operations.

The Company made income tax payments of $22 million, $8 million and $39 million in 1998, 1997 and 1996, respectively.

VENATOR GROUP, INC. (JAN)

(In millions)	1998	1997	1996
Sales	$4,555	$4,612	$4,504
Costs and expenses			
Cost of sales	3,333	3,127	3,020
Selling, general and administrative expenses	1,166	1,008	975
Depreciation and amortization	152	122	114
Interest expense, net	44	35	50
	4,695	4,292	4,159
Other income, net	(101)	(13)	(3)
	4,594	4,279	4,156
Income (loss) from continuing operations before income taxes	(39)	333	348
Income tax expense (benefit)	(42)	120	139
Income from continuing operations	$3	$213	$209
Loss from discontinued operations, net of income tax benefit of $(14), $(13) and $(28), respectively	(26)	(28)	(40)
Net loss on disposal of discontinued operations, net of income tax expense (benefit) of $57 and $(115), respectively	(113)	(195)	—
Net income (loss)	$ (136)	$ (10)	$ 169

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Income Taxes

The Company determines its deferred tax provision under the liability method, whereby deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using presently enacted tax rates. Deferred tax assets are recognized for tax credit and net operating loss carryforwards, reduced by a valuation allowance which is established when "it is more likely than not" that some portion or all of the deferred tax assets will not be realized. 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.

Provision for U.S. income taxes on undistributed earnings of foreign subsidiaries is made only on those amounts in excess of the funds considered to be permanently reinvested.

16. Income Taxes

Following are the domestic and international components of pre-tax income (loss):

(In millions)	1998	1997	1996
Domestic	$(19)	$287	$313
International	(20)	46	35
Total pre-tax	$(39)	$333	$348

The income tax (benefit) provision consists of the following:

(In millions)	1998	1997	1996
Current:			
Federal	$(70)	$ 68	$ 75
State and local	(2)	16	23
International	—	26	19
Total current tax provision (benefit)	(72)	110	117
Deferred:			
Federal	27	18	14
State and local	2	(9)	—
International	1	1	8
Total deferred tax provision	30	10	22
Total income tax provision (benefit)	$(42)	$120	$139

Provision has been made in the accompanying Consolidated Statements of Operations for additional income taxes applicable to dividends received or expected to be received from international subsidiaries. The amount of unremitted earnings of international subsidiaries, for which no such tax is provided and which is considered to be permanently reinvested in the subsidiaries, totaled $216 million at January 30, 1999.

A reconciliation of the significant differences between the federal statutory income tax rate and the effective income tax rate on pre-tax income (loss) is as follows:

	1998	1997	1996
Federal statutory income tax rate	(35.0)%	35.0%	35.0%
State and local income taxes, net of federal tax benefit	—	4.4	4.6
International income taxed at varying rates	9.3	1.4	1.7
Foreign tax credit utilization	(150.7)	0.9	2.7
Increase (decrease) in valuation allowance	17.7	(4.3)	—
Work opportunity credit	(0.6)	—	—
Gain on surrender of company-owned life insurance	48.5	—	—
Goodwill amortization	7.4	—	—
Other, net	(4.3)	(1.4)	(3.9)
Effective income tax rate	(107.7)%	36.0%	40.1%

Items that gave rise to significant portions of the deferred tax accounts are as follows:

(In millions)	1998	1997
Deferred tax assets:		
Tax loss/credit carryforwards	$157	$167
Employee benefits	116	127
Discontinued operations	120	60
Repositioning and restructuring	18	32
Property and equipment	86	50
Other	—	6
Total deferred tax assets	497	442
Valuation allowance	(87)	(44)
Total deferred tax assets, net	410	398
Deferred tax liabilities:		
Inventories	14	37
Other	16	—
Total deferred tax liabilities	30	37
Net deferred tax asset	$380	$361
Balance sheet caption reported in:		
Other current assets	$ 22	$ 25
Deferred taxes	358	336
	$380	$361

As of January 30, 1999, the Company had a valuation allowance of $87 million to reduce its deferred tax assets to estimated realizable value. The valuation allowance primarily relates to the deferred tax assets arising from state tax loss carryforwards of certain domestic operations, tax loss carryforwards of certain European operations and tax loss and capital loss carryforwards of the Canadian operations, as well as other discontinued operations. The net change in the total valuation allowance for the year ended January 30, 1999 was principally due to the potential expiration of foreign and state tax loss carryforwards.

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the temporary differences are anticipated to reverse, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the valuation allowances at January 30, 1999. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised.

At January 30, 1999, the Company had international operating loss carryfowards of approximately $222 million. Those expiring between 1999 and 2004 are $190 million and those that do not expire are $32 million. The Company has state net operating loss carryforwards with a potential tax benefit of $34 million, which principally relates to the 16 states where the Company does not file a combined return. These loss carryfowards expire between 1999 and 2018. Foreign tax credits of approximately $9 million expiring in 2002 are also available to the Company. The Company has U.S. Federal alternative minimum tax credits of approximately $18 million which do not expire.

No Provision

ALLIANT TECHSYSTEMS INC. (MAR)

(Amounts in thousands)	1998	1997	1996
Sales	$1,075,506	$1,089,397	$1,020,605
Cost of sales	881,237	907,695	834,298
Change in accounting estimate—environmental liabilities	—	17,442	—
Gross margin	194,269	164,260	186,307
Operating expenses:			
Research and development	12,447	16,207	14,126
Selling	37,757	35,778	33,143
General and administrative	52,011	41,881	40,186
Total operating expenses	102,215	93,866	87,455
Income from operations	92,054	70,394	98,852
Other income (expense):			
Interest expense	(27,621)	(35,102)	(39,279)
Interest income	3,090	716	1,852
Other, net	435	651	657
Total other expense	(24,096)	(33,735)	(36,770)
Income from continuing operations before income taxes	67,958	36,659	62,082
Income tax provision	—	—	13,658
Income from continuing operations	67,958	36,659	48,424
Discontinued operations:			
Income from discontinued operations, net of income taxes	—	4,819	5,617
Gain (loss) on disposal of discontinued operations, net of income taxes	225	17,681	(6,240)
Net income	$ 68,183	$ 59,159	$ 47,801

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

1 (In Part): Basis of Presentation and Significant Accounting Policies

Income Taxes

Deferred income taxes result from temporary differences between the basis of assets and liabilities recognized for differences between the financial statement and tax basis thereon, and for the expected future tax benefits to be derived from tax losses and tax credit carryforwards. A valuation allowance is recorded to reflect the likelihood of realization of deferred tax assets.

10. Income Taxes

The components of the Company's income tax provision consist of:

Years ended March 31	1998	1997	1996
Current:			
Federal	$—	$ —	$ —
State	—	—	—
Deferred	—	12,115	16,801
Income tax provision	$—	$12,115	$16,801

The items responsible for the differences between the federal statutory rate and the Company's effective rate are shown as follows:

Years ended March 31	1998	1997	1996
Income taxes computed at statutory federal rate	$23,864	$24,946	$26,729
State income taxes—net of federal impact	3,409	3,564	2,838
Permanent non-deductible costs	1,361	1,462	4,450
Unrecorded tax benefits	(28,634)	(17,857)	(17,216)
Income tax provision	$ —	$12,115	$16,801

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, and operating loss and tax credit carryforwards. Significant items comprising the net deferred tax asset shown on the statement of financial position are:

Years ended March 31	1998	1997
Deferred sales	$(29,243)	$(33,843)
Accelerated depreciation	(60,417)	(55,817)
Deferred income tax liabilities	(89,660)	(89,660)
Employee benefits	50,594	49,967
Restructuring and environmental	9,960	21,108
Research tax credits	25,228	22,400
Net operating loss carryforwards	37,634	50,891
Other	16,943	37,994
Deferred income tax assets	140,359	182,360
Valuation allowance	(31,917)	(73,918)
Net deferred income tax asset	$ 18,782	$ 18,782
Current deferred income tax asset	38,280	40,259
Noncurrent deferred income tax (liability)	(19,498)	(21,477)
Net deferred income tax asset	$ 18,782	$ 18,782

During fiscal 1998, the deferred tax asset valuation allowance decreased by $42,001. This decrease is primarily the result of the Company's analysis of the likelihood of realizing the future tax benefit of tax loss carryforwards and additional temporary differences. Realization of the net deferred tax asset (net of recorded valuation allowance) is dependent upon profitable operations and future reversals of existing taxable temporary differences. Although realization is not assured, the Company believes it is more likely than not that the net recorded benefits will be realized through the reduction of future taxable income. The amount of the net deferred tax assets considered realizable, however, could be reduced in the near term if actual future taxable income is lower than estimated, or if there are differences in the timing or amount of future reversals of existing taxable temporary differences.

Federal and state operating loss carryfowards for tax purposes, available to offset future taxable income, are $94,085 at March 31, 1998. These carryforwards begin to expire in 2008. Research tax credits available to offset future tax payments are $25,228, and begin to expire in 2006.

AMERICA ONLINE, INC. (JUN)

(Amounts in millions)	1998	1997	1996
Revenues:			
Online service revenues	$2,161	$1,429	$ 992
Advertising, commerce and other revenues	439	256	102
Total revenues	2,600	1,685	1,094
Costs and expenses:			
Cost of revenues	1,678	1,074	654
Marketing			
Marketing	374	422	220
Write-off of deferred subscriber acquistion costs	—	385	—
Product development	95	79	58
General and administrative	230	127	73
Amortization of goodwill and other intangible assets	14	6	7
Restructuring charges	34	49	—
Acquired research and development	80	—	17
Contract termination charge	—	24	—
Settlement charges	17	24	—
Total costs and expenses	2,522	2,190	1,029
Income (loss) from operations	78	(505)	65
Other income (expense), net	14	6	(3)
Income (loss) before provision for income taxes	92	(499)	62
Provision for income taxes	—	—	(32)
Net income (loss)	$ 92	$(499)	$ 30

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Income Taxes

The provision for income taxes is attributable to:

	Year ended June 30,		
(In millions)	1998	1997	1996
Income before provision for income taxes	$—	$—	$32
Charge in lieu of taxes attributable to the Company's stock option plans	—	—	32
	$—	$—	$32

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate to income before provision for income taxes. The sources and tax effects of the differences are as follows:

	Year ended June 30,		
(In millions)	1998	1997	1996
Income tax at the federal statutory rate of 35%	$32	$(175)	$21
State income tax, net of federal benefit	6	(15)	3
Nondeductible charge for purchased research and development	28	—	6
Valuation allowance changes affecting the provision for income taxes	(73)	187	1
Other	7	3	1
	$—	$—	$32

As of June 30, 1998, the Company has net operating loss carryforwards of approximately $1,014 million for tax purposes which will be available to offset future taxable income. If not used, these carryforwards will expire between 2001 and 2013. To the extent that net operating loss carryforwards, when realized, relate to stock option deductions, the resulting benefits will be credited to stockholders' equity.

The Company's income tax provision was computed based on the federal statutory rate and the average state statutory rates, net of the related federal benefit.

Deferred income taxes reflect the net 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 deferred tax assets and liabilities are as follows:

	June 30,	
(In millions)	1998	1997
Short term:		
Short term deferred tax assets:		
Restructure reserve	$ 23	$ 8
Valuation allowance	(18)	(7)
Total	$ 5	$ 1
Long term:		
Long term deferred tax liabilities:		
Capitalized software costs	(33)	(24)
Unrealized gain on available-for-sale securities	(89)	—
Total	(122)	(24)
Long term deferred tax assets:		
Net operationg loss carryforwards	385	300
Deferred network services credit	131	—
Valuation allowance	(399)	(275)
Total	117	25
Net long term deferred liabilities	$ (5)	$ (1)

The valuation allowance for deferred tax assets increased by $135 million in fiscal 1998. The increase in this allowance was primarily due to the current year exercise of stock options, which will result in future tax deductions. The related benefit of $309 million is recorded to stockholders' equity as it is realized. This increase was offset by (1) the generation of deferred tax liabilities of approximately $89 million arising from the tax effect of unrealized gains on available-for-sale securities, recorded against stockholders' equity and (2) the utilization of net operating losses relating to book taxable income of approximately $73 million resulting in valuation allowance changes affecting the provision for income taxes.

The Company has net operating loss carryforwards for tax purposes ("NOLs") and other deferred tax benefits that are available to offset future taxable income. Only a portion of the NOLs is attributable to operating activities. The remainder of the NOLs is attributable to tax deductions related to the exercise of stock options.

Prior to the third quarter of fiscal 1998, the Company followed the practice of computing its income tax expense using the assumption that current year stock option deductions were used first to offset its financial statement income. NOLs could then offset any excess of financial statement income over current year stock option deductions. Because stock option deductions are not recognized as an expense for financial reporting purposes, the tax benefit of stock option deductions must be credited to additional paid-in capital with an offsetting income tax expense recorded in the income statement.

The Company changed its accounting for income taxes to recognize the tax benefits from current and prior years' stock option deductions after utilization of NOLs from operations (i.e., NOLs determined without deductions for exercised stock options) to reduce income tax expense. Because stock option deductions would have been utilized for financial accounting purposes in prior years under both accounting methods due to the absence of NOLs from operations, this accounting change had no effect on 1997 and prior years' tax provisions or additional paid-in capital. The effect of this change was to increase net income and diluted earnings per share for the year ended June 30, 1998 by $73 million and $0.28, respectively.

The Company's deductible temporary differences related to operations and exercised stock options amounted to:

	June 30	
(In millions)	1998	1997
Operations	$442	$648
Stock options	$977	$163

When realization of the deferred tax asset is more likely than not to occur, the benefit related to the deductible temporary differences attributable to operations will be recognized as a reduction of income tax expense. The benefit related to the deductible temporary differences attributable to stock option deductions will be credited to additional paid-in capital.

PHOTO CONTROL CORPORATION (DEC)

	1998	1997	1996
Net sales	$10,014,685	$10,423,244	$14,211,920
Cost of sales	8,217,961	8,175,528	10,140,652
Gross profit	1,796,724	2,247,716	4,071,268
Expenses			
Marketing and administrative	1,838,609	2,820,346	2,804,186
Research, development and engineering	956,916	1,055,843	1,107,985
Interest	18,369	56,860	67,818
Provision for inventory losses	—	1,260,000	—
Moving cost	—	99,589	—
Gain on sale of building	—	(645,671)	—
	2,813,894	4,646,967	3,979,989
Income (loss) before income taxes	(1,017,170)	(2,399,251)	91,279
Income tax provision (benefit) (Note 6)	—	(140,000)	23,000
Net income (loss)	$(1,017,170)	$(2,259,251)	$ 68,279

NOTES TO FINANCIAL STATEMENTS

2 (In Part): Significant Accounting Policies

Income Taxes

Deferred income taxes are provided for expenses recognized in different time periods for financial reporting and income tax purposes. These differences consist primarily of deferred compensation that is not deductible for taxes and inventory which has a higher tax basis than for financial reporting purposes.

6. Income Taxes

The income tax provision (benefit) shown in the statement of operations is detailed below for each year ended December 31:

	1998	1997	1996
Current			
Federal	—	$(197,000)	$(58,000)
State	—	3,000	3,000
Deferred	—	54,000	78,000
	—	$(140,000)	$ 23,000

The income tax provision for continuing operations varied from the federal statutory tax rate as follows for each year ended December 31:

	1998	1997	1996
U.S. statutory rate	(34.0)%	(34.0)%	34.0%
Surtax exemption	—	—	(12.9)
State income taxes, net of federal income tax benefit	—	(3.0)	2.7
Miscellaneous items	—	—	1.4
Valuation allowance	34.0	31.2	—
	0%	(5.8)%	25.2%

The company has Federal tax loss carryforwards of approximately $1,200,000, which expire in varying amounts from 1999 through 2013.

The following summarizes the tax effects of the significant temporary differences which comprise the deferred tax asset for each year ended December 31:

	1998	1997
Inventory costs	$ 588,000	$ 495,000
Deferred compensation	222,000	137,000
Bad debt reserves	14,000	34,000
Accrued benefits	27,000	47,000
Accrued costs	53,000	41,000
Net operating loss carry forward	449,000	194,000
Net deferred tax asset	1,353,000	948,000
Valuation allowance	(1,193,000)	(748,000)
Net deferred income tax	$ 160,000	$ 200,000

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.

ANACOMP, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 (In Part): Income Taxes

The components of deferred tax assets and liabilities are as follows:

	September 30,	
(Dollars in thousands)	1998	1997
Net deferred tax asset:		
Tax effects of future temporary differences related to:		
Inventory	$ 5,000	$ 9,300
Reserves	6,500	4,700
Depreciation and amortization	3,500	1,900
Other	2,300	3,900
Net tax effects of future differences	17,300	19,800
Tax effects of carryforward benefits:		
Federal net operating loss carryforwards	62,000	59,900
Federal general business tax credits	1,100	3,200
Foreign tax credits	3,000	3,000
Tax effects of carryforwards	66,100	66,100
Tax effects of future taxable differences and carryforwards	83,400	85,900
Less deferred tax asset valuation allowance	(83,400)	(85,900)
Net deferred tax asset	$ —	$ —

At September 30, 1998, the Company has NOLs of approximately $155.1 million available to offset future U.S. taxable income. This amount will increase to $198.3 million as certain temporary differences reverse in future periods. Usage of these NOLs by the Company is limited to approximately $4 million annually. However, the Company may authorize the use of other tax planning techniques to utilize a portion of the remaining NOLs before they expire. In any event, the Company expects that substantial amounts of the NOLs will expire unused.

The Company has tax credit carryfowards of approximately $4.1 million. These tax credits are principally foreign tax credit carryforwards resulting from the repatriation of a portion of the Company's foreign subsidiaries' accumulated earnings and profits included in U.S. taxable income in 1996. The Company expects that these credits will expire unused.

ASARCO INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Taxes on Income

Deferred Tax Assets (Liabilities)

Temporary differences and carryforwards which give rise to deferred tax assets, liabilities and related valuation allowances were:

	At December 31,	
(In millions)	1998	1997
Current:		
Reserve for closed plant and environmental matters	$ 15.2	$ 7.2
Inventories	6.0	5.3
Other	13.0	6.6
Net deferred tax asset	$ 34.2	$ 19.1
Noncurrent:		
Tax effect of regular net operating losses	$200.8	$ 119.0
Reserve for closed plant and environmental matters	9.2	22.2
Postretirement benefit obligation	38.1	36.6
Alternative minimum tax credit carryforwards	23.7	39.8
Foreign tax credit carryforwards	23.4	26.1
Previously taxed income	7.3	6.1
Capitalized leases	16.3	21.1
Pension obligation	(15.8)	(17.5)
Property, plant and equipment	(306.7)	(314.1)
Investments—Grupo Mexico	(12.8)	(12.8)
Other	(3.9)	(7.2)
Valuation allowance for deferred tax assets	(35.6)	(37.6)
Net deferred tax liability	(56.0)	(118.3)
Total net deferred tax liability	$ (21.8)	$ (99.2)

At December 31, 1998, the Company had $573.7 million of net operating loss carryfowards which expire, if unused, in years 2008 through 2018 and $23.7 million of alternative minimum tax credits ($12.2 million available solely to SPCC) which are not subject to expiration. The net operating loss carryforwards are available solely to Asarco and not to SPCC. The Company believes that, except for the SPCC credits, it is more likely than not that these carryforwards will be available to reduce future federal income tax liabilities. Management can and would implement tax planning strategies to prevent these carryforwards from expiring. After recording the benefit of these carryforwards, Asarco has a net deferred tax asset of $33.1 million at December 31, 1998. SPCC has a separate deferred tax liability of $54.9 million, resulting in a consolidated net deferred tax liability of $21.8 million. The Company's net operating loss carryforwards for state purposes are not significant and, therefore, have not been recorded as deferred tax assets.

At December 31, 1998, the foreign tax credit carryforwards available to reduce possible future U.S. income taxes amounted to approximately $23.4 million (available solely to SPCC) all of which expire in 2000. Because of both the expiration dates and the rules governing the order in which such credits are applied, it is unlikely that these foreign tax credit carryforwards will be utilized. Accordingly, the Company has recorded a valuation allowance for the full amount of its foreign tax credit carryforwards.

The decrease in the valuation allowance of $2.0 million from 1997 to 1998 is attributable to the utilization of foreign tax credits by SPCC in 1998.

In 1997, the Government of Peru approved a reinvestment allowance for a program of SPCC to expand the Cuajone mine. The reinvestment allowance provided SPCC with tax incentives in Peru and, as a result, certain U.S. tax credit carryforwards, for which no benefit had previously been recorded, were realized. The reduction in the effective tax rate as a result of the reinvestment allowance for the twelve months ended December 31, 1997, lowered consolidated tax expense by approximately $14.7 million. Pursuant to the reinvestment allowance SPCC has received tax deductions in Peru in amounts equal to the cost of qualifying property (approximately $245 million). As qualifying property is acquired, the financial statement carrying value of the qualifying property is reduced to reflect the benefit associated with the reinvestment allowance (approximately $73 million). As a result, financial statement depreciation expense related to the qualifying property will be reduced over its useful life (approximately 15 years).

U.S. deferred tax liabilities have not been provided on approximately $283.3 million in 1998 ($272.0 million in 1997 and $270.8 million in 1996) of undistributed earnings of foreign subsidiaries and nonconsolidated companies more than 50% owned, because assets representing those earnings are permanently invested. It is not practicable to determine the amount of income taxes that would be payable upon remittance of assets that represent those earnings. The amount of foreign withholding taxes that would be payable upon remittance of assets that represent those earnings is approximately $1.8 million in 1998 ($1.2 million in 1997 and $1.2 million in 1996).

HECLA MINING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 (In Part): Income Taxes

The components of the net deferred tax liability were as follows (in thousands):

December 31,	1998	1997
Deferred tax assets:		
Accrued reclamation costs	$10,130	$14,039
Investment valuation differences	2,113	2,062
Capital loss carryover	1,633	2,373
Postretirement benefits other than pensions	1,034	1,051
Deferred compensation	1,332	1,059
Accounts receivable	456	456
Foreign net operating losses	3,478	2,634
Federal net operating losses	91,323	83,715
State net operating losses	10,022	8,372
Tax credit carryforwards	3,070	3,487
Miscellaneous	1,446	1,446
Total deferred tax assets	126,037	120,694
Valuation allowance	(115,654)	(112,478)
Net deferred tax assets	10,383	8,216
Deferred tax liabilities:		
Properties, plants and equipment	(7,786)	(5,815)
Deferred income	(58)	(134)
Pension costs	(2,085)	(1,461)
Inventories	(454)	(806)
Deferred state income taxes, net	(300)	(300)
Total deferred tax liabilities	(10,683)	(8,516)
Net deferred tax liability	$ (300)	$ (300)

The Company recorded a valuation allowance to reflect the estimated amount of deferred tax assets which may not be realized principally due to the expiration of the operating losses and tax credit carryforwards. The changes in the valuation allowance for the years ended December 31, 1998, 1997, and 1996 are as follows (in thousands):

	1998	1997	1996
Balance at beginning of year	$(112,478)	$(107,937)	$(97,705)
Increase related to nonutilization of net operationg loss carry-forwards and nonrecognition of deferred tax assets due to uncertainty of recovery	(3,176)	(4,541)	(10,232)
Balance at end of year	$(115,654)	$(112,478)	$(107,937)

As of December 31, 1998, for income tax purposes, the Company has operating loss carryovers of $268.0 million and $140.0 million, for regular and alternative minimum tax purposes, respectively. These operating loss carryovers substantially expire over the next 15 years, the majority of which expire between 2006 and 2012. In addition, the Company has foreign tax operating losses of approximately $10.0 million which expire prior to 2003 and investment tax credit carryovers of $0.6 million which expire prior to 2002. Approximately $17.0 million and $8.0 million of regular and alternative minimum tax loss carryovers, respectively, are subject to limitations in any given year due to mergers. The Company has approximately $1.2 million in alternative minimum tax credit carryovers eligible to reduce future regular tax liabilities.

THE QUAKER OATS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Income Taxes

Deferred tax assets and deferred tax liabilities were as follows:

	1998		1997	
(Dollars in millions)	Assets	Liabilities	Assets	Liabilities
Depreciation and amortization	$ 37.4	$183.2	$ 20.3	$218.9
Postretirement benefits	118.4	—	114.5*	—
Other benefit plans	62.8	5.8	65.5*	5.7*
Accrued expenses including restructuring charges	122.5	9.7	92.5	11.5
Loss carryforwards	316.7	—	328.5	—
Other	12.0	9.0	4.1	15.9
Subtotal	669.8	207.7	625.4	252.0
Valuation allowance	(314.0)	—	(319.2)	—
Total	$355.8	$207.7	$306.2	$252.0

* Restated to conform to current presentation.

Included in other current assets were deferred tax assets of $116.6 million and $90.5 million as of December 31, 1998 and 1997, respectively. Included in other assets were deferred tax assets of $31.5 million as of December 31, 1998.

As of December 31, 1998 and 1997, the Company had approximately $760 million and $790 million, respectively, of capital loss carryforwards available to reduce future capital gains in the United States. The capital loss carryforwards are primarily the result of Quaker's 1997 loss on divestiture of Snapple. Therefore, the majority of those capital loss carryforwards expire in 2002. During 1998, the amount of available capital loss carryforwards decreased as a result of business divestitures. A valuation allowance has been provided for the full value of the deferred tax assets related to these carryforwards.

As of December 31, 1998, the Company had $41.2 million of operating and capital loss carryforwards available to reduce future taxable income of certain international subsidiaries. These loss carryforwards must be utilized within the carryforward periods of these international jurisdictions. The majority of international loss carryforwards have no expiration restrictions. Those with restrictions expire primarily in five years. A valuation allowance has been provided for approximately 50 percent of the deferred tax assets related to the loss carryforwards.

SNAP-ON INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Income Taxes

Temporary differences that give rise to the net deferred tax benefit are as follows:

(Amounts in thousands)	1998	1997	1996
Current deferred income tax benefits:			
Inventories	$ 21,309	$18,294	$14,599
Accruals and reserves not currently deductible	24,702	26,820	36,372
Restructuring and other non-recurring accruals	23,379	—	—
Other	(2,551)	(491)	56
Total current (included in prepaid expenses)	66,839	44,623	51,027
Long-term deferred income tax benefits:			
Employee benefits	61,870	61,017	57,299
Net operating losses	38,300	23,277	23,585
Depreciation	(21,721)	(22,363)	(13,409)
Restructuring and other non-recurring accruals	2,638	—	—
Other	(1,163)	(3,398)	(6,528)
Valuation allowance	(29,372)	(14,658)	(12,561)
Total long-term	50,552	43,875	48,386
Net deferred income tax benefit	$117,391	$88,498	$99,413

At January 2, 1999, the Corporation had tax net operating loss carryforwards ("NOLs") totaling $103.6 million as follows:

(Amounts in millions)	U.S.	Foreign	Total
Year of expiration:			
1999-2002	$ —	$ 8.7	$ 8.7
2003-2006	33.2	5.3	38.5
2007-2011	4.9	1.8	6.7
Indefinite	—	49.7	49.7
	$38.1	$65.5	$103.6

In accordance with current accounting standards, a valuation allowance totaling $29.4 million, $14.7 million and $12.6 million in 1998, 1997 and 1996 has been established for deferred income tax benefits related to certain subsidiary loss carryforwards that may not be realized. Included in this valuation allowance is $6.7 million that relates to the deferred tax assets recorded from acquisitions. Any tax benefits subsequently recognized for these deferred tax assets will be allocated to goodwill.

Realization of the net deferred tax assets is dependent on generating sufficient taxable income prior to their expiration. Although realization is not assured, management believes it is more likely than not that the net deferred tax asset will be realized. The amount of the net deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

TIME WARNER INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 (In Part): Income Taxes

Significant components of Time Warner's net deferred tax liabilities are as follows:

December 31, (millions)	1998	1997
Assets acquired in business combinations	$3,158	$3,352
Depreciation and amortization	1,112	1,152
Unrealized appreciation of certain marketable securities	4	4
Other	452	449
Deferred tax liabilities	4,726	4,957
Tax carryforwards	304	327
Accrued liabilities	513	381
Receivable allowances and return reserves	217	203
Other	201	86
Deferred tax assets	1,235	997
Net deferred tax liabilities	$3,491	$3,960

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U.S. federal tax carryforwards at December 31, 1998 consisted of $456 million of net operating losses, $109 million of investment tax credits and $34 million of alternative minimum tax credits. The utilization of certain carryforwards is subject to limitations under U.S. federal income tax laws. Except for the alternative minimum tax credits which do not expire, the other U.S. federal tax carryforwards expire in varying amounts as follows for income tax reporting purposes:

	Carryforwards	
(Millions)	Net operating losses	Investment tax credits
1999	$ 3	$ 1
2000	1	12
2001	2	35
2002	—	32
Thereafter up to 2011	450	29
	$456	$109

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

EG&G, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Income Taxes

Current prepaid income taxes of $82.3 million and $44.3 million were included in other current assets at January 3, 1999 and December 28, 1997, respectively. Long-term deferred income taxes of $32.5 million and $11.1 million were included in long-term liabilities at January 3, 1999 and December 28, 1997, respectively.

In general, it is the practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. Repatriation of retained earnings is done only when it is advantageous. Applicable federal taxes are provided only on amounts planned to be remitted. In connection with current year divestitures, certain proceeds will not be permanently reinvested in those operations, and, accordingly, federal taxes in the amount of $10 million have been provided in connection with those earnings. Accumulated net earnings of non-U.S. subsidiaries for which no federal taxes have been provided as of January 3, 1999 were $94.5 million, which does not include amounts that, if remitted, would result in little or no additional tax because of the availability of U.S. tax credits for non-U.S. taxes. Federal taxes that would be payable upon remittance of these earnings are estimated to be $30.1 million at January 3, 1999.

Taxes Not Accrued on Undistributed Earnings

ARMSTRONG WORLD INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes (In Part):

At December 31, 1998, unremitted earnings of subsidiaries outside the United States were $155.6 million (at December 31, 1998, balance sheet exchange rates) for which no U.S. taxes have been provided. If such earnings were to be remitted without offsetting tax credits in the United States, withholding taxes would be $5.4 million. The company's intention, however, is to reinvest unremitted earnings permanently or to repatriate them only when it is tax effective to do so.

BROWN GROUP, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Income Taxes

As of January 30, 1999, no deferred taxes have been provided on the undistributed earnings of the Company's Canadian subsidiary. It is anticipated that no additional United States tax would be incurred if the accumulated Canadian earnings were distributed given the current United States and Canadian income tax rates. The accumulated unremitted earnings from the Company's other foreign subsidiaries, as of January 30, 1999, on which deferred taxes have not been provided are indefinitely reinvested. In the event that these other foreign entities' earnings were distributed, it is estimated that U.S. taxes, net of available foreign tax credits, of approximately $20.7 million would be due. This liability could be reduced by the $4.0 million liability remaining from the Pagoda International marketing division restructuring charge. At year-end, management anticipates that the remaining liability will be utilized for income taxes due on future cash repatriations as cash becomes available.

CABOT CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

L (In Part): Income Taxes

Provisions have not been made for U.S. income taxes or foreign withholding taxes on approximately $130.0 million of undistributed earnings of foreign subsidiaries, as these earnings are considered indefinitely reinvested. These earnings could become subject to U.S. income taxes and foreign withholding taxes (subject to a reduction for foreign tax credits) if they were remitted as dividends, were loaned to the Company or a U.S. subsidiary, or if the Company should sell its stock in the subsidiaries. However, the Company believes that U.S. foreign tax credits would largely eliminate any U.S. income tax and offset any foreign withholding tax that might otherwise be due.

PILGRIM'S PRIDE CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

D (In Part): Income Taxes

The Company has not provided any U.S. deferred income taxes on the undistributed earnings of its Mexico subsidiaries based upon its determination that such earnings will be indefinitely reinvested. As of September 26, 1998, the cumulative undistributed earnings of these subsidiaries were approximately $94.4 million. If such earnings were not considered indefinitely reinvested, deferred U.S. and foreign income taxes would have been provided, after consideration of estimated foreign tax credits. However, determination of the amount of deferred federal and foreign income taxes is not practical.

SCI SYSTEMS, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Accounting Policies

Deferred income taxes are provided on temporary differences as certain contract related revenues and expenses are reported in periods which differ from those in which they are taxed. U.S. income taxes in excess of estimated foreign income tax credits have not been provided on certain undistributed earnings of foreign subsidiaries aggregating $78 million at June 30, 1998, which are considered to be permanently invested. Otherwise, $18 million of additional deferred U.S. income taxes (net of related estimated foreign income tax credits) would have been provided.

SEAGATE TECHNOLOGY, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes (In Part):

A substantial portion of the Company's Far East manufacturing operations in Singapore, Thailand, China and Malaysia operate free of tax under various tax holidays which expire in whole or in part during fiscal years 1999 through 2005. Certain tax holidays may be extended if specific conditions are met. The tax holidays had no impact on the net loss in 1998. The net impact of these tax holidays was to increase net income by approximately $71 million ($0.28 per share, diluted) in 1997 and approximately $50 million ($0.21 per share, diluted) in 1996. Cumulative undistributed earnings of the Company's Far East subsidiaries for which no income taxes have been provided aggregated approximately $1.439 billion at July 3, 1998. These earnings are considered to be permanently invested in non-U.S. operations. Additional federal and state taxes of approximately $518 million would have to be provided if these earnings were repatriated to the U.S.

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. 14 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			
	1998	1997	1996	1995
Percentage-of-completion	67	69	70	80
Units-of-delivery	21	26	33	28
Completed contract	1	2	3	4
Not determinable	2	4	4	3

ALLIANT TECHSYSTEMS INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Basis of Presentation and Significant Accounting Policies

Long-Term Contracts

Sales under long-term contracts are accounted for under the percentage of completion method and include cost reimbursement and fixed-price contracts. Sales under cost reimbursement contracts are recognized as costs are incurred. Sales under fixed-price contracts are either recognized as the actual cost of work performed relates to the estimate at completion (cost-to-cost) or based on results achieved, which usually coincides with customer acceptance (units-of-delivery).

Profits expected to be realized on contracts are based on the Company's estimates of total contract sales value and costs at completion. Estimated amounts for contract changes and claims are included in contract sales only when realization is estimated to be probable. Assumptions used for recording sales and earnings are adjusted in the period of change to reflect revisions in contract value and estimated costs. In the period in which it is determined that a loss will be incurred on a contract, the entire amount of the estimated loss is charged to income.

Research and development, selling, and general and administrative costs are expensed in the year incurred.

COOPER CAMERON CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Major Accounting Policies

Revenue Recognition

Revenue is recognized at the time of shipment or the performance of services except in the case of certain larger, long lead time orders at Cooper Energy Services which are accounted for using the percentage of completion method.

Under this method, revenue is recognized as work progresses in the ratio that costs incurred bear to estimated total costs. The aggregate of costs incurred reduces net inventories while the revenue recognized is shown as a receivable. Expected losses on contracts in progress are charged to operations currently.

FLUOR CORPORATION (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Major Accounting Policies (In Part):

Engineering and Construction Contracts

The company recognizes engineering and construction contract revenues using the percentage-of-completion method, based primarily on contract costs incurred to date compared with total estimated contract costs. Customer-furnished materials, labor and equipment, and in certain cases subcontractor materials, labor and equipment, are included in revenues and cost of revenues when management believes that the company is responsible for the ultimate acceptability of the project. Contracts are segmented between types of services, such as engineering and construction, and accordingly, gross margin related to each activity is recognized as those separate services are rendered. Changes to total estimated contract costs or losses, if any, are recognized in the period in which they are determined. Revenues recognized in excess of amounts billed are classified as current assets under contract work in progress. Amounts billed to clients in excess of revenues recognized to date are classified as current liabilities under advance billings on contracts. The company anticipates that substantially all incurred costs associated with contract work in progress at October 31, 1998 will be billed and collected in 1999.

GENERAL DYNAMICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Sales and Earnings Under Long-Term Contracts and Programs

Defense programs are accounted for using the percentage-of-completion method of accounting. The combination of estimated profit rates on similar, economically interdependent contracts is used to develop program earnings rates for contracts that meet Statement of Position (SOP) 81-1 criteria. These rates are applied to contract costs, including general and administrative expenses, for the determination of sales and operating earnings. Program earnings rates are reviewed quarterly to assess revisions in contract values and estimated costs at completion. Based on these assessments, any changes in earnings rates are made prospectively.

Any anticipated losses on contracts or programs are charged to earnings when identified. Such losses encompass all costs, including general and administrative expenses, allocable to the contracts. Revenue arising from the claims process is not recognized either as income or as an offset against a potential loss until it can be reliably estimated and its realization is probable.

JACOBS ENGINEERING GROUP INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Revenue Accounting for Contracts

In general, the Company recognizes revenues at the time services are performed. On cost-reimbursable contracts, revenue is recognized as costs are incurred, and includes applicable fees earned through the date services are provided. On fixed-price contracts, revenues are recorded using the percentage-of-completion method of accounting by relating contract costs incurred to date to total estimated contract costs at completion. Contract costs include both direct and indirect costs. Contract losses are provided for in their entirety in the period they become known, without regard to the percentage-of-completion.

Some of the Company's contracts with the U.S. federal government, as well as certain contracts with commercial clients, provide that contract costs (including indirect costs) are subject to audit and adjustment. For all such contracts, revenues have been recorded based upon those amounts expected to be realized upon final settlement.

As is common in the industry, the Company executes certain contracts jointly with third parties through partnerships and joint ventures. For certain of these contracts, the Company recognizes its proportionate share of venture revenues, costs and operating income in its consolidated statements of income.

TEXTRON INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Long-term Contracts

Revenues under fixed-price contracts are generally recorded as deliveries are made. Certain long-term fixed-price contracts provide for the periodic delivery after a lengthy period of time over which significant costs are incurred or require a significant amount of development effort in relation to total contract volume. Revenues under those contracts and all cost-reimbursement-type contracts are recorded as costs are incurred. Revenues under the V-22 production contract with the U.S. Government, which presently is a cost-reimbursement-type contract, are recorded as costs are incurred.

Certain contracts are awarded with fixed-price incentive fees. Incentive fees are considered when estimating revenues and profit rates, and are recorded when these amounts are reasonably determined. Long-term contract profits are based on estimates of total sales value and costs at completion. Such estimates are reviewed and revised periodically throughout the contract life. Revisions to contract profits are recorded when the revisions are made. Estimated contract losses are recorded when identified.

Long-term contract receivables at year-end 1998 and year-end 1997 totaled $166 million and $146 million, respectively. This includes $102 million and $111 million, respectively, of unbilled costs and accrued profits that had not yet met the contractual billing criteria. Long-term contract receivables do not include significant amounts (a) billed but unpaid due to contractual retainage provisions or (b) subject to collection uncertainty.

UNITED TECHNOLOGIES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Revenue Recognition

Sales under government and commercial fixed-price contracts and government fixed-price-incentive contracts are recorded at the time deliveries are made or, in some cases, on a percentage-of-completion basis. Sales under cost-reimbursement contracts are recorded as work is performed and billed. Sales of commercial aircraft engines sometimes require participation by the Corporation in aircraft financing arrangements; when appropriate, such sales are accounted for as operating leases. Sales under elevator and escalator installation and modernization contracts are accounted for under the percentage-of-completion method.

Losses, if any, on contracts are provided for when anticipated. Loss provisions are based upon excess inventoriable manufacturing, engineering, estimated warranty and product guarantee costs over the net revenue from the products contemplated by the specific order. Contract accounting requires estimates of future costs over the performance period of the contract. These estimates are subject to change and result in adjustments to margins on contracts in progress.

Service sales, representing after-market repair and maintenance activities, are recognized over the contractual period or as services are performed.

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 1998, 62 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

ATLANTIC RICHFIELD COMPANY (DEC)

(Millions)	1998	1997	1996
Income (loss) from continuing operations before extraordinary item	$(655)	$1,331	$1,261
Income from discontinued operations, net of income taxes of $113 (1998), $74 (1997) and $155 (1996)	179	267	402
Gain on disposition of discontinued operations, net of income taxes of $1,620 (1998) and $342 (1997)	928	291	—
Income before extraordinary item	452	1,889	1,663

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Discontinued Operations

Coal

In June 1998, ARCO disposed of its U.S. coal operations in a transaction with Arch Coal. Operations disposed of included the Black Thunder and Coal Creek mines in Wyoming, the West Elk mine in Colorado, and ARCO's 65% interest in three mines in Utah. The Colorado and Utah mines were sold outright. ARCO contributed its Wyoming coal operations and Arch Coal transferred various of its coal operations into a new joint venture that is 99% owned by Arch Coal and 1% owned by ARCO.

As of February 1999, ARCO has disposed of its interests in two Australian coal mines. ARCO disposed of its 80% interest in the Gordonstone coal mine and its 31.4% interest in the Blair Athol Joint Venture. After those dispositions the carrying value of the remaining Australian assets was $56 million at February 12, 1999. At December 31, 1998, the carrying value of the Australian coal assets was $197 million and was included in net assets of discontinued operations on the balance sheet. Beginning in January 1999, ARCO suspended depreciation on the Australian coal assets (1998 annual depreciation was $23 million). ARCO has recorded a $92 million provision for the estimated loss on the disposal of the U.S. and Australian coal assets. A gain of approximately $200 million on the sale of U.S. coal operations has been deferred (by reducing the net assets of discontinued operations) until the disposition of the remaining Australian coal assets is completed in 1999 and the actual loss can be determined.

Chemical

In July 1998, ARCO tendered its entire interest of 80 million shares of ARCO Chemical Company common stock to Lyondell Petrochemical Company (Lyondell) for $57.75 per share, or total cash proceeds of approximately $4.6 billion. After deferral of $313 million of the pretax gain, ARCO recorded an after-tax gain of approximately $1.1 billion in the third quarter of 1998 from the sale of the shares. The deferral represents the estimated discounted present value of the difference over the remaining term of an above-market MTBE contract between ARCO and ARCO Chemical and the spot market price for MTBE. The deferral will be amortized over the remaining term of the contract, ending in 2002, on a straight-line basis.

As part of the acquisition of UTP, ARCO determined it would sell UTP's petrochemical business. ARCO expects to complete the sale during 1999. At December 31, 1998, the carrying value of these assets was $142 million and was included in the net assets of discontinued operations on the balance sheet. If depreciation had not been suspended for the last six months of 1998, the petrochemical business would have had a loss of $5 million. ARCO has recorded a $33 million after-tax provision for loss on the sale of the assets.

In September 1997, ARCO disposed of its 49.9% equity interest in Lyondell. ARCO recorded an after-tax gain of $291 million on the disposition.

Revenues and net income from discontinued operations were as follows:

(Millions)	1998	1997
Revenues:		
ARCO Chemical	$1,990	$3,726
Coal operations	$ 338	$ 637
UTP petrochemical	$ 58	$ —
Net income:		
ARCO Chemical	$ 170	$ 92
Coal operations	9	56
Lyondell	—	119
UTP petrochemical	—	—
	$ 179	$ 267

THE DIXIE GROUP, INC. (DEC)

(Dollars in thousands)	1998	1997	1996
Income from continuing operations	$ 9,108	$ 8,812	$ 5,701
Income (loss) from discontinued operations	(1,853)	2,807	(16,914)
Loss on disposal of discontinued operations	(28,257)	—	—
Net income (loss)	$(21,002)	$11,619	$(11,213)

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

C. Discontinued Operations

During 1998, the Company decided to discontinue its textile products operations. At that time, this consisted of the knit fabric and apparel and the specialty yarns businesses.

Apparel manufacturing was terminated and the knit fabric operations were offered for sale effective June 27, 1998 (the knit fabric and apparel measurement date). In January 1999, the Company finalized the sale of the knit fabric operations.

The specialty yarns business was offered for sale beginning September 26, 1998 (the specialty yarns measurement date). The sale of one yarn facility was finalized in December 1998, and in February 1999, the Company and two different buyers agreed to basic terms and conditions under which the remainder of the specialty yarns operations would be sold. The pending transactions are scheduled to close in the second quarter of 1999. The yarn facility sold in December 1998, was held for sale apart from the remainder of the specialty yarns business beginning December 28, 1996.

Proceeds to the Company from disposal of its textile products operations discussed above are expected to total $84,792 including liquidation of certain accounts receivable and inventories retained by the Company. Proceeds received through December 26, 1998, were approximately $11,025.

The Company's textile products operations formerly included its thread business which was sold June 3, 1996. Proceeds from the sale of the thread business and liquidation of its accounts receivable and inventories retained by the Company, totaled approximately $55,533.

Following is summary financial information for the Company's discontinued textile products operations:

	1998	1997	1996
Net sales	$184,122	$229,757	$251,968
Income (loss) from discontinued operations:			
Before income taxes	(2,697)	4,776	(25,280)
Income tax provision (benefit)	(844)	1,969	(8,366)
Net	$ (1,853)	$ 2,807	$ (16,914)
Estimated loss on disposal:			
Before income taxes	(39,325)	—	—
Income tax benefit	(11,068)	—	—
Net	$ (28,257)	$ —	$ —

Interest cost charged to discontinued operations was $3,325 for 1998, $3,697 for 1997 and $5,404 for 1996. Interest cost for periods subsequent to the measurement dates included in the estimated loss on disposal is $1,996.

The 1996 loss from discontinued operations includes charges of $5,154 (before income taxes) for costs to exit the thread business; and asset valuation losses of $17,860 (before income taxes) related to assets held for sale.

The estimated net loss on disposal includes the write-off of intangible assets of $8,877 and estimated operating losses from the measurement dates to the anticipated disposal dates of $944 (net of applicable income taxes of $604). The effect of liquidating inventories carried at lower costs prevailing in prior years under the LIFO method was to reduce the estimated net loss on disposal by approximately $5,461.

At December 26, 1998, assets of the textile products operations to be sold consisted of accounts receivable, inventories, and property, plant and equipment amounting to approximately $77,212 after deducting an allowance for the estimated loss on disposal; and liabilities were $22,354 including estimated operating losses to the anticipated disposal date.

DOVER CORPORATION (DEC)

(In thousands)	1998	1997	1996
Earnings from continuing operations	$326,397	$324,914	$336,519
Earnings from discontinued operations	52,448	57,084	53,704
Gain on sale of discontinued business	—	23,433	—
Net earnings	$378,845	$405,431	$390,223

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Acquisitions, Dispositions and Discontinued Operations

In November 1998 the Company reached agreement to sell Dover Elevator International Inc. to Thyssen Industrie, AG for approximately $1.1 billion. The amount will be received and recorded in the first quarter of 1999, and will result in a gain for the Company estimated at $530 million, equal to approximately $2.35 per share. The Dover Elevator International segment is accounted for as a discontinued operation, 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 the discontinued business 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, net of liabilities. Effective June 1, 1997 the Company sold all of the stock of three small elevator installation and services companies located in Germany. Effective June 30, 1997 the Company sold all of the capital stock of its U.K. elevator company, Hammond & Champness, Ltd., thus completing the divestiture of the Company's European elevator operations. Operating results of the discontinued segment are as follows:

	Year ended December 31,		
(In thousands)	1998	1997	1996
Net sales	$899,015	$880,307	$862,175
Earnings before income taxes	82,246	92,391	86,615
Income taxes	29,798	35,307	32,911
Net earnings from discontinued operations	52,448	57,084	53,704
Gain on sale of discontinued businesses, net of taxes	—	23,433	—
Net earnings from discontinued segment	$ 52,448	$ 80,517	$ 53,704
Net earnings per diluted common share:			
Discontinued operations	$.24	$.25	$.23
Gain on sale of discontinued businesses	—	.11	—

Adjustment of Gain/Loss Reported in Prior Period

EKCO GROUP, INC. (DEC)

(Amounts in thousands)	1998	1997	1996
Income (loss) from continuing operations before extraordinary charge	$(7,432)	$6,017	$(2,671)
Discontinued operations			
Income (loss) from discontinued operations, net of income tax benefit of $1,928	—	—	(24,720)
Gain (loss) on disposal, net of tax benefits of $3,500 and $1,925, respectively	3,500	—	(3,575)
Income (loss) before extraordinary charge	(3,932)	6,017	(30,966)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Discontinued Operations

On January 31, 1997, the Company's Board of Directors approved management's plan to dispose of the Company's molded plastic products business. Accordingly, the Company reported the results of the operations of the molded plastic products business and the loss on disposal as discontinued operations. During Fiscal 1997, the Company sold all of the assets of its molded plastics products business for cash proceeds of approximately $17.6 million and a $2.0 million promissory note, which is included in other assets in the Company's consolidated balance sheet.

Certain information with respect to discontinued operations is summarized as follows:

(Amounts in thousands)	Fiscal 1996
Net revenues	$ 26,764
Cost of sales	26,758
Selling, general and administrative	3,325
Special charges	22,728
Goodwill amortization	601
Cost and expenses	53,412
Loss before income taxes	(26,648)
Income tax benefit	(1,928)
Loss from discontinued operations	$ (24,720)

The special charge of $22.7 million (principally goodwill) was a reduction in the third quarter of Fiscal 1996 of the carrying value of the molded plastic products business. Under the provisions of Statement of Financial Accounting Standards No. 121, which establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets, the Company determined in the third quarter of Fiscal 1996 that an adjustment to the carrying value of the molded plastic products business was required.

The charge in Fiscal 1996 for loss on disposal of the molded plastic business includes the following:

(Amounts in thousands)	
Carrying value of net assets in excess of anticipated proceeds	$3,300
Expenses of asset disposal and anticipated operating loss for the period December 29, 1996 through the estimated date of disposal	2,200
Loss on disposal before taxes	5,500
Income tax benefit	1,925
Loss on disposal	$3,575

During Fiscal 1998, the Company recorded a $3.5 million income tax benefit associated with the 1997 disposal of its molded plastic products business.

STEWART & STEVENSON SERVICES, INC. (JAN)

(Dollars in thousands)	Fiscal 1998	Fiscal 1997	Fiscal 1996
Earnings (loss) from continuing operations	$(39,005)	$(14,505)	$ 4,768
Earnings from discontinued operations, net of tax of $1,920 and $6,744 (See Note 2)	—	5,424	12,083
Gain (loss) on disposal of discontinued operations, net of tax of $(21,985) and $35,297 (See Note 2)	(33,979)	61,344	—
Net earnings (loss)	$(72,984)	$ 52,263	$16,851

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

2. Discontinued Operations

During Fiscal 1997, the Company completed the sale of the net assets of GTO to General Electric Company ("GE") for $600 million, with a subsequent downward adjustment of $84 million in Fiscal 1998. GTO manufactured and serviced gas turbine driven equipment and associated spare parts, provided contract operation and maintenance services for power generation and petrochemical processing facilities, and engaged in the development and turnkey construction of power generation projects. The results of the GTO have been classified as discontinued operations in the accompanying financial statements. Net earnings from discontinued operations for the eight months ended September 30, 1997 (the pre-measurement period) includes interest expense of approximately $9.9 million, which was allocated based on the ratio of net assets to be discontinued to the sum of the total net assets of the consolidated entity. The gain on disposal of discontinued operations includes interest expense of approximately $3.9 million, allocated using the same method.

In the third quarter of Fiscal 1998, the Company reached an agreement with GE regarding certain contractual adjustments to the purchase price and other matters related to the sale of GTO. The agreement required the Company to pay GE $84 million, resulting in an after tax charge, net of accruals, of $20 million to net earnings (loss) from discontinued operations. Additionally, in the fourth quarter of Fiscal 1998, it become probable that the Company would be required to perform under a debt guaranty related to a power generation facility in Argentina. Accordingly, the Company recorded an estimated obligation of $14 million, net of tax. The guaranty arose as part of the Company's Gas Turbine Operations.

Summarized operating results of discontinued operations are as follows:

	Twelve months ended January 31		
	1999	1998	1997
Sales	$ —	$404,172	$361,974
Gross profit	—	35,643	63,852
Income tax expense	—	1,920	6,744
Net earnings (loss) from discontinued operations, net of tax	—	5,424	12,083
Gain (loss) on disposal of discontinued operations, net of tax	(33,979)	61,344	—

TRANSTECHNOLOGY CORPORATION (MAR)

(In thousands)	1998	1997	1996
Income from continuing operations	$11,991	$9,722	$8,508
Discontinued operations:			
Loss from operations (net of applicable tax benefit of $323 for 1996)	—	—	(517)
Loss from disposal (net of applicable tax benefits of $1,301, $663 and $1,077 for 1998, 1997 and 1996, respectively	(924)	(934)	(617)
Net income	$11,067	$8,788	$7,374

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Discontinued Operations

In October 1997, the Company sold the facility that was formerly used by its Financial Systems division for $1.1 million in cash. This sale resulted in an after-tax disposal loss of $0.1 million.

In June 1995, January 1996 and November 1997, the Company sold the domestic, European and Australian portions of its computer graphics service operations, respectively, in three separate transactions to three different buyers. These businesses were classified as discontinued operations in March 1995. The sale of the domestic portion of $0.7 million in cash and $0.6 million in notes receivable was for book value. The sale of the European and Australian portions was for $0.1 million in cash and $0.2 million in notes receivable and resulted in an after-tax gain on disposal of $0.1 million in 1996. Additional after-tax disposal costs of $0.2 million were recorded in 1997 in connection with these sales.

In August 1995, the Company sold its electronics division for $4.4 million in cash and $9.6 million in notes receivable. The sale of this operation resulted in an after-tax gain on disposal of $0.2 million.

In March 1995, the Company sold substantially all of the assets and business of its chaff products operation for $6.7 million in cash. The sale of this operation resulted in an after-tax loss on disposal of $0.4 million. An additional after-tax loss on disposal costs of $0.2 million was recorded in 1996 in connection with the sale. The Company retained the chaff avionics product line and negotiated its sale separately in May 1995 for $0.3 million in cash and $0.7 million in notes receivable, resulting in an after-tax charge of $0.4 million. In the fourth quarter of fiscal 1996, the Company recorded an after-tax charge of $0.4 million to record the anticipated loss on the sale of the facility that was formerly used by this operation. Additional after-tax disposal costs of $0.1 million were recorded in both 1998 and 1997 related to the final sale of this facility.

Additional after-tax costs of $0.8 million, $0.6 million and $0.7 million were recorded in 1998, 1997 and 1996, respectively, in connection with other previously discontinued and sold operations. These additional costs represent adjustments to previous estimates related primarily to legal and environmental matters.

Operating results of the discontinued businesses were as follows (in thousands):

	1996
Total sales	$7,951
Loss before income taxes	$ (840)
Income tax benefit	323
Loss from operations	$ (517)

The loss from operations includes interest expense of $0.2 million in 1996.

Assets held for sale at March 31, 1998 and 1997 were as follows (in thousands):

	1998	1997
Inventory	$ 197	$ 429
Property	5,157	6,577
Other assets	88	611
Assets held for sale	$5,442	$7,617

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			
	1998	1997	1996	1995
Minority interest	101	87	86	87
Equity in earnings or losses of investees	37	34	36	35
Cumulative effect of accounting change	32	30	5	25
Other	10	10	9	4

DIMON INCORPORATED (JUN)

(In thousands)	1998	1997	1996
Income from continuing operations before income taxes, equity in net income (loss) of investee companies, income from discontinued operations and extraordinary item	$55,989	$116,105	$62,774
Income taxes	14,725	44,063	25,324
Income from continuing operations before equity in net income (loss) of investee companies, income from discontinued operations and extraordinary item	41,264	72,042	37,450
Equity in net income (loss) of investee companies (net of income taxes)	565	526	(330)
Income from continuing operations before income from discontinued operations and extraordinary item	41,829	72,568	37,120

DOW JONES & COMPANY, INC. (DEC)

(In thousands)	1998	1997	1996
Income (loss) before income taxes and minority interests	$71,658	$(763,884)	$331,260
Income taxes	63,083	37,796	147,728
Income (loss) before minority interests	8,575	(801,680)	183,532
Minority interests in (earnings) losses of subsidiaries	(213)	(452)	6,437
Net income (loss)	$ 8,362	$(802,132)	$189,969

PHELPS DODGE CORPORATION (DEC)

(In millions)	1998	1997	1996
Income before taxes, minority interests and equity in net earnings of affiliated companies	$337.0	$581.9	$687.5
Provision for taxes on income	(134.0)	(180.4)	(220.0)
Minority interests in consolidated subsidiaries	(7.9)	(4.7)	(16.2)
Equity in net earnings (losses) of affiliated companies	(4.2)	11.7	10.5
Net income	$190.9	$408.5	$461.8

SMITH INTERNATIONAL, INC. (DEC)

(In thousands)	1998	1997	1996
Income before income taxes and minority interests	$81,938	$219,955	$129,745
Income tax provision	26,279	59,109	31,615
Income before minority interests	55,659	160,846	98,130
Minority interests	21,590	39,517	24,833
Net income	$34,069	$121,329	$ 73,297

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 1998 by the survey companies were debt extinguishments—6 at a gain, 67 at a loss. Examples of the presentation and disclosure of extraordinary items follow.

TABLE 3-17: EXTRAORDINARY ITEMS

	1998	1997	1996	1995
Nature				
Debt extinguishments	73	62	60	53
Other	2	3	5	3
Total Extraordinary Items	**75**	**65**	**65**	**56**
Number of Companies				
Presenting extraordinary items	74	64	63	55
Not presenting extraordinary items	526	536	537	545
Total Companies	**600**	**600**	**600**	**600**

Debt Extinguishments

CONSOLIDATED PAPERS, INC. (DEC)

(Dollars in thousands)	1998	1997	1996
Income before extraordinary item	$106,960	$118,044	$179,285
Loss on debt extinguishment, net of tax benefit of $3,069	(4,603)	—	—
Net income	$102,357	$118,044	$179,285

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Long-Term Debt and Lines of Credit

The company recorded an extraordinary loss of $4.6 million after taxes as a result of the early redemption of a $143.8 million face value term loan. This term loan was assumed as part of the operating lease buyout on production equipment at Lake Superior Paper Industries, which occurred partly in 1997 and was completed in January 1998 (see Note 4). The loss consisted primarily of a prepayment penalty and costs associated with the early redemption, net of the write-off of the remaining debt premium and net of tax benefits of $3.1 million. The redemption of the 12.08% debt was financed with proceeds from the $160 million private placement notes with interest rates between 6.93% and 7.30%.

ROHM AND HAAS COMPANY (DEC)

(Millions of dollars)	1998	1997	1996
Earnings before extraordinary item	$453	$410	$363
Extraordinary loss on early extinguishment of debt (net of income tax benefit of $6)—Note 15	13	—	—
Net earnings	$440	$410	$363

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Long-Term Debt

In 1998 the company retired $130 million of high interest long-term debt through a tender offer. These debt retirements resulted in an after-tax extraordinary loss of $13 million, or $.07 per share.

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.

CABOT CORPORATION (SEP)

(Dollars in millions, except per share amounts)	1998	1997	1996
Net income	$121.6	$92.8	$194.1
Dividends on preferred stock, net of tax benefit of $2.0, $2.1 and $2.1	(3.2)	(3.3)	(3.3)
Income applicable to common shares	$118.4	$89.5	$190.8
Weighted average common shares outstanding, in millions (Notes I and J):			
Basic	65.6	67.5	69.6
Diluted	74.6	76.7	79.3
Income per common share (Note J):			
Basic	$ 1.80	$1.33	$ 2.74
Diluted	$ 1.61	$1.19	$ 2.42

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Earnings Per Share

During the quarter ended December 31, 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128"). SFAS No. 128 establishes standards for computing and presenting earnings per share ("EPS") and requires the presentation of both basic and diluted EPS. As a result, primary and fully diluted EPS have been replaced by basic and diluted EPS. Prior years' EPS have been restated to conform with the standards established by SFAS No. 128. (Notes J and Q)

J. Earnings Per Share

Basic and diluted earnings per share ("EPS") were calculated as follows:

(Dollars in millions except per share amounts)	Years ended September 30 1998	1997	1996
Basic EPS:			
Income available to common shares (numerator)	$118.4	$89.5	$190.8
Weighted-average common shares outstanding	68.1	69.9	72.0
Less: Contingently issuable shares	(2.5)	(2.4)	(2.4)
Adjusted weighted-average shares (denominator)	65.6	67.5	69.6
Basic EPS	$ 1.80	$1.33	$ 2.74
Diluted EPS:			
Income available to common shares	$118.4	$89.5	$190.8
Dividends on preferred stock	3.2	3.3	3.3
Less: Income impact of assumed conversion of preferred stock	(1.7)	(1.8)	(2.1)
Income available to common shares plus assumed conversions (numerator)	$119.9	$91.0	$192.0
Weighted-average common shares outstanding	68.1	69.9	72.0
Effect of dilutive securities: Stock-based compensation	6.5	6.8	7.3
Adjusted weighted-average shares (denominator)	74.6	76.7	79.3
Diluted EPS	$ 1.61	$1.19	$ 2.42

JLG INDUSTRIES, INC. (JUL)

(In thousands, except per share data)	1998	1997	1996
Net income	$46,510	$46,148	$42,108
Earnings per common share	$ 1.07	$ 1.06	$ .98
Earnings per common share—assuming dilution	$ 1.05	$ 1.04	$ .96
Weighted average shares outstanding	43,666	43,606	43,014
Weighted average shares outstanding—assuming dilution	44,431	44,401	43,770

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

Basic and Diluted Earnings Per 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, the calculation of 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.

The following table sets forth the computation of basic and diluted earnings per share for the years ended July 31:

	1998	1997	1996
Net income	$46,510	$46,148	$42,108
Denominator for basic earnings per share—weighted average shares	43,666	43,606	43,014
Effect of dilutive securities—employee stock options and unvested restricted shares	765	795	756
Denominator for diluted earnings per share—weighted average shares adjusted for dilutive securities	44,431	44,401	43,770
Earnings per common share	$ 1.07	$ 1.06	$ .98
Earnings per common share—assuming dilution	$ 1.05	$ 1.04	$ .96

MALLINCKRODT INC. (JUN)

(In millions, except per share amounts)	1998	1997	1996
Earnings (loss) from continuing operations	$(355.9)	$175.2	$143.6
Discontinued operations	72.4	14.9	68.3
Earnings (loss) before cumulative effect of accounting change	(283.5)	190.1	211.9
Cumulative effect of accounting change	(8.4)	—	—
Net earnings (loss)	(291.9)	190.1	211.9
Preferred stock dividends	(.4)	(.4)	(.4)
Available for common shareholders	$(292.3)	$189.7	$211.5
Basic earnings per common share:			
Earnings (loss) from continuing operations	$ (4.89)	$ 2.37	$ 1.90
Discontinued operations	.99	.20	.91
Cumulative effect of accounting change	(.11)	—	—
Net earnings (loss)	$ (4.01)	$ 2.57	$ 2.81
Earnings per common share—assuming dilution:			
Earnings (loss) from continuing operations	$ (4.89)	$ 2.33	$ 1.88
Discontinued operations	.99	.20	.89
Cumulative effect of accounting change	(.11)	—	—
Net earnings (loss)	$ (4.01)	$ 2.53	$ 2.77

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings (loss) from continuing operations per common share (in millions, except share and per share amounts).

	1998	1997	1996
Numerator:			
Earnings (loss) from continuing operations	$(355.9)	$175.2	$143.6
Preferred stock dividends	(.4)	(.4)	(.4)
Numerator for basic earnings (loss) per share and earnings (loss) per share assuming dilution—income (loss) available to common shareholders	$(356.3)	$174.8	$143.2
Denominator:			
Denominator for basic earnings per share—weighted-average shares	72,920,659	73,837,424	75,183,729
Potential dilutive common shares—employee stock options	—	1,270,405	1,172,234
Denominator for diluted earnings (loss) per share—adjusted weighted-average shares and assumed conversions	72,920,659	75,107,829	76,355,963
Basic earnings (loss) from continuing operations per common share	$ (4.89)	$ 2.37	$ 1.90
Earnings (loss) from continuing operations per common share—assuming dilution	$ (4.89)	$ 2.33	$ 1.88

The diluted share base for the twelve months ended June 30, 1998 excludes incremental shares of 612,285 related to employee stock options. These shares are excluded due to their antidilutive effect as a result of the Company's loss from continuing operations during 1998.

MARK IV INDUSTRIES, INC. (FEB)

(Amounts in thousands, except for share data)	1998	1997	1996
Net income	$98,600	$56,100	$92,400
Net income per share of common stock:			
Basic:			
Income from continuing operations	$ 1.70	$ .49	$ 1.25
Income from discontinued operations	—	.35	.15
Extraordinary loss	(.16)	—	—
Net income	$ 1.54	$ .84	$ 1.40
Diluted:			
Income from continuing operations	$ 1.66	$ .49	$ 1.24
Income from discontinued operations	—	.35	.15
Extraordinary loss	(.16)	—	—
Net income	$ 1.50	$ .84	$ 1.39
Weighted average number of shares outstanding:			
Basic	64,100	66,300	66,200
Diluted	67,400	66,700	66,600

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Earnings Per Share of Common Stock

The Company adopted Statement of Financial Accounting Standards No. 128—Earnings Per Share (SFAS No. 128) in the fourth quarter of fiscal 1998. SFAS No. 128 is intended to simplify the earnings per share computations and make them more comparable from company to company. All prior year earnings per share amounts have been recalculated in accordance with the earnings per share requirements under SFAS No. 128; however, such recalculation did not result in any change to the Company's previously reported earnings per share for all years presented.

11. Net Income Per Share

Following is a reconciliation of net income and weighted average common shares outstanding for purposes of calculating basic and diluted net income per share:

	1998	1997	1996
Basic net income per share:			
Net income	$ 98,600	$56,100	$92,400
Weighted average common shares outstanding	64,100	66,300	66,200
Basic net income per share	$1.54	$.84	$1.40
Diluted net income per share:			
Net income	$ 98,600	$56,100	$92,400
After-tax equivalent of interest expense on 4³/₄% convertible subordinated notes	2,700	—	—
Income for purposes of computing diluted net income per share	$101,300	$56,100	$92,400
Weighted average common shares outstanding	64,100	66,300	66,200
Dilutive stock options	500	400	400
Weighted average assumed conversion of 4³/₄% convertible subordinated notes	2,800	—	—
Weighted average common shares outstanding for purposes of computing diluted net income per share	67,400	66,700	66,600
Diluted net income per share	$ 1.50	$ .84	$ 1.39

NIKE, INC. (MAY)

(In millions, except per share data)			
Net income	$399.6	$795.8	$553.2
Basic earnings per common share (Notes 1 and 9)	$ 1.38	$ 2.76	$ 1.93
Diluted earnings per common share (Notes 1 and 9)	$ 1.35	$ 2.68	$ 1.88

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Earnings Per Share

Basic earnings per common share is calculated by dividing net income by the average number of common shares outstanding during the year. Diluted earnings per common share is calculated by adjusting outstanding shares, assuming conversion of all potentially dilutive stock options.

On October 23, 1996 and October 30, 1995, the Company issued additional shares in connection with two-for-one stock splits effected in the form of a 100% stock dividend on outstanding Class A and Class B common stock. The per common share amounts in the Consolidated Financial Statements and accompanying notes have been adjusted to reflect these stock splits.

9. Earnings Per Share

SFAS 128, "Earnings per Share" replaces primary and fully diluted earnings per share with basic and diluted earnings per share. Under the new requirements, the dilutive effect of stock options is excluded from the calculation of basic earnings per share. Diluted earnings per share is calculated similarly to fully diluted earnings per share as required under APB 15. SFAS 128 became effective for the Company's fiscal 1998 financial statements. All prior period earnings per share data presented have been restated to conform to the provisions of this statement.

The following represents a reconciliation from basic earnings per share to diluted earnings per share:

(In millions, except per share data)	Year ended May 31, 1998	1997	1996
Determination of shares:			
Average common shares oustanding	288.7	288.4	286.6
Assumed conversion of stock options	6.3	8.6	7.0
Diluted average common shares outstanding	295.0	297.0	293.6
Basic earnings per common share	$ 1.38	$ 2.76	$ 1.93
Diluted earnings per common share	$ 1.35	$ 2.68	$ 1.88

SPARTON CORPORATION (JUN)

	1998	1997	1996
Income (loss) from continuing operations	4,333,117	2,241,903	(2,810,794)
Discontinued operations: (Note 8)			
Loss from discontinued automotive operations, net of income tax credits of $72,000 in 1997 and $771,000 in 1996	—	(128,720)	(1,269,390)
Gain (loss) on disposal of discontinued automotive operations, net of applicable income tax credit of $680,000 in 1998 and provision of $18,122,000 in 1997	(1,320,000)	31,587,357	—
Net income (loss)	$3,013,117	$33,700,540	$(4,080,184)
Basic and diluted earnings per share:			
Continuing operations	$ .55	$ .29	$(.36)
Discontinued operations	(.17)	4.02	(.16)
	$ .38	$4.31	$(.52)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Earnings Per Share

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share." SFAS 128 replaced the previously reported 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. The diluted earnings per share calculation is very similar to the previous fully diluted earnings per share calculation method. SFAS 128 became effective December 31, 1997.

The Company has a simple capital structure and there were no changes under the SFAS 128 methodology to the previously reported earnings per share amounts for any of the fiscal years. Income from continuing operations for purposes of the SFAS 128 computations were also the same as those reported for all fiscal years.

Basic earnings per share under SFAS 128 were computed using the weighted average number of shares outstanding of 7,826,840 in 1998, 7,816,417 in 1997 and 7,811,370 in 1996. Differences in the weighted average number of shares outstanding for purposes of computing diluted earnings per share were due to the inclusion of the dilutive effect of employee incentive stock options previously granted of 164,072 in 1998 and 38,237 in 1997. These differences in the weighted average number of shares outstanding for the calculation of basic and diluted earnings per share were not material in any of the reporting periods within fiscal years 1998 and 1997, and resulted in no differences between basic and diluted earnings per share. Options to purchase 49,000 shares of common stock at $6.625 per share were outstanding during 1996 and options to purchase 196,500 shares of common stock at $8.375 per share were outstanding during 1997 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 and therefore, the effect would be anti-dilutive.

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.

R.R. DONNELLEY & SONS COMPANY (DEC)

CORPORATE RESPONSIBILITY

Diversity

R.R. Donnelley is committed to strengthening its diverse, inclusive, capable workforce in ways that value differences, inspire superior job performance, and attract and develop talented people. We recognize that eliciting ideas from a variety of people who have different skills and experiences results in the best solutions—inside our organization and outside the company among our suppliers and customers.

We continue to focus on five key areas of diversity and inclusiveness to ensure our efforts are part of the way we do business. Here are a few highlights:

Employment

Diversity and inclusiveness are integral parts of senior management compensation plans. We have an aggressive outreach program to recruiting firms that specialize in female and minority placements. We have increased our exposure at colleges and universities that reflect a diverse environment. We provide college scholarships for minorities and remain active in national minority organizations.

Education and Training

Employees must get the training and experience they need to do their jobs well. Part of that is providing access to internal and external development opportunities. Another part is our diversity-training curriculum. In 1998, we completed Phase I of the curriculum by educating supervisors and managers on compliance issues. Phase II kicks off in early 1999 and focuses on the business case for diversity. The skill-based training is designed to address working and managing in a diverse and inclusive environment. Phase III will offer a number of courses under the umbrella of "managing a diverse workforce." By the end of 2000, our goal is that every employee will have participated in some aspect of diversity training.

Workplace Quality

Having a high-performance culture means everyone at R.R. Donnelley feels valued. It means we have a workplace that encourages us to work together, build on each other's input and act as a team. To that end, we have diversity councils at the plant level focused on making R.R. Donnelley a great place to work. Council members share diversity best practices in informal meetings with one another. They also have skill-building workshops to help them become a driving force for enhanced workplace quality in their own organizations.

Supplier Relationships

Building diversity into our supplier relationships is an ongoing strategic goal at R.R. Donnelley. In 1998, we began a formal program to promote diverse supplier relationships. During the year, we more than doubled our spending with minority and women-owned businesses over previous years. We are tracking our progress using benchmarks established by the National Minority Supplier Development Council, of which R.R. Donnelley is an active member.

Community Involvement

R.R. Donnelley has a long-standing tradition of supporting a wide range of organizations that reflect diversity and inclusiveness. Among these in 1998 were The Legacy Museum of African American History in Lynchburg, Virginia; Reach Out and Read in Chicago, Illinois; and the Early Learning Institute in Pittsburgh, Pennsylvania, serving children with special needs. In addition, the company made a three-year, $185,000 commitment to The College Fund/United Negro College Fund to establish a scholarship program, which includes summer internships at R.R. Donnelley for African American students.

Environmental Responsibility

As a high-performance company, we must integrate Environmental, Health and Safety (EHS) into the overall management of our business. We are driving toward two broad goals: (1) sustainable environmental compliance in our worldwide operations and (2) an injury-free workplace.

To ensure our success, we are creating a culture of EHS stewardship structured around leadership, accountability, discipline, metrics and employee empowerment. In this culture, employees have the knowledge and tools to accomplish EHS goals as an integral part of their jobs.

In line with this culture, we are taking specific steps to improve EHS performance with:

- Improved metrics worldwide
- Key management training in EHS awareness
- Employee compliance training to enhance workplace safety
- An EHS Leadership Council charged with coordinating the alignment of EHS goals with R.R. Donnelley's worldwide business strategy and operations
- Ergonomic changes in the production process to engineer safety in our workplace
- Professional EHS staffing in our plants

Our plant in Senatobia, Mississippi, is a model of EHS stewardship. It received the Occupational Safety and Health Association's STAR Award—the agency's most prestigious achievement award for industrial safety and health. Senatobia is the first printing plant ever to receive this honor and one of only 250 manufacturing facilities in the United States to earn this recognition.

EHS stewardship also encompasses our ongoing efforts to protect the external environment in the communities in which we operate. In the past 11 years, we have reduced releases under the U.S. Environmental Protection Agency's Toxic Release Inventory program by more than 65 percent. Through a combination of recycling and treatment, we've reduced hazardous waste generation 42 percent since 1988. And when it comes to wastepaper from our pressrooms, almost 100 percent is either recycled or used as fuel.

Community Relations

R.R. Donnelley strives to be the neighbor of choice and the employer of choice in the communities in which we operate. In 1998, R.R. Donnelley contributed more than $3.5 million to nonprofit organizations, primarily in our manufacturing communities, with priority given to support of the written word and children. One of the highlights last year included a $150,000 grant toward construction of the Montgomery County Boys and Girls Club in Crawfordsville, Indiana, where R.R. Donnelley is the largest employer.

Donnelley Dollars for Doers, announced in 1997, completed its first payout cycle in 1998, with more than $85,000 distributed. This program recognized the efforts of almost 400 employees and retirees, with awards ranging from $100 to $250 presented to community organizations in which they volunteer their personal time and energy. Schools, libraries, hospitals, volunteer fire departments, sports leagues, animal protection organizations, scout troops and homeless shelters were among the 270 community-based organizations benefiting from these grants.

In a joint effort between the Community Relations and Environmental, Health and Safety departments, R.R. Donnelley funded development of a nature trail on our plant site in Roanoke, Virginia. The 60-acre nature preserve, developed in conjunction with Corporate Lands for Learning, is open to the public for hiking and educational purposes.

To enrich the multicultural resources of our communities, we launched the R.R. Donnelley Collection of American Cultures. Twice a year, in partnershp with our local plants and our customers, we give sets of books to local libraries and schools. Last year, the R.R. Donnelley Collection of American Cultures featured African American literature and children's books about different occasions celebrated by Americans of diverse cultures.

Careers at R.R. Donnelley

R.R. Donnelley is known for its commitment to serving customers and developing the integrated solutions that meet their needs. We are always looking for people who can think like owners, who can find ways to add value to our products and who can act with the best interests of both our customers and our company. In return, we give those people the training and resources they need to succeed.

For more information on career opportunities at R.R. Donnelley, including information on submitting resumes, contact us at our site on the World Wide Web (*www.rrdonnelley.com/careers*); or write to us at Human Resources, R.R. Donnelley & Sons Company, 77 West Wacker Drive, Chicago, IL 60601-1696.

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

CORPORATE CITIZENSHIP

Public Affairs

A healthy social environment improves the quality of life for our associates, their families, and friends and also enhances the business community. Our Company remains committed to this partnership, reinvesting its money and promoting an environment where associates can invest their talents in the communities where we do business.

In 1998, the Company, including department stores and catalog, Direct Marketing, and Eckerd drugstores, supported charitable organizations with grants totaling $27.8 million, including $3.4 million in donated goods and services. The majority of this support was directed to local charitable organizations in communities nationwide.

Education and Volunteerism

One of the Company's priority issues is education, specifically pre-kindergarten through 12th-grade education. In 1998, JCPenney conducted its sixth broadcast in a series, "The JCPenney Leadership Institute on School Improvement." The broadcast was presented to school and community leaders in 500 locations nationwide and received The Conference Board's Best in Class Award.

Eckerd served as a corporate sponsor of Enterprise Village in the Pinellas County, Fla., schools. The program gives fifth-grade students actual business and community experience in the free enterprise system. The Village houses miniature versions of businesses found in the community, including an Eckerd store.

Our community involvement also focuses on the encouragement and promotion of volunteerism. Our Golden Rule Awards, active in 216 JCPenney markets, publicly honor community volunteers and support their work with cash contributions. The James Cash Penney Awards for Community Service provide similar recognition to JCPenney and Eckerd associates for their outstanding volunteer activities. These two programs contributed $1.8 million to local charitable organizations in 1998.

Eckerd's centennial celebration included a Salute to 100 Women, which honored women nominated by customers for their outstanding community service and leadership. Eckerd co-hosted a symposium for the honorees at Emory University in Atlanta and provided $100,000 in grants to their charitable organizations.

Diversity

JCPenney has been a corporate member of the National Minority Supplier Development Council since 1972, and continues its $1 million investment in the NMSDC's Business Consortium Fund, which makes loans to minority-owned businesses. In 1996, the Company became a founding member of the Women's Business Enterprise National Council. In 1998, our purchases from minority-owned and women-owned businesses totaled $385 million and $240 million, respectively. For these endeavors, the Company received the 1998 Corporate Non-Signatory Award presented by the NAACP Special Contribution Fund and was named Corporation of the Year by the North Texas Women's Business Council. We also:

- Presented Joan Ganz Cooney, founder of Children's Television Workshop and the creator of Sesame Street, with the seventh Juanita Kreps Award honoring the Spirit of the American Woman, recognizing her outstanding accomplishments in educational television.
- Hosted the 10th annual Hispanic Designers Model Search in 19 JCPenney markets, including our international markets.
- Served as the exclusive retail sponsor of the Essence Awards, as we have since 1993.
- Continued our major sponsorship of the Alma Awards presented by the National Council of La Raza.

Environmental Affairs

Our commitment to doing business in a responsible manner includes a determination to make environmental, health, and safety considerations an important factor in corporate decision making and policy. That policy is being implemented primarily through the thoughtful usage of lighting, generated power, merchandise packaging, recycling, and trash disposal and through the Company's adoption of safety-related programs.

Copies of "JCPenney Community Partners," the Company's Community Relations report, and "Matter of Principle: JCPenney and Environmental Responsibility," including the Company's Statement of Environmental Principles, may be obtained as indicated on page 47 of this Annual Report. Also, please visit www.jcpenney.com for an online version of "Community Partners."

Physical Fitness and Wellness

JCPenney's 1998 United Way campaign raised nearly $17 million in associate and unit pledges for nearly 1,000 United Way organizations across the country. In addition:

- JCPenney continued as the National Presenting Sponsor of the Susan G. Komen Breast Cancer Foundation Race for the Cure®. These fund-raising 5K races and one-mile runs/fitness walks were held in 85 cities in 1998.
- Eckerd raised $2.4 million for Children's Miracle Network, which supports children's hospitals throughout the United States and Canada.
- Direct Marketing initiated support for the Plano, Texas, launch of the Kick Drugs Out of America Foundation, which fights drugs and youth violence through a combination of educational and motivational programs.
- JCPenney associates, their families, and friends raised more than $780,000 for the prevention and cure of birth defects through participation in the March of Dimes WalkAmerica in more than 100 markets.
- The JCPenney Classic golf tournament, now in its 22nd year, has raised more than $11 million for Tampa Bay area charities.
- Over the past 20 years, JCPenney has employed 107 athletes through the U.S. Olympic Committee's Job Opportunities Program, allowing promising Olympic athletes to work toward building a career while training for their events.

MURPHY OIL CORPORATION (DEC)

CORPORATE RESPONSIBILITY

Murphy Oil Corporation understands that its responsibilities extend beyond the bottom line. A healthy company depends on a healthy community, and a successful company creates a safe work environment. Murphy has developed and implemented operating procedures and invested in equipment upgrades that have earned excellent environmental and safety records for its operations. In addition, Murphy's investments in ongoing environmental improvements are part of a long-term commitment by the Company to address public concerns about the possible effects of carbon dioxide and other greenhouse gases on the envirionment.

Environmental Improvements

In all of its downstream operations and surrounding communities, Murphy has achieved an outstanding record of environmental stewardship. Over the past decade, throughout the downstream segment of its business, the Company has invested more than $200 million in environmental improvement projects. In recent years, Murphy's refineries have reduced emissions of chemicals on the EPA's Toxic Release Inventory by 47%, maintained water emissions at less than 25% of permitted levels and reduced overall air emissions by more than 60%. In the United States, Murphy's marine terminal operations have achieved a 99.997% record of containment over the past 10 years.

Murphy's exploration and production operations on the Outer Continental Shelf of the Gulf of Mexico have a 99% or better compliance record for meeting the aqueous discharge levels defined in its permits. In Canada, the Company's ongoing improvements in its oil and gas operations include replacing flare pits with more environmentally friendly aboveground tanks and flarestacks.

Employee Safety

Murphy has developed operational procedures and employee training programs that have kept the number of its lost-time accidents below industry averages. These programs have won refinery safety awards at both Meraux, Louisiana and Superior, Wisconsin. In 1998, the Company's terminal operations surpassed eight consecutive years without a lost-time injury. The Company also participates in federal and local emergency response drills coordinated by the Federal Emergency Management Agency and local emergency response teams. Each year, Murphy conducts nearly 30,000 hours of employee training including first aid, marine survival, firefighting and transportation of hazardous materials.

Community Partnerships

Everywhere Murphy operates, people benefit. The Company's 1,566 employees support the educational, cultural and charitable organizations in their local communities. The Company is also active in the civic life of the areas where it operates. From scholarship programs to support for the United Way, Murphy remains committed to being a good neighbor and a responsible corporate citizen.

WEYERHAEUSER COMPANY (DEC)

WEYERHAEUSER COMPANY FOUNDATION

In 1998, the Weyerhaeuser Company Foundation celebrated its 50th year of corporate philanthropy. Since 1948, the Foundation has invested more than $122 million in grants to help fund thousands of projects and has supported volunteer efforts on hundreds of other activities—all with the goal of making a positive difference in the quality of people's lives. The Weyerhaeuser Company Foundation is one of the few sources of corporate giving in small communities across the United States and Canada. We believe Weyerhaeuser's success is linked to the health and well-being of the communities where we do business and where our employees live, work and play. With the input of more than 95 local employee-advisory committees, the Weyerhaeuser Company Foundation carefully directs millions of dollars annually to these communities. Our grants support needs such as education, human services, community development, arts and culture, and the environment. The increasing number of requests we receive each year reminds us that we can do only so much with the funds we have. What we do, however, has a significant positive impact—especially when paired with volunteer efforts. For that reason, and to bring volunteerism into the foreground of corporate philanthropy, we're proud to be "Making Waves" (Weyerhaeuser Active Volunteer Employees). Through this program, employees make "waves" in their communities by initiating volunteer projects and nominating local nonprofit organizations for cash awards. To date, more than 100 projects involving hundreds of volunteers, and representing more than 100,000 volunteer hours, have been completed. This is just one small way the Weyerhaeuser Company Foundation helps us thank the many people and communities where we maintain operations, shows the neighborly face of a large company, and shares our many skills and talents.

Grants awarded by geography (Thousands of dollars)	Dollar amount	Percentage
Northwest (Oregon and Washington)	$2,577	36%
South (Alabama, Arkansas, Georgia, Mississippi, North Carolina and Oklahoma)	1,802	26%
Other (United States, Canada and other international)	2,680	38%
Total	$7,059	100%

Grants awarded by priority (Thousands of dollars)	Dollar amount
Education	$2,607
Civic, community, environment	1,933
Culture and arts	580
United Way	914
Other health and human services	1,025
Total	$7,059

Section 4: Comprehensive Income

Effective for fiscal years beginning after December 15, 1997, *Statement of Financial Accounting Standards No. 130* requires that a full set of general-purpose financial statements report comprehensive income and its components. Comprehensive income includes net income, foreign currency items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities. If an entity has only net income, it is not required to report comprehensive income. *SFAS No. 130* "encourages" reporting comprehensive income in either a combined statement of income and comprehensive income or in a separate statement of comprehensive income.

PRESENTATION IN ANNUAL REPORT

The requirements of *SFAS No. 130* applied to many but not all of the survey companies for 1998. 347 survey companies presented a financial statement reporting comprehensive income. Other survey companies disclosed comprehensive income items but did not present a financial statement reporting comprehensive income because their financial statements were for a fiscal year prior to the effective date of *SFAS No. 130.* Of the 347 survey companies reporting comprehensive income, 14 did so in a combined statement of income and comprehensive income; 61 did so in a separate statement of comprehensive income; and 272 did so in a statement of changes in stockholders' equity. If comprehensive income was reported in a separate statement, such statement was presented most frequently on the same page as the statement of income.

Examples of comprehensive income reported in a combined statement of income and comprehensive income and in a separate statement of comprehensive income follow. Examples of comprehensive income reported in a statement of changes in stockholders' equity are on pages 482-490.

Combined Statement Of Net Income And Comprehensive Income

ARDEN GROUP, INC. (DEC)

Statements of Operations and Comprehensive Income

(In thousands, except share and per share data)	1998	1997	1996
Sales	$ 296,487	$ 274,354	$ 252,019
Cost of sales	176,595	164,366	152,852
Gross profit	119,892	109,988	99,167
Delivery, selling, general and administrative expenses	103,882	97,127	93,245
Operating income	16,010	12,861	5,922
Interest and dividend income	1,453	1,536	1,728
Other income (expense), net	396	588	(170)
Interest expense	(764)	(702)	(879)
Income from continuing operations, before income taxes	17,095	14,283	6,601
Income tax provision	7,014	5,586	2,622
Income from continuing operations, net of income taxes	10,081	8,697	3,979
Loss from discontinued operations, net of income tax benefits of $1,602 in 1997 and $305 in 1996	—	(2,738)	(456)
Net income	$ 10,081	$ 5,959	$ 3,523
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) from available-for-sale securities:			
Unrealized holding gains (losses) arising during the period	(89)	496	—
Reclassification adjustment for gains (losses) included in net income	66	(80)	—
Net unrealized gain (loss), net of income tax expense (benefits) of $(9) for 1998 and $275 for 1997	(23)	416	—
Comprehensive income	$ 10,058	$ 6,375	$ 3,523
Basic net income per common share:			
Income from continuing operations	$ 2.81	$ 2.10	$ .89
Loss from discontinued operations	—	(.66)	(.10)
Net income	$ 2.81	$ 1.44	$ .79
Weighted average common shares outstanding	3,585,472	4,131,060	4,460,860

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Comprehensive Income

SFAS 130, "Reporting Comprehensive Income," was adopted during the first quarter of 1998. The standard establishes guidelines for the reporting and display of comprehensive income and its components in financial statements. Comprehensive income includes unrealized gains and losses on debt and equity securities classified as available-for-sale and included as a component of stockholders' equity.

HECLA MINING COMPANY (DEC)

Consolidated Statements of Operations and Comprehensive Loss

(Dollars and shares in thousands, except per share amounts)	1998	1997	1996
Sales of products	$159,231	$163,948	$158,252
Cost of sales and other direct production costs	127,933	126,742	126,878
Depreciation, depletion and amortization	22,206	21,009	20,451
	150,139	147,751	147,329
Gross profit	9,092	16,197	10,923
Other operating expenses:			
General and administrative	7,583	7,976	7,745
Exploration	4,866	7,422	4,843
Depreciation and amortization	389	311	338
Provision for (benefit from) closed operations and environmental matters	734	(724)	22,806
Reduction in carrying value of mining properties	—	715	12,902
	13,572	15,700	48,634
Income (loss) from operations	(4,480)	497	(37,711)
Other income (expense):			
Interest and other income	5,917	4,621	8,630
Miscellaneous expense	(1,487)	(1,643)	(1,870)
Gain (loss) on investments	1,136	(405)	(28)
Interest expense:			
Interest costs	(3,261)	(2,462)	(3,058)
Less amount capitalized	959	806	2,360
	3,264	917	6,034
Income (loss) before income taxes	(1,216)	1,414	(31,677)
Income tax benefit (provision)	916	(1,897)	(677)
Net loss	(300)	(483)	(32,354)
Preferred stock dividends	(8,050)	(8,050)	(8,050)
Loss applicable to common shareholders	(8,350)	(8,533)	(40,404)
Other comprehensive loss, net of tax:			
Unrealized losses on securities	(115)	(351)	(195)
Reclassification adjustment for losses included in net loss	96	320	63
Minimum pension liability adjustment	(289)	—	—
Other comprehensive loss	(308)	(31)	(132)
Comprehensive loss applicable to common shareholders	$ (8,658)	$ (8,564)	$ (40,536)
Basic and diluted loss per common share	$ (0.15)	$ (0.16)	$ (0.79)
Weighted average number of common shares outstanding	55,101	54,763	51,133

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Other Comprehensive Loss

Due to availability of net operating losses, there is no tax effect associated with any component of other comprehensive loss.

The following table lists the beginning balance, yearly activity, and ending balance of each component of accumulated other comprehensive loss *(in thousands):*

	Foreign Currency Items	Unrealized Gains (Losses) on Securities	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Loss
Balance December 31, 1995	$(4,898)	$ 100	$ —	$(4,798)
1996 change	—	(132)	—	(132)
Balance December 31, 1996	(4,898)	(32)	—	(4,930)
1997 change	—	(31)	—	(31)
Balance December 31, 1997	(4,898)	(63)	—	(4,961)
1998 change	—	(19)	(289)	(308)
Balance December 31, 1998	$(4,898)	$ (82)	$(289)	$(5,269)

Separate Statement Of Comprehensive Income

AMERON INTERNATIONAL CORPORATION (NOV)

Consolidated Statements of Comprehensive Income

(Dollars in thousands)	1998	1997	1996
Net income	$20,746	$19,372	$15,410
Other comprehensive losses:			
Foreign currency translation adjustments	(1,837)	(6,872)	(1,070)
Minimum pension liability adjustments	(502)	—	—
Other comprehensive losses, net of tax	(2,339)	(6,872)	(1,070)
Comprehensive income	$18,407	$12,500	$14,340

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Comprehensive Income

Components of comprehensive income, as detailed on the Consolidated Statements of Comprehensive Income, are net of tax. The related tax effect of foreign currency translation adjustments was $989,000, $4,212,000, and $576,000 in 1998, 1997 and 1996, respectively. The related tax effect of minimum pension liability adjustment was $270,000 in 1998.

BALL CORPORATION (DEC)

Consolidated Statement of Comprehensive Income

(Dollars in millions)	1998 Comprehensive Income	1998 Accumulated Other Comprehensive Loss	1997 Comprehensive Income	1997 Accumulated Other Comprehensive Loss	1996 Comprehensive Income	1996 Accumulated Other Comprehensive Loss
Comprehensive Income (Loss)						
Balance, beginning of year		$(22.8)		$(20.7)		$(25.6)
Net income for the year	$16.6		$58.3		$24.2	
Foreign currency translation adjustment	(7.7)		(2.6)		(0.5)	
Minimum pension liability adjustment, net of tax	(1.2)		0.5		5.4	
Other comprehensive income (loss)	(8.9)	(8.9)	(2.1)	(2.1)	4.9	4.9
Comprehensive income	$ 7.7		$56.2		$29.1	
Balance, end of year		$(31.7)		$(22.8)		$(20.7)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shareholders' Equity (In Part)

Accumulated Other Comprehensive Loss

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income," which requires the Company to report the changes in shareholders' equity from all sources during the period other than those resulting from investments by shareholders (i.e., issuance or repurchase of common shares and dividends). Although adoption of this standard has not resulted in any change to the historic basis of the determination of earnings or shareholders' equity, the other comprehensive income components recorded under generally accepted accounting principles and previously included under the category "retained earnings" are displayed as "accumulated other comprehensive loss" within the balance sheet. The composition of accumulated other comprehensive loss is as follows:

(Dollars in millions)	Foreign Currency Translation	Minimum Pension Liability	Accumulated Other Comprehensive Loss
December 31, 1995	$(17.8)	$(7.8)	$(25.6)
1996 Change	(0.5)	5.4	4.9
December 31, 1996	(18.3)	(2.4)	(20.7)
1997 Change	(2.6)	0.5	(2.1)
December 31, 1997	(20.9)	(1.9)	(22.8)
1998 Change	(7.7)	(1.2)	(8.9)
December 31, 1998	$(28.6)	$(3.1)	$(31.7)

The minimum pension liability component of other comprehensive income (loss) is presented net of related tax expense (benefit) of $(0.4) million, $0.4 million and $3.6 million for the years ended December 31, 1998, 1997 and 1996, respectively. No tax benefit has been provided on the foreign currency translation loss component for any period as the undistributed earnings of the Company's foreign investments will continue to be reinvested.

THE DOW CHEMICAL COMPANY (DEC)

Consolidated Statements of Comprehensive Income

(In millions)	1998	1997	1996
Net income available for common stockholders	$1,304	$1,802	$1,900
Other comprehensive income, net of tax (tax amounts shown below for 1998, 1997, 1996)			
Unrealized gains on investments:			
Unrealized holding gains (losses) during the period (less tax of $(66), $56, $70)	(193)	124	130
Less: Reclassification adjustments for net gains included in net income (less tax of $4 for 1998)	7	—	—
Cumulative translation adjustments (less tax of $47, $(23), $(14))	15	(66)	(14)
Minimum pension liability adjustments (less tax of $(17), $(9), $(11))	(30)	(11)	(22)
Total other comprehensive income (loss)	(201)	47	94
Comprehensive income	$1,103	$1,849	$1,994

ETHYL CORPORATION (DEC)

Consolidated Statements of Comprehensive Income

(In thousands of dollars)	1998		1997		1996	
Net income		$70,579		$77,530		$92,972
Other comprehensive (loss) income, net of tax:						
Unrealized gain on marketable securities	$ 2,484		$9,824		$ —	
Less: Reclassification adjustment for gain included in net income	(9,487)	(7,003)	—	9,824	—	—
Foreign currency translation adjustments	2,361		(10,261)		(3,978)	
Less: Reclassification adjustment for loss included in net income	—	2,361	4,030	(6,231)	—	(3,978)
Minimum pension liability adjustment		(2,667)		—		—
Other comprehensive (loss) income		(7,309)		3,593		(3,978)
Comprehensive income		$63,270		$81,123		$88,994

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Comprehensive Income

The Company reports comprehensive income in accordance with FASB Statement No. 130, "Reporting Comprehensive Income." Accordingly, the Consolidated Statements of Comprehensive Income are included on page 28, while Accumulated Other Comprehensive (Loss) Income is included in the Shareholders' Equity section of the balance sheet. Amounts are reported net of tax and include gains and losses on foreign currency translation adjustments, unrealized gains and losses on marketable securities and the excess of the minimum pension liability over the unrecognized prior service cost of a foreign pension plan.

19. Comprehensive Income

FASB Statement No. 130, "Reporting Comprehensive Income" was adopted effective December 31, 1997. This statement establishes standards for reporting comprehensive income in financial statements. Material components of Accumulated Other Comprehensive Income must also be disclosed. This statement only modifies disclosures, including financial statement disclosures, and does not result in other changes to the results or financial position of the Company.

Information on the tax effects on items in the Consolidated Statements of Comprehensive Income is as follows:

(In thousands) Years ended December 31	1998	1997	1996
Unrealized gain on marketable securities	$ 3,899	$ 15,422	—
Income tax	(1,415)	(5,598)	—
Unrealized gain on marketable securities, net of tax	$ 2,484	$ 9,824	—
Reclassification adjustment for the gain included in net income, arising from sale of securities	$(14,891)	—	—
Income tax	5,404	—	—
Reclassification adjustment for the gain on the marketable securities, net of tax	$ (9,487)	—	—
Foreign currency translation adjustment	$ 3,780	$(16,340)	$(6,156)
Income tax	(1,419)	6,079	2,178
Foreign currency translation adjustment, net of tax	$ 2,361	$(10,261)	$(3,978)
Reclassification of foreign currency translation adjustment for the loss included in income, arising from sale of foreign subsidiary	—	$ 6,326	—
Income tax	—	(2,296)	—
Reclassification of foreign currency translation adjustment, net of tax	—	$ 4,030	—
Minimum pension liability adjustment	$ (3,865)	—	—
Income tax	1,198	—	—
Minimum pension liability adjustment, net of tax	$ (2,667)	—	—

Accumulated other comprehensive (loss) income consists of the following:

(In thousands) December 31	1998	1997
Foreign currency translation adjustments	$(5,758)	$(8,119)
Unrealized gains on marketable securities	2,821	9,824
Minimum pension liability adjustment	(2,667)	—
Total	$(5,604)	$ 1,705

ITT INDUSTRIES, INC. (DEC)

Consolidated Statements of Comprehensive Income

Year ended December 31, 1998 (in millions)	Pretax Income (Expense)	Tax (Expense) Benefit	After-Tax Amount
Net income			$1,532.5
Other income (Loss):			
Foreign currency translation:			
Adjustments arising during period	$ 18.0	$ 3.0	21.0
Reclassifications included in net income	(182.7)	(22.1)	(204.8)
Unrealized gain (loss) on investment securities	(2.1)	—	(2.1)
Total other income (loss)	$(166.8)	$(19.1)	(185.9)
Comprehensive income			$1,346.6

Year ended December 31, 1997 (in millions)	Pretax Income (Expense)	Tax (Expense) Benefit	After-Tax Amount
Net income			$ 108.1
Other income (Loss):			
Foreign currency translation:			
Adjustments arising during period	$ 38.3	$ (7.5)	30.8
Reclassifications included in net income	(24.1)	(1.1)	(25.2)
Unrealized gain (loss) on investment securities	1.6	—	1.6
Total other income (loss)	$ 15.8	$ (8.6)	7.2
Comprehensive income			$ 115.3

Year ended December 31, 1996 (in millions)	Pretax Income (Expense)	Tax (Expense) Benefit	After-Tax Amount
Net income			$ 222.6
Other income (Loss):			
Foreign currency translation:			
Adjustments arising during period	$ 6.5	$ (6.4)	0.1
Total other income (loss)	$ 6.5	$ (6.4)	0.1
Comprehensive income			$ 222.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Changes in Accounting Policies

In January 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires the disclosure of comprehensive income, which includes, in addition to net income, other comprehensive income consisting of unrealized gains and losses which bypass the traditional income statement and are recorded directly into a separate section of shareholders' equity on the balance sheet. The components of other comprehensive income for the Company consist of unrealized gains and losses relating to the translation of foreign currency financial statements, hedges of net foreign investments, and certain investment securities.

MERCK & CO., INC. (DEC)

Consolidated Statement of Comprehensive Income

(In millions)	1998	1997	1996
Net income	$5,248.2	$4,614.1	$3,881.3
Other comprehensive loss			
Net unrealized loss on investments, net of tax and net income realization	(5.6)	(17.6)	(10.8)
Minimum pension liability, net of tax	(24.7)	(12.4)	(6.5)
	(30.3)	(30.0)	(17.3)
Comprehensive income	$5,217.9	$4,584.1	$3,864.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ($ in millions except per share amounts)

17. Comprehensive Income

Effective January 1, 1998, the Company adopted the provisions of Statement No. 130, Reporting Comprehensive Income, which modifies the financial statement presentation of comprehensive income and its components. In accordance with this Statement, a Consolidated Statement of Comprehensive Income is included in the consolidated financial statements to present all changes in Stockholders' equity in the periods presented other than changes resulting from transactions relating to the Company's stock. Upon adoption, accumulated other comprehensive income of $9.0 million at December 31, 1997 was reclassified from Retained earnings to a separate component of Stockholders' equity.

The components of Other comprehensive loss are as follows:

Year Ended December 31, 1998	Pretax[1]	Tax	After Tax
Net unrealized gain on investments	$ 20.6	$ (4.8)	$ 15.8
Net income realization	(41.9)	20.5	(21.4)
Subtotal	$ (21.3)	$ 15.7	$ (5.6)
Minimum pension liability	(47.2)	22.5	(24.7)
	$ (68.5)	$(38.2)	$(30.3)
Year Ended December 31, 1997			
Net unrealized loss on investments	$ (74.6)	$ 57.0	$(17.6)
Minimum pension liability	(37.8)	25.4	(12.4)
	$(112.4)	$ 82.4	$(30.0)
Year Ended December 31, 1996			
Net unrealized loss on investments	$ (36.1)	$ 25.3	$(10.8)
Minimum pension liability	(19.9)	13.4	(6.5)
	$ (56.0)	$ 38.7	$(17.3)

[1] Net of minority interest.

The components of Accumulated other comprehensive (loss) income are as follows:

December 31	1998	1997
Net unrealized gain on investments	$ 22.3	$27.9
Minimum pension liability	(43.6)	(18.9)
	$ (21.3)	$ 9.0

MONSANTO COMPANY (DEC)

Statement of Consolidated Comprehensive Income (Loss)

(Dollars in millions)	1998	1997	1996
Net income (loss)	$(250)	$470	$385
Other comprehensive income (loss):			
Foreign currency translation adjustments	12	(138)	(91)
Unrealized net gains (losses) on investments:			
Unrealized net holding gains (losses) arising during period, before tax	(1)	(12)	(37)
Related income tax benefit	2	4	14
Reclassification adjustments for losses included in net income	16	—	—
Related income tax expense	(6)	—	—
Additional minimum pension liability adjustment, before tax	(24)	(27)	—
Related income tax benefit	7	11	—
Total other comprehensive income (loss)	6	(162)	(114)
Comprehensive income (loss)	$(244)	$308	$271

NOTES TO FINANCIAL STATEMENTS

New Accounting Standards (In Part):

Effective Jan. 1, 1998, Monsanto adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (FAS 130). FAS 130 establishes standards for the reporting and display of comprehensive income and its components in financial statements. Comprehensive income includes all nonshareowner changes inequity, and consists of net income, foreign currency translation adjustments, unrealized gains and losses on available-for-sale securities, and additional minimum pension liability adjustments.

ACCUMULATED BALANCES FOR OTHER COMPREHENSIVE INCOME

SFAS No. 130 requires that a separate caption for accumulated other comprehensive income be presented in the equity section of a balance sheet. Accumulated balances for each item included in accumulated other comprehensive income must be disclosed either in the equity section of the balance sheet, or in a statement of changes in stockholders' equity, or in notes to the financial statements.

Examples showing the disclosure of accumulated balances for other comprehensive income items follow.

Equity Section Of Balance Sheet

UNOVA, INC. (DEC)

(Thousands of dollars)	1998	1997
Shareholders' investment		
Preferred stock: 50,000,000 shares authorized	$ —	$ —
Common stock: shares outstanding: 54,942,655 (1998) and 54,510,193 (1997)	549	545
Additional paid-in capital	645,054	603,743
Retained earnings (deficit)	61,672	(8,041)
Accumulated other comprehensive income:		
Cumulative currency translation adjustment	(5,850)	(6,758)
Total shareholders' investment	701,425	589,489

VIAD CORP. (DEC)

(000 omitted, except share data)	1998	1997
Common stock and other equity:		
Common stock, $1.50 par value, 200,000,000 shares authorized, 99,739,925 shares issued	$149,610	$149,610
Additional capital	327,866	291,414
Retained income	328,305	209,127
Unearned employee benefits and other	(162,543)	(121,968)
Accumulated other comprehensive income:		
Unrealized gain on securities classified as available for sale, net of tax	18,231	13,625
Cumulative translation adjustments	(7,009)	(3,022)
Common stock in treasury, at cost, 344,858 and 516,926 shares	(8,579)	(9,625)
Total common stock and other equity	645,881	529,161

Statement Of Changes In Stockholders' Equity

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, 1996	$15.1	$27.8	13.2	$(350.3)	$916.2	$(6.0)	$(48.0)	
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
Comprehensive income								$162.5
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)	
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)
Comprehensive income								$116.0
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)	
Net earnings					37.9			$ 37.9
Other comprehensive income:								
Minimum pension liability adjustment—net of tax benefit of $3.2						(5.3)		(5.3)
Currency translation adjustments							(5.5)	(5.5)
Comprehensive income								$ 27.1
Dividends on preferred stock— net of tax benefit of $3.2					(11.5)			
Dividends on common stock ($1.00 per share)					(65.9)			
Treasury stock transactions			1.2	(43.4)				
Stock issued under option, benefit and other plans		7.2	(0.7)	14.1				
Balance at December 31, 1998	$15.1	$48.0	14.8	$(449.7)	$1,033.2	$(12.6)	$(87.1)	

TEXACO INC. (DEC)

Statement of Consolidated Stockholders' Equity (In Part)

(Million of dollars)	1998	1997	1996
• • • • • •			
Paid-in capital in excess of par value			
Beginning of year	$ 1,688	$ 630	$ 655
Monterey acquisition	—	1,091	—
Treasury stock transactions relating to investor services plan and employee compensation plans	(48)	(33)	(25)
End of year	1,640	1,688	630
Retained earnings			
Balance at beginning of year	9,987	8,292	7,186
Add:			
Net income	578	2,664	2,018
Tax benefit associated with dividends on unallocated ESOP Convertible Preferred Stock	3	4	5
Deduct: Dividends declared on			
Common stock ($1.80 per share in 1998, $1.75 per share in 1997 and $1.65 per share in 1996)	952	918	859
Preferred stock			
Series B ESOP Convertible Preferred Stock	38	40	42
Series F ESOP Convertible Preferred Stock	4	4	4
Market Auction Preferred Shares (Series G, H, I and J)	13	11	12
Balance at end of year	9,561	9,987	8,292
Other accumulated nonowner changes in equity			
Currency translation adjustment			
Beginning of year	(105)	(65)	61
Change during year	(2)	(40)	(126)
End of year	(107)	(105)	(65)
Minimum pension liability adjustment			
Beginning of year	(16)	—	—
Change during year	(8)	(16)	—
End of year	(24)	(16)	—
Unrealized net gain on investments			
Beginning of year	26	33	62
Change during year	4	(7)	(29)
End of year	30	26	33
Total other accumulated nonowner changes in equity	(101)	(95)	(32)
Stockholders' equity end of year	$11,833	$12,766	$10,372

Notes to Financial Statements

ATLANTIC RICHFIELD COMPANY (DEC)

(Millions)	1998	1997
Stockholders' equity:		
Preference stocks	$ 1	$ 1
Common stock, $2.50 par value;		
shares issued 325,902,559 (1998), 322,719,890 (1997)		
shares outstanding 321,315,367 (1998), 320,369,895 (1997)	815	807
Capital in excess of par value of stock	863	640
Retained earnings	6,589	7,054
Treasury stock	(344)	(170)
Accumulated other comprehensive income (loss)	(344)	348
Total stockholders' equity	7,580	8,680

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. Comprehensive Income

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income," which established new rules for the reporting of comprehensive income and its components. Comprehensive income comprises net income plus all other changes in equity from nonowner sources. The new disclosures had no impact on ARCO's net income, financial position, stockholders' equity or cash flows.

The related tax effects allocated to each component of other comprehensive income at December 31 were as follows:

(Millions)	Unrealized Gain (Loss) on Securities	Foreign Currency Translation	Minimum Pension Liability
1998			
Pre-tax amount	$(1,107)	$ (30)	$ 11
Tax (expense) benefit	426	12	(4)
Net-of-tax amount	$ (681)	$ (18)	$ 7
1997			
Pre-tax amount	$ 623	$(299)	$(42)
Tax (expense) benefit	(242)	114	16
Net-of-tax amount	$ 381	$(185)	$(26)
1996			
Pre-tax amount	$ 379	$ (6)	$ 52
Tax (expense) benefit	(143)	4	(20)
Net-of-tax amount	$ 236	$ (2)	$ 32

Accumulated nonowner changes in equity (accumulated other comprehensive income) at December 31 were as follows:

(Millions)	1998	1997
Net unrealized gain (loss) on investments	$ (75)	$606
Foreign currency translation adjustment	(222)	(204)
Minimum pension liability	(47)	(54)
Accumulated other comprehensive income (loss)	$(344)	$348

Unrealized gains (losses) on securities related primarily to changes in the fair value of ARCO's investment in LUKOIL common stock, which had a fair value of $225 million, $1.3 billion and $678 million at December 31, 1998, 1997 and 1996, respectively, and a book value of $342 million.

ELI LILLY AND COMPANY (DEC)

(Dollars in millions)	1998	1997
Shareholders' equity		
Common stock—no par value		
Authorized shares: 3,200,000,000		
Issued shares: 1,097,400,814 (1998)		
and 1,111,521,927 (1997)	$ 686.5	$ 694.7
Additional paid-in capital	—	—
Retained earnings	4,228.8	4,497.3
Deferred costs—ESOP	(146.9)	(155.7)
Accumulated other comprehensive		
income (Note 14)	(229.8)	(281.2)
	4,538.6	4,755.1
Less cost of common stock in treasury:		
1998— 995,492 shares		
1997—1,000,000 shares	109.0	109.5
	4,429.6	4,645.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions)

14. Other Comprehensive Income

The accumulated balances related to each component of other comprehensive income were as follows:

	Foreign Currency Translation	Unrealized Gains (Losses) on Securities	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income
Beginning balance at January 1, 1998	$(267.0)	$3.2	$(17.4)	$(281.2)
Other comprehensive income (loss)	69.2	(1.7)	(16.1)	51.4
Balance at December 31, 1998	$(197.8)	$1.5	$(33.5)	$(229.8)

The amounts above are net of income taxes. The income taxes related to other comprehensive income were not significant as income taxes were generally not provided for foreign currency translation.

The unrealized gains (losses) on securities is net of a reclassification adjustment of $4.8 million, net of tax, in 1998 for realized gains and losses on sales of securities included in net income.

Generally, the assets and liabilities of foreign operations are translated into U.S. dollars using the current exchange rate. For those operations, changes in exchange rates generally do not affect cash flows; therefore, resulting translation adjustments are made to shareholders' equity rather than to income.

Section 5: 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 5-1, 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 5-1: PRESENTATION OF CHANGES IN RETAINED EARNINGS

	1998	1997	1996	1995
Statement of stockholders' equity	562	521	505	497
Separate statement of retained earnings	15	26	32	33
Combined statement of income and retained earnings	7	12	15	19
Schedule in notes	16	41	48	51
Total Companies	**600**	**600**	**600**	**600**

DIVIDENDS

Table 5-2 shows the nature of distributions made by the survey companies to their shareholders. Approximately 54% 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 27% 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 42 survey companies issuing stock purchase rights during 1998, 25 companies did so under a plan which replaced a plan adopted in a prior year.

Examples of distributions to shareholders follow.

TABLE 5-2: DIVIDENDS

	Number of Companies			
	1998	1997	1996	1995
Cash Dividends Paid to Common Stock Shareholders				
Per share amount disclosed in retained earnings statements	253	256	268	276
Per share amount not disclosed in retained earnings statements	182	182	178	168
Total	**435**	**438**	**446**	**444**
Cash Dividends Paid to Preferred Stock Shareholders				
Per share amount disclosed in retained earnings statements	22	28	37	49
Per share amount not disclosed in retained earnings statements	61	70	89	84
Total	**83**	**98**	**126**	**133**
Dividends Paid by Pooled Companies	**1**	**1**	**2**	**3**
Stock Dividends	**9**	**7**	**7**	**11**
Dividends in Kind	**10**	**14**	**16**	**14**
Stock Purchase Rights	**42**	**13**	**36**	**10**

Cash Dividends

ELCOR CORPORATION

Consolidated Statement of Shareholders' Equity

($ in thousands, except per share data)	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance, June 30, 1995	$13,203	$67,279	$13,856	$(1,182)	$ 93,156
Net income	—	—	10,676	—	10,676
Treasury stock transactions and exercises of stock options, net	—	(125)	—	524	399
Dividends, $.16 per share	—	—	(2,101)	—	(2,101)
Balance, June 30, 1996	13,203	67,154	22,431	(658)	102,130
Net income	—	—	12,276	—	12,276
Treasury stock transactions and exercises of stock options, net	18	(211)	—	235	42
Dividends, $.19 per share	—	—	(2,462)	—	(2,462)
Balance, June 30, 1997	13,221	66,943	32,245	(423)	111,986
Net income	—	—	18,324	—	18,324
Treasury stock transactions and exercises of stock options, net	105	919	—	(2,203)	(1,179)
Dividends, $.24 per share	—	—	(3,175)	—	(3,175)
Balance, June 30, 1998	$13,326	$67,862	$47,394	$2,626	$125,956

MALLINCKRODT INC.

Consolidated Statements of Changes in Shareholders' Equity

(In millions, except per share amounts)	Preferred Stock	Common Stock	Capital in Excess of Par Value	Reinvested Earnings	Other	Treasury Stock
Balance, June 30, 1995	$11.0	$87.1	$274.1	$984.5	$ (9.3)	$(175.9)
Net earnings				211.9		
Dividends:						
4 percent cumulative preferred stock ($4.00 per share)				(.4)		
Common stock ($.605 per share)				(45.3)		
Stock option exercises			8.1			21.6
Income tax benefit from stock options exercised			1.3			
Acquisition of treasury stock						(130.5)
Translation adjustment					(7.5)	
Unrealized gain on investments					1.5	
Balance, June 30, 1996	11.0	87.1	283.5	1,150.7	(15.3)	(284.8)
Net earnings				190.1		
Dividends:						
4 percent cumulative preferred stock ($4.00 per share)				(.4)		
Common stock ($.65 per share)				(47.8)		
Stock option exercises			6.7			27.2
Income tax benefit from stock options exercised			5.7			
Acquisition of treasury stock						(149.9)
Issuance of stock related to an acquisition			10.0			12.0
Translation adjustment, net of $9.3 translation loss included in discontinued operations					(35.2)	
Unrealized gain on investments					.6	
Balance, June 30, 1997	11.0	87.1	305.9	1,292.6	(49.9)	(395.5)
Net loss				(291.9)		
Dividends:						
4 percent cumulative preferred stock ($4.00 per share)				(.4)		
Common stock ($.66 per share)				(48.1)		
Stock option exercises			1.6			16.5
Income tax benefit from stock options exercised			2.1			
Acquisition of treasury stock						(9.7)
Investment plan match			2.4			7.3
Restricted stock award			3.2			6.9
Translation adjustment					(21.1)	
Unrealized loss on investments					(1.6)	
Balance, June 30, 1998	$11.0	$87.1	$315.2	$952.2	$(72.6)	$(374.5)

RUDDICK CORPORATION (SEP)

Statements of Consolidated Income and Retained Earnings

(Thousands of dollars, except share data)	1998	1997	1996
Net income	$ 46,772	$ 47,731	$ 42,802
Retained earnings at beginning of fiscal year	326,488	293,654	262,921
Common dividend:			
1998 and 1997—$.32 a share; 1996—$.26 a share	14,932	14,897	12,069
Retained earnings at end of fiscal year	$358,328	$326,488	$293,654
Net income per share—basic and diluted	$ 1.00	$ 1.02	$ .92

Stock Dividend

MERRIMAC INDUSTRIES, INC.

Consolidated Statements of Shareholders' Equity

	Common stock Shares	Common stock Amount	Additional paid-in capital	Unrealized holding gain (loss)	Retained earnings	Treasury stock Shares	Treasury stock Amount	Loan to officer-shareholder
Balance, December 30, 1995	2,549,452	$1,274,726	$8,723,124	$1,900	$10,965,750	920,739	$7,596,617	$ —
Net (loss)					(297,252)			
Exercise of options	36,297	18,149	268,206					
Tax benefit—stock options			14,000					
Effect of change in fair value of available-for-sale securities				4,262				
Cash dividends					(616,778)			
Purchase of common stock						154,100	1,630,448	
Balance, December 28, 1996	2,585,749	1,292,875	9,005,330	6,162	10,051,720	1,074,839	9,227,065	
Net income					1,402,409			
Issuance of stock options			12,000					
Exercise of options	65,382	32,691	559,914					
Tax benefit—stock options			132,000					
Effect of change in fair value of available-for-sale securities				(6,162)				
Cash dividends					(459,043)			
Loan to officer-shareholder								105,000
Balance, January 3, 1998	2,651,131	1,325,566	9,709,244		10,995,086	1,074,839	9,227,065	105,000
Net income					340,300			
Issuance of stock options			53,100					
Exercise of options	39,274	19,637	326,811					
Tax benefit—stock options			40,122					
Cash dividends					(1,009)			
Stock dividends			1,008,288		(2,384,322)	(160,290)	(1,376,026)	
Purchase of common stock						8,000	54,525	
Sale of common stock			83,308			(20,000)	(171,692)	
Loan to officer-shareholder								255,000
Balance, January 2, 1999	2,690,405	$1,345,203	$11,220,873		$8,950,055	902,549	$7,733,872	$360,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Stock Dividend

The Board announced on May 5, 1998, the declaration of a 10% stock dividend payable on June 5, 1998 to shareholders of record on May 15, 1998. Fractional shares were cashed-out and payments were made to shareholders in lieu of fractional shares on June 5, 1998. The basic and diluted weighted average number of shares outstanding and net income per share information for all prior reporting periods have been restated to reflect the effects of the stock dividend.

Dividends-in-Kind

QUALCOMM INCORPORATED

Consolidated Statements of Stockholders' Equity

(In thousands)	Common stock Shares	Common stock Amount	Paid-in Capital	Retained Earnings	Total
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 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 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
Exercise of stock options	1,290	—	30,417	—	30,417
Tax benefit from exercise of stock options	—	—	17,125	—	17,125
Issuance of common stock upon exercise of warrant	705	—	—	—	—
Issuance for employee stock purchase and executive retirement plans	472	—	19,408	—	19,408
Spin-off of Leap Wireless International, Inc. (Note 2)	—	—	(15,734)	(226,330)	(242,064)
Net income	—	—	—	108,532	108,532
Balance at September 30, 1998	70,591	$7	$957,589	$ —	$957,596

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Spin-Off Of Leap Wireless International, Inc.

On September 23, 1998, the Company completed the spin-off and distribution (the "Distribution" or "Leap Wireless Spin-off") to its stockholders of shares of Leap Wireless International, Inc., a Delaware corporation ("Leap Wireless"). As part of the Distribution, effective immediately after the close of market trading on September 23, 1998, record holders of QUALCOMM common stock on September 11, 1998 received a dividend of one share of common stock of Leap Wireless for every four shares of common stock of QUALCOMM held by them as of that date.

In connection with the Distribution, the Company transferred to Leap Wireless its joint venture and equity interests in the following domestic and international emerging terrestrial-based wireless telecommunications operating companies: Pegaso Telecommunicaciones, S.A. de C.V. ("Pegaso") (Mexico), Metrosvyaz Limited (Russia), Orrengrove Investments Limited (Russia), Chilesat Telefonia Personal, S.A. (Chile), Chase Telecommunications, Inc. (United States), OzPhone Pty. Ltd. (Australia), and certain other development-stage businesses. QUALCOMM and Leap Wireless also agreed that, if certain events occur within 18 months after the Distribution, QUALCOMM will transfer to Leap Wireless its equity interests and working capital loan related to Telesystems of Ukraine Telesystems of Ukraine ("TOU"), a wireless telecommunications company in Ukraine. In connection with the Distribution, QUALCOMM also transferred to Leap Wireless, $10 million cash and certain indebtedness of the operating companies owned to QUALCOMM in the amount of approximately $113 million, as well as certain miscellaneous assets. The aggregate net tangible book value of the assets transferred by QUALCOMM to Leap Wireless in connection with the Distribution was approximately $258 million. Because the Company recorded certain assets and a liability related to its agreement to transfer TOU in connection with the Leap Wireless Spin-off, offsetting the Distribution, equity was reduced by approximately $242 million.

Leap Wireless has agreed to assume certain of QUALCOMM's other obligations to manage operations of and finance costs relating to ongoing build-outs of the wireless telecommunications systems being deployed by such operating companies, including approximately $73.8 million of anticipated funding obligations to certain of the operating companies, other than equipment financing obligations, as well as certain miscellaneous liabilities.

QUALCOMM will continue to be a supplier of CDMA equipment and is expected to provide significant vendor financing to Leap Wireless' wireless telecommunications businesses and ventures.

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As a result of the Distribution, QUALCOMM and Leap Wireless will operate as independent publicly traded companies, with no common officers or directors. In connection with the Distribution, however, Leap Wireless issued to QUALCOMM a warrant to purchase 5,500,000 shares of Leap Wireless common stock at a purchase price equal to the average of the last sales price per share of the Leap Wireless common stock on the NASDAQ National Market for each of the five consecutive trading days beginning with and including the date of the Distribution, or $6.10625 per share. The Company recorded the warrant at its predecessor basis of $24.2 million net of the related deferred tax liability. The predecessor basis is an estimate of the Company's potential ownership interest in the book value of net assets transferred to Leap Wireless. The warrant is included in other noncurrent assets. The estimated fair value of the warrant at September 30, 1998 is approximately $8.8 million based on the application of the Black-Scholes option pricing model which incorporates current stock price, expected stock price volatility, expected interest rates, and the expected holding period of the warrant.

WHITMAN CORPORATION (DEC)

Consolidated Statements of Shareholders' Equity

(dollars in millions)	Common stock Shares	Common stock Amount	Retained income	Accumulated other comprehensive loss	Treasury stock Shares	Treasury stock Amount	Total shareholders' equity
As of fiscal year end 1995	109,199,834	$427.8	$311.9	$(45.9)	(4,000,906)	$(66.0)	$ 627.8
Comprehensive income:							
Net income			139.4				139.4
Other comprehensive loss:							
Translation adjustments				(2.2)			(2.2)
Unrealized investment loss (net of tax benefit of $4.3 million)				(7.9)			(7.9)
Other comprehensive loss							(10.1)
Comprehensive income							129.3
Treasury stock purchases					(3,989,894)	(93.2)	(93.2)
Stock compensation plans	1,395,959	28.5	(6.4)		(29,188)	(1.2)	20.9
Common stock issued for acquisitions					11,614	0.3	0.3
Dividends declared			(42.9)				(42.9)
As of fiscal year end 1996	110,595,793	456.3	402.0	(56.0)	(8,008,374)	(160.1)	642.2
Comprehensive loss:							
Net income			4.1				4.1
Other comprehensive loss:							
Translation adjustments				(21.0)			(21.0)
Unrealized investment loss (net of tax benefit of $0.9 million)				(1.6)			(1.6)
Other comprehensive loss							(22.6)
Comprehensive loss							(18.5)
Treasury stock purchases					(3,323,200)	(82.1)	(82.1)
Stock compensation plans	1,123,903	21.9	2.9		(63,743)	(1.5)	23.3
Common stock issued for outstanding Pepsi General non-voting preferred stock (Note 13)					794,115	20.4	20.4
Dividends declared			(45.6)				(45.6)
As of fiscal year end 1997	111,719,696	478.2	363.4	(78.6)	(10,601,202)	(223.3)	539.7
Comprehensive income:							
Net income			43.7				43.7
Other comprehensive income:							
Translation adjustments				2.6			2.6
Unrealized investment gain (net of tax expense of $1.7 million)				3.2			3.2
Other comprehensive income							5.8
Comprehensive income							49.5
Treasury stock purchases					(1,969,849)	(37.7)	(37.7)
Stock compensation plans	1,555,134	23.9	2.6		290,635	1.9	28.4
Special dividend distribution of Hussmann and Midas common stock (Note 2)		(2.3)	(295.2)	64.2			(233.3)
Dividends declared			(20.2)				(20.2)
As of fiscal year end 1998	113,274,830	$ 499.8	$ 94.3	$ (8.6)	(12,280,416)	$ (259.1)	$(326.4)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Discountinued Operations

On January 30, 1998, the Company established Hussmann and Midas as independent publicly-held companies through tax-free distributions (spin-offs) to Whitman shareholders. Prior to the spin-offs, Hussmann and Midas paid Whitman $240.0 million and $194.3 million, respectively, to settle intercompany indebtedness and to pay special dividends. The spin-offs resulted in a reduction of shareholders' equity of $233.3 million. Included in this amount is the elimination of $64.2 million of accumulated other comprehensive loss representing cumulative translation adjustments of Hussmann and Midas as of the date of the spin-offs.

Combined financial information for discontinued operations in 1998 through the date of the spin-offs and for the years ended December 31, 1997 and 1996 is shown below (in millions):

	1998	1997	1996
Sales and revenues of Hussman and Midas	$109.6	$1,692.6	$1,609.9
Income (loss) from discontinued operations:			
Hussmann and Midas	$ (0.5)	$ (7.5)	$ 91.6
Previously discontinued operations	—	(4.2)	—
Income (loss) from discontinued operations	$ 0.5	$ (11.7)	$ 91.6

Included in the 1997 income (loss) from discontinued operations for Hussmann and Midas were special charges of $123.9 million, or $93.4 million after tax. The special charges at Hussmann primarily related to the write-off of goodwill in its U.K. operations ($26.0 million), a restructuring of the U.K. operations ($23.2 million) and a reorganization of certain manufacturing operations in the U.S. ($7.1 million). The special charges at Midas principally related to its decision to franchise or close substantially all company-operated stores in the U.S. ($35.5 million), to record one-time charges for a special product return program and changes in the U.S. franchisee advertising program ($12.2 million), to record severance benefits ($7.4 million) and to reflect the impairment of certain assets ($12.5 million).

The results of tax settlements with the IRS in 1997 for the years 1988 through 1991, which related to other previously discontinued operations, amounted to net additional tax expense of $2.9 million, which was recorded in the third quarter of 1997. During the fourth quarter of 1997, the Company recorded $1.3 million of additional tax expense resulting from the refinement of deferred tax balances related to other previously discontinued operations.

Results from discontinued operations were reported net of income taxes of $0.1 million, $39.1 million and $56.1 million in 1998, 1997 and 1996, respectively.

Stock Purchase Rights

ABM INDUSTRIES INCORPORATED (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Capital Stock

In March 1998, the Company's Board of Directors adopted a stockholder rights plan to replace an existing rights plan that expired on April 22, 1998. The new plan provides for a dividend distribution of one preferred stock purchase right (a "Right") for each outstanding share of common stock, distributed to stockholders of record on April 22, 1998. The Rights will be exercisable only if a person or group acquires 20% or more of the Company's common stock (an "Acquiring Person") or announces a tender offer for 20% or more of the common stock. Each Right will entitle stockholders to buy one-thousandth of a share of newly created Participating Preferred Stock, par value $.01 per share, of the Company at an initial exercise price of $175 per Right, subject to adjustment from time to time. However, if any person becomes an Acquiring Person, each Right will then entitle its holder (other than the Acquiring Person) to purchase at the exercise price common stock (or, in certain circumstances, Participating Preferred Stock) of the Company having a market value at that time of twice the Right's exercise price. These Rightsholders would also be entitled to purchase an equivalent number of shares at the exercise price if the Acquiring Person were to control the Company's Board of Directors and cause the Company to enter into certain mergers or other transactions. In addition, if an Acquiring Person acquired between 20% and 50% of the Company's voting stock, the Company's Board of Directors may, at its option, exchange one share of the Company's common stock for each Right held (other than Rights held by the Acquiring Person). Rights held by the Acquiring Person will become void. The Rights Plan excludes from its operation The Theodore Rosenberg Trust and The Sydney J. Rosenberg Trust, and certain related persons, and, as a result, their holdings will not cause the Rights to become exercisable or nonredeemable or trigger the other features of the Rights. The Rights will expire on April 22, 2008, unless earlier redeemed by the Board at $0.01 per Right.

BADGER METER, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Common Stock

On May 15, 1998, the Board of Directors of the company adopted a Shareholder Rights Plan declaring a dividend of one right for each share of the company's common stock outstanding. In the event a person or group acquires or seeks to acquire 20% or more of the outstanding common stock of the company, the rights may be exercised (except by the acquiring person whose rights are canceled). Upon exercise, each right entitles the holder to purchase from the company one share of common stock at an initial exercise price of $140 (subject to adjustment) or, upon the occurrence of certain events, common stock of the company or the acquiring company having a market value equivalent to two times the exercise price. Subject to certain conditions, the rights are redeemable by the Board of Directors for $.01 per right and are exchangeable for shares of common stock. The rights have no voting power and expire on May 26, 2008.

BROWN & SHARPE MANUFACTURING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Preferred Stock Purchase Rights

On February 13, 1998, the Board of Directors approved a new Rights Plan and declared a dividend of one purchase right (a "Right") for every outstanding share of the Company's Class A Common Stock and Class B Common Stock to be distributed on March 9, 1998 to stockholders of record as of the close of business on that date. The Rights expire on February 13, 2008 or upon the earlier redemption of the Rights, and they are not exercisable until a distribution date on the occurrence of certain specified events. This Plan replaces a substantially similar Rights Plan and Rights distributed in connection with such Plan adopted by the Company on March 23, 1988, which by its terms expired in March of 1998.

Each Right entitles the holder to purchase from the Company one one-hundredth of a share of Series B Participating Preferred Stock, $1.00 par value per share, at a price of $40.00 per one one-hundredth of a share, subject to adjustment. The Rights will, on the distribution date, separate from the Common Stock and become exercisable ten days after a person has acquired beneficial ownership of 20% or more of the outstanding shares of Common Stock of the Company or commencement of a tender or exchange offer that would result in any person owning 20% or more of the Company's outstanding Common Stock.

Each holder of a Right will in such event have the right to receive shares of the Company's Class A Common Stock having a market value of two times the exercise price of the Right, which has been set at $40.00; and in the event that the Company is acquired in a merger or other business combination, or if more than 25% of its assets or earning power is sold, each holder of a Right would have the right to receive common stock of the acquiring company with a market value of two times the exercise price of the Right. Following the occurrence of any of these events, any Rights that are beneficially owned by any acquiring person will immediately become null and void. The Company, by a majority vote of the Board of Directors, may redeem the Rights at a redemption price of $.01 per Right.

TWIN DISC, INCORPORATED (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

H (In Part): Shareholders' Equity

In 1998, the Company's Board of Directors established a Shareholder Rights Plan and distributed to shareholders, one preferred stock purchase right for each outstanding share of common stock. Under certain circumstance, a right may be exercised to purchase one one-hundredth of a share of Series A Junior Preferred Stock at an exercise price of $160, subject to certain anti-dilution adjustments. The rights become exercisable ten (10) days after a public announcement that a party or group has either acquired at least 15% (or at least 25% in the case of existing holders who currently own 15% or more of the common stock), or commenced a tender offer for at least 25%, of the Company's common stock. Generally, after the rights become exercisable, if the Company is a party to certain merger or business combination transactions, or transfers 50% or more of its assets or earnings power, or certain other events occur, each right will entitle its holders, other than the acquiring person, to buy a number of shares of common stock of the Company, or of the other party to the transaction, having a value of twice the exercise price of the right. The rights expire on June 30, 2008, and may be redeemed by the Company for $.05 per right at any time until ten (10) days following the stock acquisition date. The Company is authorized to issue 200,000 shares of preferred stock, none of which have been issued. The Company has designated 50,000 shares of the preferred stock for the purpose of the Shareholder Rights Plan.

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 5-3 summarizes the reasons disclosed by the survey companies as to why the opening balance of retained earnings was adjusted. Table 5-3 shows that the most common reason for an adjustment to the opening balance of retained earnings during 1998 was a pooling of interests.

TABLE 5-3: ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

	Number of Companies			
	1998	1997	1996	1995
Poolings of interests	20	20	17	19
LIFO discontinued	—	1	2	—
Income taxes	—	1	—	—
Other–Described	4	2	1	1

Poolings Of Interests

BAKER HUGHES INCORPORATED

Consolidated Statements of Stockholders' Equity (In Part)

				Accumulated Other Comprehensive Income				
(In millions, except per share amounts)	Common stock	Capital in excess of par value	Retained earnings	Foreign currency translation adjustment	Unrealized gain (loss) on securities available for sale	Pension liability adjustment	Treasury stock	Total
Balance, September 30, 1995 as previously reported	$142.2	$1,342.3	$140.1	$(107.7)	$(3.4)	$—	—	$1,513.5
Western Atlas pooling of interests	143.6	1,039.0	165.8	8.4				1,356.8
Balance, September 30, 1995	285.8	2,381.3	305.9	(99.3)	(3.4)	—	—	2,870.3
		• •	• •	• •				
Comprehensive income								
Net income			114.0					
Other comprehensive income:								
Foreign currency translation adjustment, net of $1.6 tax				(15.6)				
Unrealized gain adjustment, net of $10.3 tax					(22.6)			
Total comprehensive income								75.8
Cash dividends on common stock ($.115 per share)			(19.5)					(19.5)
Stock issued pursuant to employee stock plans	0.3	5.5						5.8
Adjustment for change in year end			(34.6)					(34.6)
Balance, December 31, 1997	316.8	2,834.0	494.1	(160.5)	38.1	(3.5)	—	3,519.0
Comprehensive income								
Net loss			(297.4)					
Other comprehensive income:								
Foreign currency translation adjustment, net of $.5 tax				5.1				
Unrealized gain adjustment, net of $22.5 tax					(38.2)			
Pension adjustment, net of $.5 tax						(.9)		
Total comprehensive income								(331.4)
Cash dividends on common stock ($.46 per share)			(96.3)					(96.3)
Stock issued pursuant to employee stock plans	10.3	97.8						108.1
Balance, December 31, 1998	$327.1	$2,931.8	$100.4	$(155.4)	$(0.1)	$(4.4)	$—	$3,199.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Basis of Presentation

The consolidated financial statements include the accounts of Baker Hughes Incorporated and all majority-owned subsidiaries (the "Company" or "Baker Hughes"). In the Notes to Consolidated Financial Statements, all dollar amounts in tabulations are in millions of dollars unless otherwise indicated.

Merger: On August 10, 1998, Baker Hughes completed a merger (the "Merger") with Western Atlas Inc. ("Western Atlas") by issuing 148.6 million shares of Baker Hughes common stock for all of the outstanding common stock of Western Atlas. Each share of Western Atlas common stock was exchanged for 2.7 shares of Baker Hughes common stock. Western Atlas, the common stock of which was previously publicly traded, is a leading supplier of oilfield services and reservoir information technologies for the worldwide oil and gas industry. It specializes in land, marine and transition-zone seismic data acquisition and processing services, well-logging and completion services, and reservoir characterization and project management services.

The Merger was accounted for as a pooling of interests and, accordingly, all prior period consolidated financial statements of Baker Hughes have been restated to include the results of operations, financial position and cash flows of Western Atlas. Information concerning common stock, employee stock plans and per share data has been restated on an equivalent share basis. The consolidated financial statements as of September 30, 1997 and for each of the two years in the period ended September 30, 1997 include Baker Hughes' previous September 30 fiscal year amounts and Western Atlas' December 31 calendar year amounts for the corresponding fiscal years of Baker Hughes. Consolidated financial statements for the three months ended December 31, 1997 include amounts for Baker Hughes and Western Atlas for the three months ended December 31, 1997. As a result, Western Atlas' results of operations for the three months ended December 31, 1997 are included in both the consolidated financial statements for the year ended September 30, 1997 and for the Transition Period. Included in the consolidated statement of stockholders' equity is a $34.6 million adjustment for the change in year end which represents Western Atlas' results of operations for the three months ended December 31, 1997 that is included in both 1997 and the Transition Period.

The reconciliations of revenue, income from continuing operations and net income (loss) of Baker Hughes and Western Atlas for the periods prior to the combination are as follows:

	Three months ended December 31, 1997	Year ended September 30, 1997	1996
Revenues:			
Baker Hughes	$1,133.4	$3,685.4	$3,027.7
Western Atlas	439.5	1,658.2	1,418.1
Combined	$1,572.9	$5,343.6	$4,445.8
Income from continuing operations:			
Baker Hughes	$ 79.4	$ 97.0	$ 176.4
Western Atlas	31.8	91.8	70.0
Combined	$ 111.2	$ 188.8	$ 246.4
Net income (loss):			
Baker Hughes	$ 79.4	$ 97.0	$ 176.4
Western Atlas	34.6	(63.1)	125.7
Combined	$ 114.0	$ 33.9	$ 302.1

There were no material adjustments required to conform the accounting policies of the two companies. Certain amounts of Western Atlas have been reclassified to conform to the reporting practices of Baker Hughes.

In connection with the Merger, in 1998 the Company recorded merger related costs of $219.1 million. The categories of costs incurred, the actual cash payments made in 1998 and the accrued balances at December 31, 1998 are summarized below:

	Total	Amounts paid in 1998	Accrued Balance at December 31, 1998
Cash costs:			
Transaction costs	$ 51.5	$ 46.9	$ 4.6
Employee costs	87.7	66.7	21.0
Other merger integration costs	21.7	9.8	11.9
Subtotal cash cost	160.9	$123.4	$37.5
Noncash	58.2		
Total	$219.1		

Transaction costs of $51.5 million include banking, legal and printing fees and other costs directly related to the Merger. The Company had contracted for and incurred most of the cost of the services for the remaining accrual, however, such amounts had not been paid. The Company expects that all amounts accrued for transaction costs will be paid by June 30, 1999.

Employee related costs of $87.7 million consist of payments made to certain officers of Western Atlas and Baker Hughes pursuant to change in control provisions and severance benefits paid to terminated employees whose responsibilities were deemed redundant as a result of the Merger. Accrued employee costs, other than retirement benefits, at December 31, 1998 of $12.8 million are scheduled to be paid to the employees upon leaving the Company during the first quarter of 1999. The remaining accrued employee costs at December 31, 1998 of $8.2 million represent retirement benefits of certain employees that will be paid, in accordance with the terms of the agreements, over the lives of the covered employees.

Other integration costs include the costs of changing legal registrations in various jurisdictions, terminating a joint venture as a result of the Merger, changing signs and logos at the Company's major facilities around the world and other integration costs. The Company expects that the remaining balance of $11.9 million for other integration costs will be paid by June 30, 1999.

The noncash charge of $58.2 million consists of a charge of $45.3 million related to the triggering of change of control rights contained in certain Western Atlas employee stock option plans that were not converted to Baker Hughes options concurrent with the Merger; a charge of $3.9 million for the issuance of the Company's common stock pursuant to certain stock plans as a result of the change in control; and a $9.0 million charge recorded to write-off the carrying value of a product line that was discontinued as a result of the Merger.

HUGHES SUPPLY, INC.

Consolidated Statements of Shareholders' Equity

(Dollars in thousands, except per share data)	Common stock Shares	Common stock Amount	Capital in Excess of Par Value	Retained Earnings
Balance, January 26, 1996 as previously reported	14,106,745	$14,107	$ 37,793	$133,131
Adjustment for pooling of interests	843,146	843	(841)	3,893
Balance, January 26, 1996 as restated	14,949,891	14,950	36,952	137,024
Net income	—	—	—	37,054
Cash dividends—				
$.25 per share	—	—	—	(3,712)
Pooled companies	—	—	—	(5,376)
Shares issued under stock option and bonus plans	146,350	146	977	—
Issuance of shares in public offering	2,230,483	2,231	45,962	—
Purchase and retirement of common shares	(21,948)	(22)	(202)	(329)
Other acquisitions	2,270,948	2,271	26,639	4,668
Balance, January 31, 1997	19,575,724	19,576	110,328	169,329
Net income	—	—	—	47,570
Cash dividends—				
$.31 per share	—	—	—	(5,966)
Pooled companies	—	—	—	(2,794)
Shares issued under stock option and bonus plans	172,455	172	1,494	—
Purchase and retirement of common shares	(19,476)	(19)	(234)	(325)
Issuance of restricted stock	50,000	50	1,250	—
Capitalization of undistributed earnings of Subchapter S corporation	—	—	12,999	(12,999)
Other acquisitions	3,658,336	3,658	76,373	2,549
Balance, January 30, 1998	23,437,039	23,437	202,210	197,364
Net income	—	—	—	61,443
Cash dividends—				
$.33 per share	—	—	—	(7,866)
Pooled companies	—	—	—	(1,222)
Shares issued under stock option and bonus plans	107,980	108	1,282	—
Purchase and retirement of common shares	(19,439)	(19)	(193)	(389)
Issuance of restricted stock	52,500	52	1,615	—
Capitalization of undistributed earnings of Subchapter S corporation	—	—	7,697	(7,697)
Other acquisitions	605,754	606	6,947	1,097
Balance, January 29, 1999	24,183,834	$24,184	$219,558	$242,730

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

2 (In Part): Business Combinations

On June 30, 1998, the Company exchanged 936,904 shares of the Company's common stock for all of the common stock of Winn-Lange Electric, Inc. ("Winn-Lange"). Winn-Lange is a wholesale distributor of electrical supplies and equipment with three branches in Texas. Winn-Lange was a Subchapter S corporation for federal income tax purposes and accordingly, did not pay U.S. federal income taxes. Winn-Lange will be included in the Company's U.S. federal income tax return commencing June 30, 1998.

The above transaction has been accounted for as a pooling of interests and accordingly, the consolidated financial statements for the periods presented have been restated to include the accounts of Winn-Lange. Winn-Lange's fiscal year end has been changed to the last Friday in January to conform to the Company's fiscal year end.

Net sales and net income of the separate companies for the periods preceding the Winn-Lange merger were as follows:

	Net Sales	Net Income	Unaudited Pro Forma Net Income
Three months ended April 30, 1998 (unaudited):			
Hughes, as previously reported	$ 582,042	$10,746	$10,746
Winn-Lange	19,989	857	537
Combined	$ 602,031	$11,603	$11,283
Fiscal year ended January 30, 1998:			
Hughes, as previously reported	$1,878,739	$44,824	$43,472
Winn-Lange	66,707	2,746	1,782
Combined	$1,945,446	$47,570	$45,254
Fiscal year ended January 31, 1997:			
Hughes, as previously reported	$1,567,571	$35,314	$33,458
Winn-Lange	51,791	1,740	1,132
Combined	$1,619,362	$37,054	$34,590

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 5-4. Examples of such charges and credits follow.

TABLE 5-4: OTHER CHANGES IN RETAINED EARNINGS

	Number of Companies			
	1998	**1997**	**1996**	**1995**
Charges				
Purchase of retirement of capital stock	74	74	65	61
Treasury stock issued for less than cost	41	38	40	37
Translation adjustment	11	28	24	8
Pension liability adjustment	6	11	6	13
Preferred stock accretion	3	2	4	5
Unrealized loss on investments	1	12	16	8
Other—Described	33	29	27	30
Credits				
Tax benefit on dividends paid to ESOP	16	18	17	13
Unrealized gain on investments	8	13	13	17
Translation adjustment	4	1	7	18
Poolings of interests	3	11	4	4
Pension liability adjustment	2	10	16	9
Other–Described	40	33	28	25

Treasury Stock Transactions

AMGEN INC.

***Consolidated Statements of Stockholders' Equity** (In Part)*

(In millions)	Number of shares	Common stock and additional paid-in capital	Retained earnings	Accumulated other comprehensive income/(loss)	Total
• • • • • •					
Balance at December 31, 1996	529.3	1,029.2	879.4	(2.3)	1,906.3
Comprehensive income:					
Net income	—	—	644.3	—	644.3
Other comprehensive loss, net of tax:					
Unrealized losses on securities, net of reclassification adjustments	—	—	—	(1.1)	(1.1)
Foreign currency translation adjustments	—	—	—	(18.7)	(18.7)
Total other comprehensive loss	—	—	—	—	(19.8)
Comprehensive income	—	—	—	—	624.5
Issuance of common stock upon the exercise of stock options and in connection with an employee stock purchase plan	14.6	134.3	—	—	134.3
Tax benefits related to stock options	—	54.7	—	—	54.7
Reclassification of put warrant obligation	—	—	157.4	—	157.4
Repurchases of common stock	(27.3)	—	(737.9)	—	(737.9)
Balance at December 31, 1997	516.6	$1,218.2	$943.2	$(22.1)	$2,139.3
Comprehensive income:					
Net income	—	—	863.2	—	863.2
Other comprehensive income, net of tax:					
Unrealized gains on securities, net of reclassification adjustments	—	—	—	9.1	9.1
Foreign currency translation adjustments	—	—	—	9.0	9.0
Total other comprehensive income	—	—	—	—	18.1
Comprehensive income	—	—	—	—	881.3
Issuance of common stock upon the exercise of stock options and in connection with an employee stock purchase plan	21.3	345.5	—	—	345.5
Tax benefits related to stock options	—	108.2	—	—	108.2
Repurchases of common stock	(28.7)	—	(912.1)	—	(912.1)
Balance at December 31, 1998	509.2	$1,671.9	$894.3	$(4.0)	$2,562.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Stockholders' Equity

Stock Repurchase Program

The Company has a stock repurchase program primarily to offset the dilutive effect of its employee stock option and stock purchase plans. Stock repurchased under the program is retired. In October 1997, the Board of Directors authorized the Company to repurchase up to $1 billion of common stock through December 31, 1998. The Company completed repurchases under this authorization during 1998. In October 1998, the Board of Directors authorized the repurchase of up to an additional $1 billion of common stock through December 31, 1999. As of December 31, 1998, $800 million was available for repurchase.

E. I. DU PONT DE NEMOURS AND COMPANY

Consolidated Statement of Stockholders' Equity

(Dollars in millions, except per share)	Common stock	Additional paid-in capital	Reinvested earnings	Accumulated other comprehensive loss	Flexitrust	Treasury stock	Total stockholders' equity	Total comprehensive income
1996								
Balance January 1, 1996	$441	$8,689	$9,503	$(113)	$(1,645)	$(8,789)	$8,323	
Net income			3,636					$3,636
Cumulative Translation Adjustment				(23)				(23)
Minimum Pension Liability				(3)				(3)
Total comprehensive income								$3,610
Common dividends ($1.115 per share)			(1,251)					
Preferred dividends			(10)					
Treasury stock retirement	(94)	(1,748)	(6,947)			8,789		
Warrant Repurchase		(504)						
Common stock issued								
Flexitrust		(289)			644			
Compensation plans		70						
Adjustments to market value		458			(458)			
Balance December 31, 1996	$347	$6,676	$4,931	$(139)	$(1,459)	$ —	$10,593	
1997								
Net income			2,405					$2,405
Cumulative Translation Adjustment				(130)				(130)
Minimum Pension Liability				(28)				(28)
Total comprehensive income								$2,247
Common dividends ($1.23 per share)			(1,391)					
Preferred dividends			(10)					
Treasury stock								
Acquisition						(1,747)		
Retirement		(8)	(193)	(1,546)		1,747		
Common stock issued								
Flexitrust		(299)			419			
Businesses acquired	7	1,317						
Compensation plans		134						
Adjustments to market value		356			(356)			
Balance December 31, 1997	$346	$7,991	$4,389	$(297)	$(1,396)	$ —	$11,270	
1998								
Net income			4,480					$4,480
Cumulative Translation Adjustment				(23)				(23)
Minimum Pension Liability				(112)				(112)
Total comprehensive income								$4,345
Common dividends ($1.365 per share)			(1,539)					
Preferred dividends			(10)					
Treasury stock								
Acquisition						(704)		
(Issuance/Retirement)		(4)	(85)	(615)		704		
Common stock issued								
Flexitrust		(279)			598			
Businesses acquired		4						
Compensation plans		269						
Adjustments to market value		(46)			46			
Balance December 31, 1998	$342	$7,854	$6,705	$(432)	$(752)	$ —	$13,954	

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

21 (In Part): Stockholders' Equity

In January 1997 the company approved plans to purchase and retire up to 20 million shares of common stock to offset dilution resulting from shares issued under its compensation programs. In 1997 the company spent $327 to purchase and retire 5,833,100 shares of DuPont common stock under this program. In 1998 the company spent $769 to purchase 12,814,162 shares, of which 6 million shares were purchased in a private placement transaction. Under the terms of this private placement agreement, the final settlement payment resulted in the issuance of 333,862 treasury shares valued at $20. In 1998, 12,480,300 shares were retired.

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Set forth below is a reconciliation of common stock share activity for the three years ended December 31, 1998:

Shares of common stock	Issued	Held in Flexitrust	Held in Treasury
Balance January 1, 1996	1,470,085,448	(47,092,352)	(312,000,000)
Issued	2	16,100,762	
Treasury stock retirement	(312,000,000)		312,000,000
Balance December 31, 1996	1,158,085,450	(30,991,590)	—
Businesses acquired	23,009,778		
Issued		7,745,843	
Treasury stock			
Acquisition			(28,333,100)
Retirement	(28,333,100)		28,333,100
Balance December 31, 1997	1,152,762,128	(23,245,747)	—
Businesses acquired	72,326		
Issued		9,077,880	333,862
Treasury stock			
Acquisition			(12,814,162)
Retirement	(12,480,300)		12,480,300
Balance December 31, 1998	1,140,354,154	(14,167,867)	—

THE TJX COMPANIES, INC.

Consolidated Statements of Shareholders' Equity

(In thousands)	Preferred stock face value	Common stock, par value $1	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance, January 27, 1996	$282,500	$72,486	$270,839	$(1,680)	$140,489	$764,634
Comprehensive income:						
Net income	—	—	—	—	363,123	363,123
Foreign currency translation	—	—	—	642	—	642
Total comprehensive income						363,765
Cash dividends:						
Preferred stock	—	—	—	—	(13,741)	(13,741)
Common stock	—	—	—	—	(21,278)	(21,278)
Conversion of cumulative preferred stock into common stock:						
Series A	(25,000)	1,190	23,810	—	—	—
Series C	(82,500)	3,178	79,322	—	—	—
Series D	(25,000)	1,350	23,650	—	—	—
Issuance of common stock under stock incentive plans and related tax benefits	—	1,372	32,786	—	—	34,158
Other	—	—	(352)	—	—	(352)
Balance, January 25, 1997	150,000	79,576	430,055	(1,038)	468,593	1,127,186
Comprehensive income:						
Net income	—	—	—	—	304,815	304,815
Foreign currency translation	—	—	—	(643)	—	(643)
Unrealized gains on securities	—	—	—	4,998	—	4,998
Total comprehensive income						309,170
Cash dividends:						
Preferred stock	—	—	—	—	(11,668)	(11,668)
Common stock	—	—	—	—	(31,832)	(31,832)
Conversion of cumulative Series E preferred stock into common stock	(77,020)	8,315	68,705	—	—	—
Stock repurchased:						
Preferred	(250)	—	—	—	(500)	(750)
Common	—	(8,528)	(235,920)	—	—	(244,448)
Stock split, two-for-one	—	79,823	(79,823)	—	—	—
Issuance of common stock under stock incentive plans and related tax benefits	—	715	15,719	—	—	16,434
Balance, January 31, 1998	72,730	159,901	198,736	3,317	729,408	1,164,092
Comprehensive income:						
Net income	—	—	—	—	424,154	424,154
Foreign currency translation	—	—	—	152	—	152
Reclassifcation of unrealized gains	—	—	—	(4,998)	—	(4,998)
Total comprehensive income						419,308
Cash dividends:						
Preferred stock	—	—	—	—	(3,523)	(3,523)
Common stock	—	—	—	—	(38,134)	(38,134)
Conversion of cumulative Series E preferred stock into common stock	(72,730)	14,682	58,048	—	—	—
Common stock repurchased	—	(12,998)	(187,859)	—	(149,462)	(350,319)
Stock split, two-for-one	—	158,954	(96,555)	—	(62,399)	—
Issuance of common stock under stock incentive plans and related tax benefits	—	1,602	27,630	—	—	29,232
Balance, January 30, 1999	$ —	$322,141	$ —	$(1,529)	$900,044	$1,220,656

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

F (In Part): Capital Stock and Earnings Per Share

In June 1997, the Company announced a $250 million stock buyback program. During fiscal 1998, the Company repurchased 17.1 million shares of common stock (adjusted for stock splits) for a cost of $245.2 million. The program was completed in February 1998 at which time the Company announced a second $250 million stock repurchase program. In October 1998, the Company completed the second $250 million stock repurchase program and announced its intentions to repurchase an additional $750 million of common stock over the next several years. The Company has spent $95.5 million through January 30, 1999 on this current repurchase program. In total, during fiscal 1999, the Company repurchased a combined total of 15.6 million shares of common stock (adjusted for stock splits) at a total cost of $350.3 million.

UST INC.

***Consolidated Statement of Changes in Stockholders' Equity** (In Part)*

(Dollars in thousands, except per share amounts)	Common stock	Additional Paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total Stockholders' equity
• • • • • •						
Balance at December 31, 1996	102,077	414,274	394,935	(7,244)	(622,836)	281,206
Comprehensive income:						
Net earnings	—	—	439,138	—	—	439,138
Other comprehensive loss, net of tax:						
Foreign currency translation adjustment	—	—	—	(322)	—	(322)
Minimum pension liability adjustment	—	—	—	(1,066)	—	(1,066)
Other comprehensive loss						(1,388)
Comprehensive income						437,750
Cash dividends—$1.62 per share	—	—	(298,059)	—	—	(298,059)
Exercise of stock options—2,459,500 shares	1,230	36,645	—	—	—	37,875
Income tax benefits and decrease in receivables from exercise of stock options	—	15,956	—	—	—	15,956
Stock repurchased for treasury—1,526,000 shares	—	—	—	—	(45,719)	(45,719)
Put option obligations, net of proceeds	—	7,786	—	—	—	7,786
Balance at December 31, 1997	103,307	474,661	536,014	(8,632)	(668,555)	436,795
Comprehensive income:						
Net earnings	—	—	455,279	—	—	455,279
Other comprehensive loss, net of tax:						
Foreign currency translation adjustment	—	—	—	(602)	—	(602)
Minimum pension liability adjustment	—	—	—	(9,186)	—	(9,186)
Other comprehensive loss						(9,788)
Comprehensive income						445,491
Cash dividends—$1.62 per share	—	—	(301,145)	—	—	(301,145)
Exercise of stock options—1,681,600 shares	841	29,759	—	—	—	30,600
Income tax benefits, net of increase in receivables from exercise of stock options	—	8,169	—	—	—	8,169
Stock repurchased for treasury—4,383,500 shares	—	—	—	—	(151,617)	(151,617)
Retirement of treasury stock—200,000 shares	(100)	(500)	(5,659)	—	6,259	—
Balance at December 31, 1998	$104,048	$512,089	$684,489	$(18,420)	$(813,913)	$468,293

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Capital Stock (In Part):

In 1998 and 1997, the Company repurchased 4.4 million and 1.5 million shares, respectively, pursuant to its stock repurchase program authorized by the Board of Directors in 1996. The program allows the Company to repurchase up to 20 million shares of its common stock from time to time in open market or negotiated transactions for use in connection with employee benefit programs and other corporate purposes. As of December 31, 1998, 6.4 million shares of the 20 million authorized have been repurchased. The Company had suspended its stock repurchase program from June 1997 through November 1998, due to the proposed resolution of regulatory and liitgation issues affecting the tobacco industry.

Tax Benefit From ESOP Dividends

BARNES GROUP INC.

Consolidated Statements of Changes in Stockholders' Equity

(Dollars in thousands)	Common stock	Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive income	Guaranteed ESOP obligation	Stockholders' equity
January 1, 1996	$15,737	$27,360	$(29,853)	$136,092	$(10,656)	$(9,839)	$128,841
Comprehensive income:							
Net income				32,568			32,568
Other comprehensive income				—	569		569
Comprehensive income				32,568	569		33,137
Dividends paid				(11,967)			(11,967)
Common stock repurchases			(1,197)				(1,197)
Employee stock plans		987	5,010	(134)			5,863
Guaranteed ESOP obligation						2,348	2,348
Income tax benefits on unallocated ESOP dividends				139			139
December 31, 1996	15,737	28,347	(26,040)	156,698	(10,087)	(7,491)	157,164
Comprehensive income:							
Net income				40,423			40,423
Other comprehensive income				—	(5,754)		(5,754)
Comprehensive income				40,423	(5,754)		34,669
Reduction in par value	(15,517)	15,517					—
Dividends paid				(13,187)			(13,187)
Common stock repurchases			(10,673)				(10,673)
Employee stock plans		3,143	7,280	(181)			10,242
Guaranteed ESOP obligation						2,540	2,540
Income tax benefits on unallocated ESOP dividends				104			104
December 31, 1997	220	47,007	(29,433)	183,857	(15,841)	(4,951)	180,859
Comprehensive income:							
Net income				34,494			34,494
Other comprehensive income				—	(4,202)		(4,202)
Comprehensive income				34,494	(4,202)		30,292
Dividends paid				(13,951)			(13,951)
Common stock repurchases			(17,042)				(17,042)
Employee stock plans		2,224	3,582	(100)			5,706
Guaranteed ESOP obligation						2,746	2,746
Income tax benefits on unallocated ESOP dividends				64			64
December 31, 1998	$220	$49,231	$(42,893)	$204,364	$(20,043)	$(2,205)	$188,674

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts included in the notes are stated in thousands)

9 (In Part): Stock Plans

All U.S. salaried and non-union hourly employees are eligible to participate in the Company's Guaranteed Stock Plan (GSP). The GSP provides for the investment of employer and employee contributions in the Company's common stock. The Company guarantees a minimum rate of return on certain GSP assets.

The GSP is a leveraged ESOP. In 1989, the GSP purchased 1,737,930 shares of the Company's common stock at a cost of $21,000 using the proceeds of a loan guaranteed by the Company. These shares are held in trust and are issued to employees' accounts in the GSP as the loan is repaid. Principal and interest on the GSP loan are being paid in quarterly installments through the second quarter of 1999. The loan bears interest based on LIBOR. At December 31, 1998, the interest rate was 6.1%. Interest of $212, $387 and $538 was incurred in 1998, 1997 and 1996, respectively. Contributions and certain dividends received are used in part by the GSP to service its debt. Contributions include both employee contributions up to a maximum of 10% of eligible pay and Company contributions.

The Company contributions are equal to the amount required by the GSP to pay the principal and interest due under the GSP loan plus that required to purchase any additional shares required to be allocated to participant accounts, less the sum of participant contributions and dividends received by the GSP. The GSP used $1,899, $1,781 and $1,642 of Company dividends for debt service in 1998, 1997 and 1996, respectively. The Company expenses all cash contributions made to the GSP. In 1996, the Company recognized compensation cost of $1,666 and income of $403 and $498 in 1998 and 1997, respectively. As of December 31, 1998, the GSP held 3,031,067 shares of the Company's common stock, of which 137,191 shares were unallocated. For financial statement purposes, the Company reflects its guarantee of the GSP's debt as a liability with a like amount reflected as a reduction of stockholders' equity.

XEROX CORPORATION

Consolidated Statements of Shareholders' Equity (In Part)

(In millions, except share data in thousands)	Common stock shares	Common stock amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock shares	Treasury stock amount	Total
• • • • • •								
Balance at December 31, 1996	651,804	655	1,025	3,090	(242)	(4,442)	(161)	4,367
Net income				1,452				1,452
Net income during stub period				8				8
Translation adjustments—net of minority shareholders' interests of ($44)					(463)			(463)
Comprehensive income								997
Purchase of treasury stock						(3,975)	(116)	(116)
Stock option, incentive plans and other	360		(17)	(129)		7,296	245	99
Xerox Canada Inc. exchangeable stock	116					126		
Convertible securities	202		9			995	32	41
Cash dividends declared								
Common stock ($0.64 per share)				(418)				(418)
Preferred stock				(57)				(57)
Tax benefits on ESOP dividends				14				14
Premiums from sale of put options			13					13
Tax benefits on stock options			45					45
Balance at December 31, 1997	652,482	655	1,075	3,960	(705)	—	—	4,985
Net income				395				395
Net loss during stub period				(6)				(6)
Translation adjustments—net of minority shareholders' interests of ($1)					(56)			(56)
Comprehensive income								333
Purchase of treasury stock						(3,683)	(172)	(172)
Stock option, incentive plans and other	3,899	4	69	(116)		2,364	111	68
Xerox Canada Inc. exchangeable stock	350					12		
Convertible securities	465	1	28			898	42	71
Cash dividends declared								
Common stock ($0.72 per share)				(475)				(475)
Preferred stock				(56)				(56)
Tax benefits on ESOP dividends				10				10
Premiums from sale of put options			5					5
Tax benefits on stock options			88					88
Balance at December 31, 1998	657,196	$660	$1,265	$3,712	$(761)	(409)	$(19)	$4,857

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per-share data and unless otherwise indicated)

13 (In Part): Employee Benefit Plans

Employee Stock Ownership Plan (ESOP) Benefits

In 1989, Xerox established an ESOP and sold to it 10 million shares of Series B Convertible Preferred Stock (Convertible Preferred) of the Company for a purchase price of $785. Each ESOP share is convertible into six common shares of the Company. The Convertible Preferred has a $1 par value, a guaranteed minimum value of $78.25 per share and accrues annual dividends of $6.25 per share. The ESOP borrowed the purchase price from a group of lenders. The ESOP debt is included in our consolidated balance sheets because we guarantee the ESOP borrowings. A corresponding amount classified as Deferred ESOP benefits represents our commitment to future compensation expense related to the ESOP benefits.

The ESOP will repay its borrowings from dividends on the Convertible Preferred and from our contributions. The ESOP's debt service is structured such that our annual contributions (in excess of dividends) essentially correspond to a specified level percentage of participant compensation. As the borrowings are repaid, the Convertible Preferred is allocated to ESOP participants and Deferred ESOP benefits are reduced by principal payments on the borrowings. Most of our domestic employees are eligible to participate in the ESOP.

Information relating to the ESOP for the three years ended December 31, 1998 follows:

	1998	1997	1996
Interest on ESOP borrowings	$33	$38	$42
Dividends declared on convertible preferred stock	$56	$57	$58
Cash contribution to the ESOP	$41	$39	$36
Compensation expense	$44	$40	$37

The Company recognizes ESOP costs based on the amount committed to be contributed to the ESOP plus related trustee, finance and other charges.

Preferred Stock Redemption

UNITEDHEALTH GROUP

Consolidated Statements of Changes in Shareholders' Equity

(In millions, except per share data)	Common stock Shares	Common stock Amount	Additional paid-in capital	Retained earnings	Net unrealized holding gains (losses) on investments available for sale	Total shareholders' equity	Comprehensive income (loss)
Balance at December 31, 1995	175	$2	$822	$2,359	$5	$3,188	
Issuance of common stock							
Stock plans and related tax benefits	2	—	56	—	—	56	
Acquisitions	8	—	270	—	—	270	
Comprehensive income							
Net earnings	—	—	—	356	—	356	$356
Other comprehensive income adjustments change in net unrealized holding losses on investments available for sale, net of income tax effects	—	—	—	—	(12)	(12)	(12)
Comprehensive income	—	—	—	—	—	—	$344
Cash dividends							
Common stock ($0.03 per share)	—	—	—	(6)	—	(6)	
Convertible preferred stock ($57.50 per share)	—	—	—	(29)	—	(29)	
Balance at December 31, 1996	185	2	1,148	2,680	(7)	3,823	
Issuance of common stock							
Stock plans and related tax benefits	3	—	116	—	—	116	
Acquisitions	3	—	144	—	—	144	
Stock repurchases	—	—	(10)	—	—	(10)	
Comprehensive income							
Net earnings	—	—	—	460	—	460	$460
Other comprehensive income adjustments change in net unrealized holding gains on investments available for sale, net of income tax effects	—	—	—	—	36	36	36
Comprehensive income	—	—	—	—	—	—	$496
Cash dividends							
Common stock ($0.03 per share)	—	—	—	(6)	—	(6)	
Convertible preferred stock ($57.50 per share)	—	—	—	(29)	—	(29)	
Balance at December 31, 1997	191	2	1,398	3,105	29	4,534	
Issuance of common stock							
Stock plans and related tax benefits	4	—	131	—	—	131	
Acquisitions	—	—	14	—	—	14	
Stock repurchases	(11)	—	(436)	—	—	(436)	
Comprehensive income (loss)							
Net loss	—	—	—	(166)	—	(166)	$(166)
Other comprehensive income adjustments change in net unrealized holding gains on investments available for sale, net of income tax effects	—	—	—	—	15	15	15
Comprehensive loss	—	—	—	—	—	—	$(151)
Cash dividends							
Common stock ($0.03 per share)	—	—	—	(6)	—	(6)	
Convertible preferred stock ($56.03 per share)	—	—	—	(28)	—	(28)	
Convertible preferred stock redemption premium	—	—	—	(20)	—	(20)	
Balance at December 31, 1998	184	$2	$1,107	$2,885	$44	$4,038	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Convertible Preferred Stock

In December 1998, the Company redeemed all 500,000 outstanding shares of 5.75% Series A Convertible Preferred Stock (the Preferred Stock). The Preferred Stock was issued to certain former shareholders of MetraHealth as a portion of the total consideration of our 1995 acquisition of MetraHealth. The redemption price per share of stock was $1,040 per share, or $520 million in the aggregate, which included a redemption premium of $40 per share, or $20 million in the aggregate. The redemption premium of $20 million is deducted from net earnings (loss) to arrive at net earnings (loss) applicable to common shareholders in the accompanying Consolidated Statements of Operations.

Adjustment To Conform Fiscal Year End Of Pooled Company

MOHAWK INDUSTRIES, INC.

Consolidated Statements of Stockholders' Equity

(In thousands)	Common stock Shares	Amount	Additional paid-in capital	Retained earnings	Treasury stock	Stock options	Total stockholders' equity
Balances at December 31, 1995	51,591	$516	122,575	155,822	(115)	(317)	278,481
Pooling of World	4,900	49	28,071	29,846	—	—	57,966
Stock options exercised	116	1	1,207	—	115	—	1,323
Dividends paid	—	—	—	(24)	—	—	(24)
Tax benefit from exercise of stock options	—	—	7,606	—	—	—	7,606
Amortization of deferred compensation	—	—	—	—	—	317	317
Net earnings	—	—	—	53,378	—	—	53,378
Balances at December 31, 1996	56,607	566	159,459	239,022	—	—	399,047
Stock options exercised	460	5	3,631	—	—	—	3,636
Dividends paid	—	—	—	(24)	—	—	(24)
Tax benefit from exercise of stock options	—	—	1,050	—	—	—	1,050
Net earnings	—	—	—	73,424	—	—	73,424
Balances at December 31, 1997	57,067	571	164,140	312,422	—	—	477,133
Stock options exercised	316	3	4,414	—	—	—	4,417
Dividends paid	—	—	—	(24)	—	—	(24)
Tax benefit from exercise of stock options	—	—	243	—	—	—	243
Adjustments to conform fiscal year-end of World	—	—	—	(2,672)	—	—	(2,672)
Net earnings	—	—	—	107,612	—	—	107,612
Balances at December 31, 1998	57,383	$574	168,797	417,338	—	—	586,709

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

2 (In Part): Acquisitions

On November 12, 1998, the Company acquired all of the outstanding capital stock of World in exchange for approximately 4,900 shares of the Company's common stock. The acquisition of World has been accounted for under the pooling-of-interests basis of accounting and, accordingly, the Company's historical consolidated financial statements have been restated to include the accounts and results of operations of World. The Company incurred before-tax, nonrecurring charges aggregating $20,600 in the fourth quarter of 1998 related to the Merger with World, of which $17,700 of the charge is recorded as non-operating expense and $2,900 of the charge is recorded as a write-down of World computer equipment that will be disposed of.

The results of operations previously reported by the separate enterprises and the combined amounts presented in the accompanying consolidated financial statements are presented below:

	Nine months ended September 26, 1998 (unaudited)	Years ended December 31, 1997	1996
Net sales:			
Mohawk	$1,582,493	1,901,352	1,779,389
World	333,694	425,989	373,627
Combined	$1,916,187	2,327,341	2,153,016
Net earnings:			
Mohawk	$ 77,829	68,030	49,050
World	4,984	5,394	4,328
Combined	$ 82,813	73,424	53,378

Prior to the combination, World's fiscal year ended on the Sunday closest to June 30. In recording the pooling-of-interests combination, World's financial statements for the year ended December 31, 1998 were combined with Mohawk's consolidated financial statements for the same period. World's financial statements for the years ended June 28, 1998 and June 29, 1997 were combined with Mohawk's financial statements for the years ended December 31, 1997 and 1996, respectively. An adjustment has been made to stockholders' equity in the year ended December 31, 1998 to eliminate the effect of including World's results of operations for the six months ended June 28, 1998 in the Company's consolidated financial statements for the years ended December 31, 1998 and 1997. There were no significant intercompany transactions between Mohawk and World prior to the combination.

ADDITIONAL PAID-IN CAPITAL

PRESENTATION OF CHANGES IN ADDITIONAL PAID-IN CAPITAL

Paragraph 10 of APB Opinion No. 12 states:

> 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 5-5 summarizes the presentation formats used by the survey companies to present changes in additional paid-in capital.

TABLE 5-5: PRESENTATION OF CHANGES IN ADDITIONAL PAID-IN CAPITAL

	1998	1997	1996	1995
Statement of stockholders' equity	483	454	433	430
Statement of additional paid-in capital	3	5	9	6
Schedule in notes	27	52	62	69
No statement or schedule but changes disclosed	5	6	6	6
Balance unchanged during year	16	16	18	27
	534	**533**	**528**	**538**
Additional paid-in capital account not presented	66	67	72	62
Total Companies	**600**	**600**	**600**	**600**

STOCK SPLITS

Table 5-6 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 5-6: STOCK SPLITS

	1998	1997	1996	1995
Ratio				
Less than three-for-two	4	3	2	5
Three-for-two (50%) to two-for-one	12	10	12	10
Two-for-one (100%)	60	60	44	31
Greater than two-for-one	7	7	5	2
Total Companies	**83**	**80**	**63**	**48**
Account charged				
Additional paid-in capital	30	23	23	19
Retained earnings	19	16	12	9
No charge	34	41	28	20
Total Companies	**83**	**80**	**63**	**48**

AMERICAN HOME PRODUCTS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Capital Stock

At the Company's April 23, 1998 Annual Meeting of Stockholders, an increase in the number of authorized shares of common stock from 1,200,000,000 to 2,400,000,000 was approved enabling the Company to complete a two-for-one common stock split effected in the form of a 100% stock dividend which was declared by the Company's Board of Directors in March 1998. The par value of the common stock was maintained at the pre-split amount of $0.33-1/3 per share. All references to retained earnings, common stock, common shares outstanding, average numbers of common stock shares outstanding, stock options and per share amounts in these Consolidated Financial Statements, Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations prior to the record date of the stock split have been restated to reflect the two-for-one common stock split on a retroactive basis.

BRISTOL-MYERS SQUIBB COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Stockholders' Equity

On December 1, 1998, the company's Board of Directors authorized a two-for-one split of its common stock, effective February 1999. Per common share amounts in the accompanying consolidated financial statements give effect to the stock split. The Board of Directors also recommended that an amendment be considered for stockholder approval at the annual meeting of stockholders to increase the number of authorized shares of common stock from 2.25 billion shares to 4.5 billion shares.

Changes in capital shares and capital in excess of par value of stock were:

(Dollars in millions)	Shares of Common Stock Issued	Shares of Common Stock Treasury	Capital in Excess of Par Value of Stock
Balance, December 31, 1995	540,185,639	34,953,311	$ 375
Effect of two-for-one stock split	540,185,639	34,953,311	(54)
Issued pursuant to stock plans, options and rights	221,032	(6,623,272)	(25)
Conversions of preferred stock	31,960	—	—
Purchases	—	18,523,200	—
Other	1,871,746	—	86
Balance, December 31, 1996	1,082,496,016	81,806,550	382
Issued pursuant to stock plans and options	738,151	(8,514,867)	162
Conversions of preferred stock	19,536	—	—
Purchases	—	16,777,700	—
Balance, December 31, 1997	1,083,253,703	90,069,383	544
Effect of two-for-one stock split	1,083,253,703	90,069,383	(108)
Issued pursuant to stock plans and options	16,931,302	(11,189,998)	700
Conversions of preferred stock	21,230	—	—
Purchases	—	30,601,764	—
Other	4,856,870	—	(61)
Balance, December 31, 1998	2,188,316,808	199,550,532	$1,075

THE COASTAL CORPORATION

Statement of Consolidated Common Stock and Other Stockholders' Equity

(Thousands of shares and millions of dollars)	1998 Shares	1998 Amount	1997 Shares	1997 Amount	1996 Shares	1996 Amount
Preferred stock, par value 33⅓¢ per share, authorized 50,000,000 shares cumulative convertible preferred:						
$1.19, Series A: Beginning balance	58	$ —	60	$ —	61	$ —
Converted to common	(2)	—	(2)	—	(1)	—
Ending balance	56	—	58	—	60	—
$1.83, Series B: Beginning balance	68	—	74	—	79	.1
Converted to common	(7)	—	(6)	—	(5)	(.1)
Ending balance	61	—	68	—	74	—
$5.00, Series C: Beginning balance	30	—	32	—	33	—
Converted to common	(2)	—	(2)	—	(1)	—
Ending balance	28	—	30	—	32	—
Cumulative preferred:						
$2.125, Series H, liquidation amount of $25 per share:						
Beginning balance	8,000	2.6	8,000	2.6	8,000	2.6
Redeemed	(8,000)	(2.6)	—	—	—	—
Ending balance	—	—	8,000	2.6	8,000	2.6
Class A common stock, par value 33⅓¢ per share, authorized 2,700,000 shares						
Beginning balance	366	.1	382	.1	404	.1
Converted to common	(13)	—	(17)	—	(35)	—
Conversion of preferred stock and exercise of stock options	1	—	1	—	13	—
Ending balance	354	.1	366	.1	382	.1
Common stock, par value 33⅓¢ per share, authorized 250,000,000 shares						
Beginning balance	110,117	36.7	109,756	36.6	109,168	36.4
Conversion of preferred stock	63	—	47	—	34	—
Conversion of Class A common stock	13	—	17	—	35	—
Two-for-one stock split	106,274	35.4	—	—	—	—
Exercise of stock options	298	.1	297	.1	519	.2
Ending balance	216,765	72.2	110,117	36.7	109,756	36.6
Additional paid-in capital						
Beginning balance		1,243.6		1,239.6		1,225.0
Exercise of stock options		5.4		4.0		14.6
Two-for-one stock split		(35.4)		—		—
Redemption for Series H preferred stock		(197.4)		—		—
Ending balance		1,016.2		1,243.6		1,239.6
Retained earnings						
Beginning balance		2,131.9		1,890.1		1,547.1
Net earnings for period		444.4		301.5		402.6
Cash dividends on preferred stock		(6.0)		(17.4)		(17.4)
Cash dividends on Class A common stock, 21.38¢ (1998), 18¢ (1997) and 18¢ (1996) per share		(.1)		(.1)		(.1)
Cash dividends on common stock, 23.75¢ (1998), 20¢ (1997) and 20¢ (1996) per share		(50.4)		(42.2)		(42.1)
Ending balance		2,519.8		2,131.9		1,890.1
Less treasury stock—at cost	4,396	132.5	4,396	132.5	4,395	132.5
Total		$3,475.8		$3,282.4		$3,036.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Common and Preferred Stock

On May 7, 1998, the Board of Directors of Coastal authorized a two-for-one stock split of the Coastal common stock. On July 1, 1998, stockholders of record received one additional share of common stock for each share of common stock and/or Class A common stock held of record on May 29, 1998. The stock split has been reflected in the accompanying financial statements, and all applicable references as to the number of common shares and per share information have been restated. Appropriate adjustments have been made in the conversion ratios of shares of convertible preferred stock and in the exercise price and number of shares subject to stock options. Effective with the stock split, the annual cash dividend rate on the common stock is $.25 per share.

HARRIS CORPORATION

NOTES TO FINANCIAL STATEMENTS

Stock Split

On August 23, 1997, the Board of Directors authorized a two-for-one stock split to shareholders of record on September 4, 1997. All references in financial statements and notes to financial statements to number of shares, per share amounts, and market prices of the Corporation's Common Stock have been restated to reflect the increased number of shares outstanding.

Shareholders' Equity

Changes in shareholders' equity accounts other than retained earnings are summarized as follows:

(In millions)	Common Stock Amount	Other Capital	Net Unrealized Gain-On Securities	Unearned Compensation	Cumulative Translation Adjustments
Balance at July 1, 1995	$38.9	$240.3	$12.2	$(1.7)	$(10.3)
Shares issued under Stock Option Plan (221,890 shares)	.1	3.6	—	—	—
Shares granted under Stock Incentive Plans (245,500 shares)	.1	6.2	—	(6.3)	—
Compensation expense	—	—	—	10.0	—
Termination and award of shares granted under Stock Incentive Plans (263,384 shares)	(.1)	(2.1)	—	(1.7)	—
Shares sold under Employee Stock Purchase Plans (172,414 shares)	.1	5.0	—	—	—
Change in unrealized gain on securities, net of income taxes of $(.8)	—	—	(1.1)	—	—
Foreign currency translation adjustments	—	—	—	—	(5.8)
Purchase and retirement of Common Stock for treasury (962,000 shares)	(.5)	(3.2)	—	—	—
Shares issued for acquisition of company (574,748 shares)	.3	16.2	—	—	—
Balance at June 30, 1996	38.9	266.0	11.1	.3	(16.1)
Shares issued under Stock Option Plan (254,690 shares)	.1	4.4	—	—	—
Shares granted under Stock Incentive Plans (251,900 shares)	.1	7.5	—	(7.6)	—
Compensation expense	—	—	—	12.9	—
Termination and award of shares granted under Stock Incentive Plans (200,450 shares)	(.1)	(.9)	—	(1.2)	—
Shares sold under Employee Stock Purchase Plans (185,712 shares)	.1	6.2	—	—	—
Change in unrealized gain on securities, net of income taxes of $24.5	—	—	42.7	—	—
Foreign currency translation adjustments	—	—	—	—	(13.5)
Shares issued for acquisition of company (1,390,610 shares)	.7	6.7	—	—	—
Balance at June 27, 1997	39.8	289.9	53.8	4.4	(29.6)
Two-for-one stock split (39,949,231 shares)	39.9	(39.9)	—	—	—
Shares issued under Stock Option Plan (237,476 shares)	.2	5.6	—	—	—
Shares granted under Stock Incentive Plans (238,550 shares)	.3	10.1	—	(10.3)	—
Compensation expense	—	—	—	7.8	—
Termination and award of shares under Stock Incentive Plans (340,174 shares)	(.3)	(.5)	—	(5.1)	—
Shares sold under Employee Stock Purchase Plans (114,707 shares)	.1	6.1	—	—	—
Change in unrealized gain on securities net of income taxes of $(16.7)	—	—	(28.5)	—	—
Foreign currency translation adjustments	—	—	—	—	(17.3)
Balance at July 3, 1998	$80.0	$271.3	$25.3	$(3.2)	$(46.9)

LEGGETT & PLATT, INCORPORATED (DEC)

Consolidated Balance Sheets

(Dollar amounts in millions, except per share data)	1998	1997
Shareholders' Equity		
Capital stock		
Preferred stock—authorized, 100,000,000 shares; none issued		
Common stock—authorized, 300,000,000 shares of $.01 par value; issued 197,766,091 and 192,759,120 shares in 1998 and 1997, respectively	2.0	1.0
Additional contributed capital	396.1	311.9
Retained earnings	1,058.7	871.3
Accumulated other comprehensive income	(18.2)	(10.1)
Less treasury stock—at cost (82,580 and 4,774 shares in 1998 and 1997, respectively)	(1.8)	(.1)
Total shareholders' equity	1,436.8	1,174.0

Consolidated Statements of Changes in Shareholders' Equity (In Part)

(Dollar amounts in millions, except per share data) Year ended December 31	1998	1997
Common stock		
Balance, beginning of period	$ 1.0	$ .9
Common stock issued	—	.1
Two-for-one stock split	1.0	—
Balance, end of period	$ 2.0	$ 1.0
Additional contributed capital		
Balance, beginning of period	$311.9	$240.2
Common stock issued	87.3	74.6
Treasury stock issued	(6.2)	(9.7)
Tax benefit related to stock options	4.1	6.8
Two-for-one stock split	(1.0)	—
Balance, end of period	$396.1	$311.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B-Stock Split

On June 15, 1998, the Company distributed a two-for-one split in the form of a stock dividend. This resulted in the issuances of 98,289,297 additional shares of common stock and 34,096 shares held in treasury. All share and per share amounts have been restated to reflect the split.

A. O. SMITH CORPORATION (DEC)

Consolidated Statement of Stockholders' Equity

(Dollars in thousands)	1998	1997	1996
Class A common stock			
Balance at beginning of year	$ 29,192	$ 29,231	$ 29,443
Conversion of Class A common stock	(94)	(39)	(212)
Three-for-two stock split	14,590	—	—
Balance at end of year	$ 43,688	$ 29,192	$ 29,231
Common stock			
Balance at beginning of year	$ 15,861	$ 15,853	$ 15,811
Conversion of Class A common stock	19	8	42
Three-for-two stock split	7,932	—	—
Balance at end of year	$ 23,812	$ 15,861	$ 15,853
Capital in excess of par value			
Balance at beginning of year	$ 72,542	$ 69,410	$ 68,871
Conversion of Class A common stock	75	31	170
Exercise of stock options	344	2,217	341
Tax benefit from exercise of stock options	168	884	28
Stock incentives and directors' compensation	561	—	—
Three-for-two stock split	(22,569)	—	—
Balance at end of year	$ 51,121	$ 72,542	$ 69,410
Retained earnings			
Balance at beginning of year	$466,514	$ 325,361	$ 273,751
Net earnings	44,491	153,830	65,417
Cash dividends on common stock	(11,051)	(12,677)	(13,807)
Balance at end of year	$499,954	$ 466,514	$ 325,361
Accumulated other comprehensive income			
Balance at beginning of year	$ (1,579)	$ (7,401)	$ (7,499)
Foreign currency translation adjustments	91	(1,637)	98
Translation adjustments related to sale of Mexican affiliate	—	7,459	—
Balance at end of year	$ (1,488)	$ (1,579)	$ (7,401)
Treasury stock			
Balance at beginning of year	$(182,825)	$ (7,815)	$ (8,013)
Purchase of treasury stock	(33,241)	(176,550)	—
Exercise of stock options, net of 7,416 shares surrendered as proceeds in 1998	(73)	1,540	198
Stock incentives and directors' compensation	145	—	—
Balance at end of year	$(215,994)	$(182,825)	$ (7,815)
Total stockholders' equity	$ 401,093	$ 399,705	$424,639

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Organization and Significant Accounting Policies

Stock Split

On June 9, 1998, the company's Board of Directors declared a three-for-two stock split of the company's Class A Common Stock and Common Stock in the form of a stock dividend to stockholders of record on July 31, 1998, and payable on August 17, 1998. All references in the financial statements to number of shares outstanding, price per share, per share amounts, and stock option plan data have been restated to reflect the split.

STORAGE TECHNOLOGY CORPORATION

Consolidated Statement of Changes in Stockholders' Equity

(In thousands of dollars)	Common Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Treasury Stock	Unearned Compensation	Notes Receivable From Stockholders	Total
Balances, December 29, 1995	$ 5,335	$1,414,551	$(445,761)	$ (777)	$(6,427)	$(4,088)	$962,833
2-for-1 stock split in the form of a stock dividend (Note 8)	5,335		(5,335)				
Balances, December 29, 1995, as restated	10,670	1,414,551	(451,096)	(777)	(6,427)	(4,088)	962,833
7% convertible subordinated debentures exchanged for stock (14,565,072 shares)	1,456	168,273					169,729
8% convertible subordinated debentures exchanged for stock (1,132,820 shares)	114	19,628					19,742
Shares issued under stock purchase plan, and for exercises of options (2,944,624 shares)	294	37,555					37,849
Repurchases of common stock (9,000,000 shares)	(900)	(195,048)					(195,948)
Net income			180,327				180,327
Other	2	(20)	(483)	(13)	2,877	4,088	6,451
Balances, December 27, 1996	11,636	1,444,939	(271,252)	(790)	(3,550)	0	1,180,983
8% convertible subordinated debentures exchanged for stock (7,106,408 shares)	710	123,560					124,270
Shares issued under stock purchase plan, and for exercises of options (2,146,788 shares, including 1,106,540 shares issued from treasury)	104	37,409		22,681			60,194
Repurchases of common stock (18,349,000 shares)	(1,646)	(443,447)		(40,726)			(485,819)
Net income			231,817				231,817
Other	(4)	(464)	418	(39)	1,147		1,058
Balances, December 26, 1997	10,800	1,161,997	(39,017)	(18,874)	(2,403)	0	1,112,503
Shares issued under stock purchase plan, and for exercises of options (1,997,451 shares, including 808,254 shares issued from treasury)	119	31,459		16,601			48,179
Repurchases of common stock (8,822,500 shares)	(882)	(271,528)					(272,410)
Final price adjustment for common stock repurchased in October 1997	(87,030)						(87,030)
Net income			198,248				198,248
Other	(3)	(120)	23	(136)	322		86
Balances, December 25, 1998	$10,034	$ 834,778	$ 159,254	$(2,409)	$(2,081)	$ 0	$999,576

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Common Stock

In May 1998, the Company declared a two-for-one stock split effected in the form of a 100% stock dividend paid at the close of business June 26, 1998, to shareholders of record on June 5, 1998. All earnings per common share amounts, references to common stock, and stockholders' equity amounts have been restated as if the stock dividend had occurred as of the earliest period presented.

SYSCO CORPORATION

Consolidated Shareholders' Equity

(In thousands except for share data)	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount
Balance at July 1, 1995	191,293,725	$191,294	$ 48,674	$1,379,405	8,429,203	$215,770
Net earnings for year ended June 29, 1996				276,905		
Cash dividends paid, $.24 per share				(87,721)		
Treasury stock purchases					7,314,100	232,070
Stock issued upon conversion of Liquid Yield option notes			(11,190)		(3,816,525)	(99,776)
Stock options exercised			(2,642)		(271,406)	(7,123)
Employees' stock purchase plan			(610)		(531,569)	(14,339)
Management incentive plan			947		(242,884)	(6,218)
Balance at June 29, 1996	191,293,725	$191,294	$ 35,179	$1,568,589	10,880,919	$320,384
Net earnings for year ended June 28, 1997				302,533		
Cash dividends paid, $.28 per share				(99,574)		
Treasury stock purchases					9,016,400	305,301
Stock options exercised			(3,069)		(334,139)	(9,838)
Employees' stock purchase plan			(789)		(512,603)	(15,474)
Management incentive plan			937		(195,119)	(5,745)
Balance at June 28, 1997	191,293,725	$191,294	$ 32,258	$1,771,548	18,855,458	$594,628
Net earnings for year ended June 27, 1998				296,768		
Cash dividends paid, $.33 per share				(110,928)		
Treasury stock purchases					6,064,850	263,416
Stock options exercised			(4,308)		(491,795)	(15,174)
Employees' stock purchase plan			1,359		(433,419)	(14,048)
Management incentive plan			1,084		(205,950)	(6,536)
2-for-1 stock split	191,293,725	191,293	(30,393)	(160,900)	23,789,144	
Balance at June 27, 1998	382,587,450	$382,587	$ —	$1,796,488	47,578,288	$822,286

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shareholders' Equity

On February 11, 1998 the Board of Directors declared a 2-for-1 stock split effected by a 100% stock dividend paid on March 20, 1998 to shareholders of record on February 27, 1998. All share and per share data in these financial statements have been restated to reflect the stock split.

VULCAN MATERIALS COMPANY

Consolidated Statements of Shareholders' Equity

	1998		1997		1996	
(Amounts and shares in thousands, except per share data)	Shares	Amount	Shares	Amount	Shares	Amount
Common stock, $1 par value						
Authorized: 1998, 480,000 shares (Note 15B); 1997 and 1996, 160,000 shares						
Issued at beginning of year	46,573	$46,573	46,573	$46,573	46,573	$46,573
Retired shares of predecessor companies	(5)	(5)	0	0	0	0
Three-for-one common stock split (Note 15B)	93,137	93,137	0	0	0	0
Issued at end of year	139,705	139,705	46,573	46,573	46,573	46,573
Capital in excess of par value						
Balance at beginning of year		14,090		10,306		9,053
Activity prior to stock split						
Distributions under stock-based incentive plans		5,167		3,784		1,253
Treasury stock issued for acquisition		26,383		0		0
Three-for-one common stock split (Note 15B)		(45,640)		0		0
Balance at end of year		0		14,090		10,306
Retained earnings						
Balance at beginning of year		1,449,847		1,304,405		1,174,207
Net earnings		255,908		209,145		188,595
Cash dividends on common stock		(70,015)		(63,622)		(58,399)
Three-for-one common stock split (Note 15B)		(47,497)		0		0
Other		(98)		(81)		2
Balance at end of year		1,588,145		1,449,847		1,304,405
Common stock held in treasury						
Balance at beginning of year	(12,885)	(519,013)	(12,332)	(477,620)	(11,602)	(433,195)
Activity prior to stock split						
Purchase of common shares	(611)	(65,003)	(631)	(43,060)	(765)	(45,182)
Treasury stock issued for acquisition	384	8,187	0	0	0	0
Distributions under stock-based incentive plans	75	1,679	78	1,667	35	757
Three-for-one common stock split (Note 15B)	(26,072)	0	0	0	0	0
Balance at end of year	(39,109)	(574,150)	(12,885)	(519,013)	(12,332)	(477,620)
Total		$1,153,700		$991,497		$883,664

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 (In Part): Subsequent Events

B. Stock Split

On February 12, 1999, the Board of Directors approved an increase in the authorized common stock from 160,000,000 shares to 480,000,000 shares and a three-for-one split of the common stock. Par value of the common stock will remain $1 per share. The stock split was effective March 10, 1999.

The effect of the stock split has been recognized retroactively in the shareholders' equity accounts on the balance sheets as of December 31, 1998, and in all share and per share data in the accompanying consolidated financial statements, Notes to Financial Statements and supplemental financial data. Shareholders' equity accounts have been restated to reflect the reclassification of an amount equal to the par value of the increase in issued common shares from the capital in excess of par value and retained earnings accounts to the common stock account.

CHANGES IN ADDITIONAL PAID-IN CAPITAL

Table 5-7 summarizes credits and charges to additional paid-in capital. Examples of such credits and charges follow.

TABLE 5-7: CHANGES IN ADDITIONAL PAID-IN CAPITAL

	Number of Companies			
	1998	1997	1996	1995
Credits				
Common stock issued				
Employee benefits	410	401	395	412
Business combinations	68	70	58	47
Preferred stock conversions	28	30	28	23
Debt conversions/ extinguishments	19	20	22	23
Public offerings	26	24	24	15
Stock compensation tax benefits	120	116	99	102
Put options/warrants	11	13	8	—
Purchase or retirement of capital stock	6	12	8	6
Warrants issued or exercised	6	8	12	7
Other—Described	35	47	37	52
Charges				
Purchase or retirement of capital stock	128	110	101	90
Treasury stock issued for less than cost	76	69	74	73
Conversion of preferred stock	9	14	12	15
Stock issued cost	3	3	3	3
Other—Described	59	66	59	48

Common Stock Issued In Connection With Employee Benefit Plans

ALPHA INDUSTRIES, INC.

Consolidated Statements of Stockholders' Equity

	Common stock Shares	Common stock Par value	Additional paid-in Capital	Retained earnings (Accumulated) (deficit)	Treasury stock	Unearned compensation restricted stock
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)
Net income	—	—	—	10,302	—	—
Employee stock purchase plan	20	5	133	—	—	—
Amortization of unearned compensation restricted stock	—	—	—	—	—	31
Issuance 82,780 treasury shares to 401(k) plan	—	—	685	—	148	—
Repurchase 21,836 shares	—	—	—	—	(268)	—
Exercise of stock options	349	87	1,125	—	—	—
Exercise of stock warrants	50	13	175	—	—	—
Balance March 29, 1998	10,545	$2,636	$56,758	$(3,214)	$(315)	$ (43)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Common Stock

Long-Term Incentive Plan

The Company has Long-Term Incentive Plans adopted in 1986 and 1996 pursuant to which stock options, with or without stock appreciation rights, may be granted and restricted stock awards and book value awards may be made.

Common Stock Options: These options may be granted in the form of incentive stock options or non-qualified stock options. The option price may vary at the discretion of the Compensation Committee but shall not be less than the greater of fair market value or par value. The option term may not exceed ten years. The options may be exercised in cumulative annual increments commencing one year after the date of grant. A total of 2,000,000 shares are authorized for grant under the Company's Long-Term Incentive Plans. The number of common shares reserved for granting of future awards is 75,550, 328,500, and 214,373, at March 29, 1998, March 30, 1997 and March 31, 1996, respectively.

Restricted Stock Awards: No restricted shares of the Company's common stock were issued during fiscal 1998 and 1997. For fiscal 1996, a total of 8,500 restricted shares of the Company's common stock were granted to certain employees. The market value of shares awarded was $51 thousand for fiscal 1996. This amount was recorded as unearned compensation-restricted stock and is shown as a separate component of stockholders' equity. Unearned compensation is being amortized to expense over the five year vesting period and amounted to $31 thousand, $35 thousand, and $61 thousand in fiscal 1998, 1997, and 1996, respectively.

Long-Term Compensation Plan: On October 1, 1990, the Company adopted a Supplemental Executive Retirement Plan (SERP) for certain key executives. Benefits payable under this plan are based upon the participant's base pay at retirement reduced by proceeds from the exercise of certain stock options. Options vest over a five-year period. Benefits earned under the SERP are fully vested at age 55, however, the benefit is ratably reduced if the participant retires prior to age 65. Compensation expense related to the plan was $127 thousand, $106 thousand, and $62 thousand in fiscal 1998, 1997, and 1996, respectively. Total benefits accrued under these plans were $308 thousand at March 29, 1998 and $180 thousand at March 30, 1997.

A summary of stock option and restricted stock award transactions follows:

	Shares	Weighted average exercise price of shares under plan
Balance outstanding at April 2, 1995	869,225	$3.14
Granted	115,500	12.36
Exercised	(78,432)	2.82
Restricted	(22,664)	—
Cancelled	(44,242)	6.06
Balance outstanding at March 31, 1996	839,387	4.38
Granted	598,500	8.36
Exercised	(172,750)	2.73
Restricted	(23,164)	—
Cancelled	(186,503)	8.61
Balance outstanding at March 30, 1997	1,055,470	6.21
Granted	260,000	11.37
Exercised	(345,994)	3.45
Restricted	(11,666)	—
Cancelled	(29,033)	9.16
Balance outstanding at March 29, 1998	928,777	$8.47

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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 were exercisable at $3.75 per share and were scheduled to expire on April 1, 1999. During fiscal 1998 Silicon Valley Bank exercised the 50,000 stock purchase warrants.

Stock Option Plan For Non-Employee Directors: The Company has two stock option plans for non-employee directors. The 1994 Non-Qualified Stock Option Plan for Non-Employee Directors provides a total of 50,000 options that may be granted. A grant of 5,000 options is granted to each new director upon becoming a member of the Board. A total of 30,000 options remain available for grant under this plan. The 1997 Non-Qualified Stock Option Plan for Non-Employee Directors provides a total of 100,000 options that may be granted. A grant of 15,000 options (including any options granted under the 1994 Plan) is granted to a new director upon becoming a member of the Board. In addition, a grant of 5,000 options for each continuing director is granted after each Annual Stockholders Meeting. Under both of these plans the option price is the fair market value at the time the option is granted. Options are exercisable 20% per year. During fiscal 1998, 75,000 shares were granted at prices of $19.75 or $15.50. No options were granted during fiscal 1997. During fiscal 1996, 5,000 shares were granted at $17.875 per share. At March 29, 1998 a total of 95,000 options have been granted under these two plans. During fiscal 1998, 3,000 options were exercised at an exercise price of $5.875. At March 29, 1998, 8,000 shares were exercisable.

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 19,760, 15,076, and 16,836, were purchased under this plan in fiscal 1998, 1997, and 1996, respectively.

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 1998 and 1997, the Company contributed 61,747 and 110,956 shares, respectively of the Company's common stock valued at $833 thousand and $835 thousand to the 401(k) plan. During fiscal 1996, the Company contributed $101 thousand for the first three quarters and accrued $208 thousand that was distributed in the form of the Company's stock in fiscal 1997.

LADD FURNITURE, INC.

Consolidated Statements of Shareholders' Equity

(Dollar amounts in thousands)	Number of Shares Issued	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity
Balance at December 30, 1995	7,726,993	$2,318	49,050	74,618	125,986
Purchase of restricted stock	(7,426)	(2)	—	—	(2)
Amortization of employee restricted stock awards	—	—	351	—	351
Net loss	—	—	—	(2,435)	(2,435)
Balance at December 28, 1996	7,719,567	2,316	49,401	72,183	123,900
Purchase of restricted stock	(3,273)	(1)	—	—	(1)
Shares issued in connection with incentive stock option plan	4,500	2	51	—	53
Shares issued in connection with employee defined contribution plan	38,889	11	536	—	547
Amortization of employee restricted stock awards	—	—	114	—	114
Net earnings	—	—	—	6,312	6,312
Balance at January 3, 1998	7,759,683	2,328	50,102	78,495	130,925
Shares issued in connection with incentive stock option plan	75,747	22	985	—	1,007
Retirement of stock and purchase of restricted stock	(4,350)	(1)	(86)	—	(87)
Amortization of employee restricted stock awards	—	—	87	—	87
Tax benefit from exercise of stock options	—	—	330	—	330
Net earnings	—	—	—	12,259	12,259
Balance at January 2, 1999	7,831,080	$2,349	51,418	90,754	144,521

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Employee Stock Plan

Under an incentive stock option plan, the Company grants stock options to officers, key management employees and nonemployee directors. Options are generally granted at fair market value on the dates of the grant. All optionees must be employees or directors of the Company on the date of grant and throughout the term of the option, except in the case of death, retirement, or disability. The Company applies APB Opinion No. 25 and related interpretations in accounting for the plan. Accordingly, no compensation expense has been recognized for its stock-based compensation plan.

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A total of 1,188,889 shares were reserved for option under previous and current stock option plans. At January 2, 1999, approximately 6,100 shares are available for future options. Options granted prior to 1991 are generally exercisable at the cumulative rate of 20% per year after one year from the date of grant. Options granted subsequent to 1990 are generally exercisable at the cumulative rate of 25% per year after one year from the date of grant. Options expire over a period not to exceed ten years from the date of grant. Stock option activity during 1996, 1997 and 1998 follows:

	Number of Shares	Weighted-Average Exercise Price
Outstanding at December 30, 1995	252,178	$21.90
Granted in 1996	442,510	$11.86
Cancelled in 1996	(98,533)	$21.76
Outstanding at December 28, 1996	596,155	$14.63
Granted in 1997	100,005	$15.51
Exercised in 1997	(4,500)	$11.64
Cancelled in 1997	(43,038)	$16.67
Outstanding at January 3, 1998	648,622	$14.67
Granted in 1998	192,000	$22.92
Exercised in 1998	(75,747)	$13.30
Cancelled in 1998	(16,673)	$20.32
Outstanding at January 2, 1999	748,202	$16.79
Exercisable at January 2, 1999	294,084	$16.38

The company had options for 213,466 and 96,545 shares exercisable at January 3, 1998 and December 28, 1996, respectively, with a weighted-average exercise price totaling $17.81 and $23.73, respectively.

POLARIS INDUSTRIES INC.

Consolidated Statements of Shareholders' Equity

(In thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Deferred Compensation	Compensation Payable in Common Stock	Retained Earnings (Accumulated Deficit)	Total
Balance, December 31, 1995	—	273	109,344	—	11,418	(2,521)	118,514
First Rights conversion to stock	—	2	5,717	—	(5,769)	—	(50)
Employee stock compensation	—	1	1,466	(978)	4,061	—	4,550
Dividends	—	—	—	—		(16,390)	(16,390)
Repurchase and retirement of common shares	—	(6)	(13,581)	—	—	—	(13,587)
Net income	—	—	—	—	—	62,293	62,293
Balance, December 31, 1996	—	270	102,946	(978)	9,710	43,382	155,330
First Rights conversion to stock	—	3	7,164	—	(7,210)	—	(43)
Employee stock compensation	—	2	2,733	(2,155)	4,846	—	5,426
Dividends	—	—	—	—	—	(16,958)	(16,958)
Repurchase and retirement of common shares	—	(15)	(39,888)	—	—	—	(39,903)
Net income	—	—	—	—	—	65,383	65,383
Balance, December 31, 1997	—	260	72,955	(3,133)	7,346	91,807	169,235
First Rights conversion to stock	—	1	1,841	—	(1,864)	—	(22)
Employee stock compensation	—	3	11,543	(3,593)	1,362	—	9,315
Dividends	—	—	—	—	—	(18,582)	(18,582)
Repurchase and retirement of common shares	—	(11)	(37,717)	—	—	—	(37,728)
Net income	—	—	—	—	—	31,015	31,015
Balance, December 31, 1998	$—	$253	$48,622	$(6,726)	$6,844	$104,240	$153,233

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Stock-Based Compensation

Polaris maintains a stock option plan (Option Plan) under which incentive and nonqualified stock options for a maximum of 2,350,000 shares of common stock may be issued to certain employees. Options granted to date generally vest three years from the award date and expire after ten years.

Polaris maintains a restricted stock plan (Restricted Plan) under which a maximum of 800,000 shares of common stock may be awarded as an incentive to certain employees with no cash payments required from the recipient. The restrictions on awards granted to date lapse after a three to four year period if Polaris achieves certain performance measures.

In 1997, Polaris adopted a qualified non-leveraged Employee Stock Ownership Plan (ESOP) under which a maximum of 1,250,000 shares of common stock can be awarded. Shares vest immediately and require no cash payments from the recipient. Substantially all employees are eligible to participate in the ESOP.

Polaris has historically maintained a plan in which rights to receive shares of common stock (First Rights) are issued to management (Management Plan) and other employees (Employee Plan). First Rights are converted to common stock with no cash payments required from the recipient. At December 31, 1998, no additional rights are available to be granted under the Management Plan or the Employee Plan.

The following summarizes share activity in the above plans, and the weighted average exercise price for the Option Plan:

	Option Plan		Restricted Plan	Management Plan	Employee Plan	ESOP
	Shares	Weighted Average Exercise Price	Shares	Shares	Shares	Shares
Outstanding as of December 31, 1995	254,550	$29.00	—	317,250	153,000	—
Granted	136,830	$33.75	61,795	—	171,005	—
Converted	—	—	—	(57,000)	(153,000)	—
Forfeited	—	—	—	—	—	—
Outstanding as of December 31, 1996	391,830	$30.66	61,795	260,250	171,005	—
Granted	142,980	$25.75	64,915	—	—	—
Converted	—	—	—	(147,750)	(171,005)	—
Forfeited	(38,617)	$29.50	(2,835)	(15,000)	—	—
Outstanding as of December 31, 1997	495,743	$29.33	123,875	97,500	—	170,000
Granted	691,590	$40.15	147,765	—	—	173,206
Exercised/converted	(33,425)	$29.00	—	(87,750)	—	—
Forfeited	(76,183)	$30.94	(28,605)	(1,500)	—	—
Outstanding as of December 31, 1998	1,077,725	$36.17	243,035	8,250	—	343,206
Exercisable/vested as of December 31, 1998	180,815	$29.00	—	—	—	343,206

Shares outstanding under the Option Plan have exercise prices ranging from $25.75 to $49.45 and a weighted average remaining contractual life of 8.6 years.

In 1995, Polaris approved a nonqualified deferred compensation plan (Director Plan) under which directors who are not Polaris officers or employees can elect to receive common stock equivalents in lieu of director's fees, which will be converted into common stock when board service ends. A maximum of 75,000 shares of common stock has been authorized under this plan and 20,529 have been earned as of December 31, 1998.

Polaris, which accounts for all stock based compensation plans under APB Opinion No. 25, and recorded compensation costs of $7.8 million, $5.0 million, and $4.6 million in 1998, 1997 and 1996, respectively. Had compensation costs for these plans been recorded at fair value consistent with the methodology prescribed by SFAS No. 123 "Accounting for Stock-Based Compensation," Polaris' net income and net income per share would have been reduced to the following pro forma amounts:

	1998	1997	1996
Net income (in thousands)			
As reported	$31,015	$65,383	$62,293
Pro forma	29,336	64,346	61,475
Diluted net income per share			
As reported	$ 1.19	$ 2.45	$ 2.24
Pro forma	1.13	2.41	2.21

The fair value of each award under the Option Plan is estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used to estimate the fair value of options:

	1998	1997	1996
Risk free interest rate	5.6%	6.6%	6.8%
Expected life	7 years	7 years	7 years
Expected volatility	14%	23%	27%
Expected dividend yield	2.0%	2.5%	1.8%

The weighted average fair values at the grant dates of First Rights and shares awarded under the above plans are as follows:

	1998	1997	1996
Option plan	$ 5.57	$ 7.45	$12.16
Restricted plan	$34.89	$25.75	$33.75
Employee plan	—	—	$23.75
ESOP	$39.19	$30.56	—

Purchase Method Acquisition

CHAMPION ENTERPRISES, INC.

Consolidated Statements of Shareholders' Equity

(In thousands)	Common stock Shares	Common stock Amount	Capital in excess of par value	Retained earnings	Foreign currency translation adjustments	Total
Balance December 30, 1995	31,869	$31,869	$47,377	$97,872	$(976)	$176,142
Net income	—	—	—	53,586	—	53,586
Less: net income of Redman for the quarter ended March 29, 1996	—	—	—	(5,987)	—	(5,987)
Stock option and benefit plans	538	538	4,031	—	—	4,569
Common stock repurchases	(179)	(179)	(3,276)	—	—	(3,455)
Two-for-one stock split	15,467	15,467	(15,467)	—	—	—
Tax benefit of stock options	—	—	1,800	—	—	1,800
Translation adjustments	—	—	—	—	(21)	(21)
Balance December 28, 1996	47,695	47,695	34,465	145,471	(997)	226,634
Net income	—	—	—	75,271	—	75,271
Stock option and benefit plans	1,159	1,159	11,389	—	—	12,548
Common stock repurchases	(2,254)	(2,254)	(34,478)	—	—	(36,732)
Tax benefit of stock options	—	—	2,962	—	—	2,962
Translation adjustments	—	—	—	—	(267)	(267)
Balance January 3, 1998	46,600	46,600	14,338	220,742	(1,264)	280,416
Net income	—	—	—	94,198	—	94,198
Stock option and benefit plans	1,208	1,208	12,579	—	—	13,787
Tax benefit of stock options	—	—	5,100	—	—	5,100
Issuance for acquisition	462	462	11,632	—	—	12,094
Translation adjustments	—	—	—	—	(349)	(349)
Balance January 2, 1999	48,270	$48,270	$43,649	$314,940	$(1,613)	$405,246

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Business Combinations

1998 Acquisitions

During 1998 the Company purchased 14 manufactured housing retail organizations and one manufactured home building facility. The aggregate purchase price for these acquisitions consisted of guaranteed purchase price of $295 million and contingent purchase price of up to $160 million, potentially payable over the next five years based upon the future performance of the acquired businesses. These retailers had floor plan liabilities of $105 million at the time of acquisition. During 1998 the Company made guaranteed purchase price payments of cash totaling $265 million and shares of common stock valued at $12 million. The remaining portion of the guaranteed purchase price payments will be paid over the next three years. In addition, the Company paid $3 million during 1998 for other retail businesses.

These acquisitions were accounted for using the purchase method and resulted in the recognition of $315 million of goodwill, including $35 million of contingent purchase price recorded. Recognition of additional purchase price related to contingent amounts will result in the recording of a corresponding amount of goodwill. The results of operations of the acquired companies are included with those of the Company commencing on the respective acquisition dates.

Following are the summarized unaudited pro forma combined results of operations for the years ended January 2, 1999 and January 3, 1998, assuming the acquisitions had taken place at the beginning of each of those fiscal years. The unaduited pro forma results are not necessarily indicative of future earnings or earnings that would have been reported had the acquisitions been completed when assumed.

(In millions, except per share amounts)	1998	1997
Net sales	$2,406	$2,154
Income from continuing operations before income taxes	160	134
Income taxes	64	54
Income from continuing operations	96	80
Per diluted share	$ 1.95	$ 1.64

Preferred Stock Conversion

FORT JAMES CORPORATION (DEC)

Consolidated Statements of Changes in Capital Accounts

(In millions)	1998	1997	1996
Preferred stock			
Balance, beginning of year	$352.7	$738.4	$740.3
Conversion of preferred stock	(350.9)	(287.6)	—
Redemption of preferred stock	(1.8)	(98.1)	(1.9)
Balance, end of year	$ —	$352.7	$738.4
Common shareholders' equity			
Common stock:			
Balance, beginning of year	$ 20.9	$ 18.9	$ 17.2
Conversion of preferred stock	1.0	1.5	—
Exercise of stock options and awards	.2	.4	.1
Common stock offerings	—	—	1.5
Other	—	.1	.1
Balance, end of year	22.1	20.9	18.9
Additional paid-in capital:			
Balance, beginning of year	2,807.9	2,407.0	2,181.7
Conversion of preferred stock	349.9	286.1	—
Exercise of stock options and awards	53.3	103.7	18.8
Restricted stock compensation earned	9.3	13.1	3.0
Common stock offerings	—	—	202.3
Other	(4.8)	(2.0)	1.2
Balance, end of year	3,215.6	2,807.9	2,407.0
Accumulated other comprehensive income:			
Balance, beginning of year	(137.6)	(12.1)	(12.5)
Other comprehensive income	48.8	(125.5)	.4
Balance, end of year	(88.8)	(137.6)	(12.1)
Retained deficit:			
Balance, beginning of year	(2,459.6)	(2,300.7)	(2,510.9)
Net income (loss)	497.6	(27.0)	319.9
Common stock cash dividends declared	(131.1)	(88.5)	(51.2)
Preferred stock cash dividends declared	(4.4)	(43.4)	(58.5)
Balance, end of year	(2,097.5)	(2,459.6)	(2,300.7)
Common shareholders' equity, end of year	$ 1,051.4	$ 231.6	$ 113.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Preferred Stock

The Company is authorized to issue up to five million shares of preferred stock, $10 par value. The preferred shares are issuable in series, each with varying dividend rates, redemption rights, conversion terms, liquidation values and voting rights.

In April 1998, the Company completed the redemption and conversion of its Series K $3.375 Cumulative Convertible Exchangeable Preferred Stock ("Series K"), its Series L $14.00 Cumulative Convertible Exchangeable Preferred Stock ("Series L") and its Series N $14.00 Cumulative Convertible Exchangeable Preferred Stock ("Series N"). Substantially all of the outstanding Series K, L and N preferrerd stock was converted into 9.5 million shares of Common Stock in a non-cash financing transaction of $350.9 million. The balance was redeemed for $1.8 million in cash.

In 1997, the Series O 8¼% Cumulative Preferred Stock ("Series O") was redeemed for $98.1 million and the Series P 9% Cumulative Convertible Preferred Stock ("Series P") was converted to 15.3 million shares of Common Stock in a non-cash financing transaction of $287.5 million.

As of December 27, 1998, the Company has reserved 250,000 preferred shares for the issuance of Series M preferred stock under the Shareholder Rights Plan.

THE TJX COMPANIES, INC.

Consolidated Statements of Shareholders' Equity

(In thousands)	Preferred Stock Face Value	Common Stock, Par Value $1	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, January 27, 1996	$282,500	$ 72,486	$270,839	$(1,680)	$140,489	$764,634
Comprehensive income:						
Net income	—	—	—	—	363,123	363,123
Foreign currency translation	—	—	—	642	—	642
Total comprehensive income						363,765
Cash dividends:						
Preferred stock	—	—	—	—	(13,741)	(13,741)
Common stock	—	—	—	—	(21,278)	(21,278)
Conversion of cumulative preferred stock into common stock:						
Series A	(25,000)	1,190	23,810	—	—	—
Series C	(82,500)	3,178	79,322	—	—	—
Series D	(25,000)	1,350	23,650	—	—	—
Issuance of common stock under stock incentive plans and related tax benefits	—	1,372	32,786	—	—	34,158
Other	—	—	(352)	—	—	(352)
Balance, January 25, 1997	150,000	79,576	430,055	(1,038)	468,593	1,127,186
Comprehensive income:						
Net income	—	—	—	—	304,815	304,815
Foreign currency translation	—	—	—	(643)	—	(643)
Unrealized gains on securities	—	—	—	4,998	—	4,998
Total comprehensive income						309,170
Cash dividends:						
Preferred stock	—	—	—	—	(11,668)	(11,668)
Common stock	—	—	—	—	(31,832)	(31,832)
Conversion of cumulative Series E preferred stock into common stock	(77,020)	8,315	68,705	—	—	—
Stock repurchased:						
Preferred	(250)	—	—	—	(500)	(750)
Common	—	(8,528)	(235,920)	—	—	(244,448)
Stock split, two-for-one	—	79,823	(79,823)	—	—	—
Issuance of common stock under stock incentive plans and related tax benefits	—	715	15,719	—	—	16,434
Balance, January 31, 1998	72,730	159,901	198,736	3,317	729,408	1,164,092
Comprehensive income:						
Net income	—	—	—	—	424,154	424,154
Foreign currency translation	—	—	—	152	—	152
Reclassification of unrealized gains	—	—	—	(4,998)	—	(4,998)
Total comprehensive income						419,308
Cash dividends:						
Preferred stock	—	—	—	—	(3,523)	(3,523)
Common stock	—	—	—	—	(38,134)	(38,134)
Conversion of cumulative Series E preferred stock into common stock	(72,730)	14,682	58,048	—	—	—
Common stock repurchased	—	(12,998)	(187,859)	—	(149,462)	(350,319)
Stock split, two-for-one	—	158,954	(96,555)	—	(62,399)	—
Issuance of common stock under stock incentive plans and related tax benefits	—	1,602	27,630	—	—	29,232
Balance, January 30, 1999	$ —	$322,141	$ —	$(1,529)	$900,044	$1,220,656

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

F (In Part): Capital Stock and Earnings Per Share

Capital Stock

The Company distributed a two-for-one stock split, effected in the form of a 100% stock dividend, on June 25, 1998 to shareholders of record on June 11, 1998, which resulted in the issuance of 158.9 million shares of common stock and corresponding decreases of $96.5 million in additional paid-in capital and $62.4 million in retained earnings. Similar transfers were made between additional paid-in capital and common stock in the amount of $79.8 million, reflecting the two-for-one stock split of June 26, 1997 to shareholders of record on June 11, 1997. All historical earnings per share amounts have been restated to reflect both two-for-one stock splits. Reference to common stock activity before the distribution of the related split has not been restated unless otherwise noted. All activity after the distribution date reflects the two-for-one stock splits.

In April 1992, the Company issued 250,000 shares of Series A cumulative convertible preferred stock in a private offering. As of June 1996, pursuant to a call for redemption, the Series A preferred stock was converted into 1,190,475 shares of common stock.

In August 1992, the Company issued 1,650,000 shares of Series C cumulative convertible preferred stock in a public offering. As of September 1996, pursuant to a call for redemption, the Series C preferred stock was converted into 3,177,844 shares of common stock.

On November 17, 1995, the Company issued its Series D and Series E convertible preferred stock as part of the purchase price for Marshalls. The $250,000 shares of Series D preferred stock, with a face value of $25 million, carried an annual dividend rate of $1.81 per share and was automatically converted into 1,349,527 shares of common stock on November 17, 1996.

The shares of Series E preferred stock, with 1,500,000 shares initially issued at a face value of $150 million, carried an annual dividend rate of $7.00 per share. During fiscal 1998, 770,200 shares of the Series E preferred stock were voluntarily converted into 8.3 million shares of common stock and 2,500 shares were repurchased. During fiscal 1999, 357,300 shares of Series E were voluntarily converted into 6.7 million shares of common stock. On November 18, 1998, the remaining 370,000 shares of the Series E preferred stock were mandatorily converted into 8.0 million shares of common stock in accordance with its terms. Inducement fees of $130,000 and $3.8 million were paid on the Series E voluntary conversions in fiscal 1999 and fiscal 1998, respectively.

The Company recorded aggregate dividends, including inducement fees, on its preferred stock of $3.5 million in fiscal 1999, $11.7 million in fiscal 1998 and $13.7 million in fiscal 1997. The preferred dividends reduce net income in computing net income available to common shareholders.

Debt Conversion

ALBERTO-CULVER COMPANY

Consolidated Statements of Stockholders' Equity

	Number of Shares				Dollars					
(In thousands)	Common Stock Class A	Common Stock Class B	Treasury Stock Class A	Treasury Stock Class B	Common Stock Class A	Common Stock Class B	Additional Paid-in Capital	Retained Earnings	Cumulative Translation Adjustments	Treasury Stock
Balance at September 30, 1995	13,263	20,944	(2,300)	(4,178)	$2,918	$4,608	$87,896	$337,506	$(12,966)	$(49,059)
Net earnings								62,744		
Cash dividends								(9,724)		
Stock options exercised			84				688			1,029
Stock issued pursuant to employee incentive plans			25				371			306
Stock purchased for treasury			(23)							(759)
Foreign currency translation loss									(462)	
Balance at September 30, 1996	13,263	20,944	(2,214)	(4,178)	2,918	4,608	88,955	390,526	(13,428)	(48,483)
Net earnings								85,417		
Cash dividends								(10,909)		
Stock dividend	11,180	16,767			2,460	3,688		(6,148)		
Stock options exercised			359				1,663			4,389
Stock issued pursuant to employee incentive plans			78				604			1,009
Stock purchased for treasury			(56)							(1,138)
Foreign currency translation loss									(9,127)	
Balance at September 30, 1997	24,443	37,711	(1,833)	(4,178)	5,378	8,296	91,222	458,886	(22,555)	(44,223)
Net earnings								83,067		
Cash dividends								(13,220)		
Stock options exercised			918				1,606			12,628
Stock issued pursuant to employee incentive plans			56				1,108			692
Stock issued for acquisition			171				2,237			2,177
Stock issued upon conversion of subordinated debentures	6,170				1,357		96,437			
Stock purchased for treasury			(5,862)	(385)						(145,526)
Foreign currency translation loss									(5,576)	
Balance at September 30, 1998	30,613	37,711	(6,550)	(4,563)	$6,735	$8,296	$192,610	$528,733	$(28,131)	$(174,252)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In July, 1998, the 5.5% convertible subordinated debentures were converted into 6.2 million Class A common shares at a conversion rate of 61.776 shares per $1,000 principal amount of debentures (equivalent to a conversion price of approximately $16.19).

TIME WARNER INC.

Consolidated Statement of Shareholders' Equity

(Millions)	Preferred Stock	Common Stock	Paid-In Capital	Accumulated Deficit	Total
Balance at December 31, 1995	$30	$776	$5,034	$(2,173)	$3,667
Net loss				(191)	(191)
Increase in unrealized gains on securities, net of $11 million tax expense				17	17
Foreign currency translation adjustments				9	9
Comprehensive income (loss)				(165)	(165)
Common stock dividends				(155)	(155)
Preferred stock dividends				(257)	(257)
Issuance of common and preferred stock in the CVI acquisition	6	6	668		680
Reduction in par value of common and preferred stock due to TBS Transaction	(32)	(774)	806		—
Issuance of common stock in the TBS Transaction		3	6,024		6,027
Repurchases of Time Warner common stock			(456)		(456)
Shares issued pursuant to stock option, dividend reinvestment and benefit plans			163	(8)	155
Other			6		6
Balance at December 31, 1996	4	11	12,245	(2,758)	9,502
Net income				246	246
Decrease in unrealized gains on securities, net of $89 million tax benefit[a]				(128)	(128)
Foreign currency translation adjustments				(76)	(76)
Comprehensive income (loss)				42	42
Common stock dividends				(204)	(204)
Preferred stock dividends				(319)	(319)
Issuance of common stock in connection with the TBS Transaction			67		67
Repurchases of Time Warner common stock			(344)		(344)
Shares issued pursuant to stock option, dividend reinvestment and benefit plans			711	(98)	613
Other			(4)	3	(1)
Balance at December 31, 1997	4	11	12,675	(3,334)	9,356
Net income				168	168
Foreign currency translation adjustments				4	4
Increase in realized and unrealized losses on derivative financial instruments, net of $13 million tax benefit				(20)	(20)
Cumulative effect of change in accounting for derivative financial instruments, net of $3 million tax benefit				(18)	(18)
Comprehensive income (loss)				134	134
Common stock dividends				(216)	(216)
Preferred stock dividends				(540)	(540)
Issuance of common stock in connection with the conversion of zero-coupon convertible notes due 2013			1,150		1,150
Issuance of common stock in connection with the conversion of convertible preferred stock	(2)	1	151	(150)	—
Repurchases of Time Warner common stock		(1)	(2,239)		(2,240)
Shares issued pursuant to stock option, dividend reinvestment and benefit plans		1	1,397	(190)	1,208
Balance at December 31, 1998	$ 2	$ 12	$13,134	$(4,296)	$8,852

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Long-Term Debt

Long-term debt consists of:

(Millions)	Weighted-Average Interest Rate at December 31, 1998	Maturities	December 31, 1998	1997
Bank credit agreement borrowings	6.0%	2002	$1,234	$2,600
Fixed-rate senior notes and debentures	7.8%	2000-2036	8,491	6,909
Variable-rate senior notes	4.8%	2009-2031	1,200	1,200
Zero-coupon convertible notes	—	—	—	1,124
Total			$10,925	$11,833

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Zero-Coupon Convertible Notes

During 1998, approximately $1.15 billion accreted amount of zero-coupon convertible notes due 2013 (the "Zero-Coupon Convertible Notes") were converted into an aggregate 37.4 million shares of Time Warner common stock. To partially offset the dilution resulting from this conversion, Time Warner incurred a corresponding $1.15 billion of debt and used the proceeds therefrom to repurchase common stock (Note 12).

12 (In Part): Shareholders' Equity

During 1998, Time Warner acquired 59.9 million shares of its common stock at an aggregate cost of $2.24 billion under its existing common stock repurchase program, thereby increasing the cumulative shares purchased to approximately 95.1 million shares at an aggregate cost of $3.04 billion. Except for repurchases of common stock using borrowings in 1998 that offset $1.15 billion of debt reduction associated with the conversion of the Zero-Coupon Convertible Notes into common stock, these repurchases were funded with stock option exercise proceeds and borrowings under Time Warner's Stock Option Proceeds Credit Facility.

Public Offering

EMCOR GROUP, INC.

Consolidated Statements of Stockholders' Equity and Comprehensive Income

(In thousands)	Total	Common stock	Warrants	Additional paid in capital	Accumulated other comprehensive income	Retained earnings (accumulated deficit)	Treasury stock	Comprehensive income
Balance, January 1, 1996	$ 70,610	$ 94	$2,179	$ 78,863	$ 327	$(10,853)	$ —	
Net income	9,437	—	—	—	—	9,437	—	$9,437
Foreign currency translation adjustment	1,051	—	—	—	1,051	—	—	1,051
Comprehensive income	—	—	—	—	—	—	—	$10,488
NOL utilization, net	2,298	—	—	2,298	—	—	—	
Common stock issued under stock option plans	487	1	—	486	—	—	—	
Other	—	—	(25)	25	—	—	—	
Balance, December 31, 1996	83,883	95	2,154	81,672	1,378	(1,416)	—	
Net income	7,577	—	—	—	—	7,577	—	$7,577
Foreign currency translation adjustment	(1,573)	—	—	—	(1,573)	—	—	(1,573)
Comprehensive income	—	—	—	—	—	—	—	$6,004
NOL utilization, net	5,009	—	—	5,009	—	—	—	
Common stock issued under stock option plans	427	1	—	426	—	—	—	
Balance, December 31, 1997	95,323	96	2,154	87,107	(195)	6,161	—	
Net income	12,315	—	—	—	—	12,315	—	$12,315
Foreign currency translation adjustment	(1,627)	—	—	—	(1,627)	—	—	(1,627)
Comprehensive income	—	—	—	—	—	—	—	$10,688
NOL utilization, net	4,770	—	—	4,770	—	—	—	
Issuance of common stock	22,485	11	—	22,474	—	—	—	
Common stock issued under stock option plans	518	2	—	516	—	—	—	
Treasury stock repurchased	(13,968)	—	—	—	—	—	(13,968)	
Balance, December 31, 1998	$119,816	$109	$2,154	$114,867	$(1,822)	$18,476	$(13,968)	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

H. Common Stock

On March 18, 1998, the Company sold, pursuant to an underwritten public offering, 1,100,000 shares of its Common Stock at a price of $21.875 per share. The proceeds of the offering, together with the proceeds of the Subordinated Notes public offering, will be used for general corporate purposes and possible acquisitions. Following the public offerings, proceeds were used to repay the Company's Series C Notes, the Company's Supplemental SellCo Note and the Company's working capital credit facility.

As part of a program previously authorized by the Board of Directors, the Company purchased 957,900 shares of its Common Stock during the third and fourth quarters of 1998. The aggregate amount of $14.0 million paid for those shares has been classified as "Treasury stock, at cost" in the Consolidated Balance Sheet at December 31, 1998.

NORTEK, INC.

***Consolidated Statement of Stockholders' Investment** (In Part)*

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For the Year Ended December 31, 1998 (Dollar amounts in thousands)	Common Stock	Special Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
Balance, December 31, 1997	$16,051	$767	$135,345	$58,966	$(77,714)	$(5,327)	$ —
Net earnings	—	—	—	35,000	—	—	35,000
Other comprehensive income (loss):							
Translation adjustment	—	—	—	—	—	(1,436)	(1,436)
Minimum pension liability net of $2,979 tax benefit						(4,898)	(4,898)
Unrealized appreciation in the value of marketable securities	—	—	—	—	—	65	65
Comprehensive income							$28,731
Sale of 2,182,500 shares of common stock	2,183	—	62,007	—	—	—	
13,343 shares of special common stock converted into 13,343 shares of common stock	13	(13)	—	—	—	—	
180,958 shares of common stock and 100,991 shares of special common stock issued upon exercise of stock options	181	101	4,274	—	—	—	
258,543 shares of treasury stock acquired	—	—	—	—	(7,955)	—	
Balance, December 31, 1998	$18,428	$855	$201,626	$93,966	$(85,669)	$(11,596)	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Common Stock, Special Common Stock, Stock Options and Deferred Compensation

In the first half of 1998 the Company sold 2,182,500 shares of its Common Stock in a public offering for approximately $64,190,000 in net cash proceeds (the "Common Stock Offering"), after deducting underwriting commission and offering expense, and credited $2,182,500 to Common Stock and $62,007,500 to additional paid in Capital. A portion of the net proceeds were used to acquire NuTone (See Note 2).

Treasury Stock Issued to Foundation

ARVIN INDUSTRIES, INC. (DEC)

Consolidated Statement of Shareholders' Equity

(Dollars in millions)	1998 Shares	1998 Amount	1998 Other Comprehensive Income	1997 Shares	1997 Amount	1997 Other Comprehensive Income	1996 Shares	1996 Amount	1996 Other Comprehensive Income
Common shares:									
Beginning balance	26,225,567	$65.6		26,149,217	$65.4		24,228,602	$60.6	
Shares issued to employee stock benefit trust	1,300,000	3.2		—	—		1,800,000	4.5	
Exercise of stock options	—	—		4,700	—		56,900	.1	
Incentive compensation paid in stock	—	—		71,650	.2		—	—	
Conversion of 7.5% convertible subordinated debentures	—	—		—	—		63,715	.2	
Other adjustments	(364)	—		—	—		—	—	
Ending balance	27,525,203	68.8		26,225,567	65.6		26,149,217	65.4	
Capital in excess of par value:									
Beginning balance		248.8			247.3			207.4	
Shares issued to employee stock benefit trust		51.7			—			37.7	
Exercise of stock options		2.6			.3			.9	
Shares issued to employee benefit plan		1.1			(.1)			(.3)	
Incentive compensation paid in stock		.6			1.3			—	
Shares contributed to charitable foundation		.4			—			(.1)	
Conversion of 7.5% convertible subordinated debentures		—			—			1.7	
Ending balance		305.2			248.8			247.3	
Retained earnings:									
Beginning balance		275.1			226.2			196.2	
Net earnings		78.4	$78.4		66.6	$66.6		47.1	$47.1
Cash dividends ($.81 per share in 1998, $.77 per share in 1997 and $.76 per share in 1996)		(19.2)			(17.7)			(17.1)	
Ending balance		334.3			275.1			226.2	
Cumulative translation adjustment:									
Beginning balance		(41.8)			(19.9)			(24.6)	
Translation adjustments during the year		.5	.5		(21.9)	(21.9)		4.7	4.7
Ending balance		(41.3)			(41.8)			(19.9)	
Comprehensive income			$78.9			$44.7			$51.8
Employee stock benefit trust:									
Beginning balance	(1,098,954)	(25.6)		(1,800,000)	(42.2)		—	—	
Establishment of trust	—	—		—	—		(1,800,000)	(42.2)	
Additional issuance to trust	(1,300,000)	(55.0)		—	—		—	—	
Exercise of stock options	575,946	13.5		634,935	14.9		—	—	
Shares contributed to employee benefit plan	70,786	1.7		66,111	1.7		—	—	
Incentive compensation paid in stock	38,725	.7		—	—		—	—	
Ending balance	(1,713,497)	(64.7)		(1,098,954)	(25.6)		(1,800,000)	(42.2)	
Common shares in treasury:									
Beginning balance	(1,671,579)	(36.9)		(1,776,.737)	(39.4)		(1,977,366)	(44.5)	
Stock exchanged for stock options exercised	(52,878)	(2.4)		(30,410)	(1.0)		(7,161)	(.2)	
Shares contributed to employee benefit plan	4,268	.1		135,568	3.5		160,650	4.1	
Shares contributed to charitable foundation	24,575	.6		—	—		47,140	1.2	
Shares acquired	(5,000)	—		—	—		—	—	
Ending balance	(1,700,614)	(38.6)		(1,671,579)	(36.9)		(1,776,737)	(39.4)	
Total shareholders' equity		$563.7			$485.2			$437.4	

Stock Option Tax Benefit

WESTERN DIGITAL CORPORATION

Consolidated Statements of Shareholders' Equity

(In thousands)	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity
Balance at July 1, 1995	100,964	$1,009	(1,610)	$(10,822)	$359,663	$123,576	$473,426
Common stock repurchase program	—	—	(15,440)	(132,114)	—	—	(132,114)
Exercise of stock options	368	4	1,568	12,833	(5,528)	—	7,309
ESPP shares issued	—	—	1,292	8,686	(309)	—	8,377
Net income	—	—	—	—	—	96,894	96,894
Balance at June 29, 1996	101,332	1,013	(14,190)	(121,417)	353,826	220,470	453,892
Common stock repurchase program	—	—	(5,172)	(135,506)	(9,068)	—	(144,574)
Exercise of stock options	—	—	2,790	22,087	(8,350)	—	13,737
ESPP shares issued	—	—	1,136	9,090	37	—	9,127
Income tax benefit from stock options exercised (Note 5)	—	—	—	—	20,209	—	20,209
Net income	—	—	—	—	—	267,596	267,596
Balance at June 28, 1997	101,332	1,013	(15,436)	(225,746)	356,654	488,066	619,987
Common stock repurchase program	—	—	—	—	(35,828)	—	(35,828)
ESPP shares issued	—	—	1,231	9,506	3,178	—	12,684
Exercise of stock options	—	—	1,166	8,892	(99)	—	8,793
Income tax benefit from stock options exercised (Note 5)	—	—	—	—	2,339	—	2,339
Net loss	—	—	—	—	—	(290,217)	(290,217)
Balance at June 27, 1998	101,332	$1,013	(13,039)	$(207,348)	$326,244	$197,849	$317,758

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 (In Part): Income Taxes

The tax benefits associated with the exercise of non-qualified stock options, the disqualifying disposition of stock acquired with incentive stock options, and the disqualifying disposition of stock acquired under the employee stock purchase plan reduce taxes currently payable as shown above by $20.2 million and $2.3 million for 1997 and 1998, respectively. Such benefits are credited to additional paid-in capital.

Distributions to ESOP

CARPENTER TECHNOLOGY CORPORATION

Consolidated Statement of Changes in Shareholders' Equity

(In millions)	Preferred Stock Par Value of $5	Common Stock Par Value of $5	Common Stock Capital in Excess of Par Value	Reinvested Earnings	Treasury Stock	Deferred Compen-sation	Translation Adjust-ments	Total Share-holders' Equity
Balances at June 30, 1995	$28.8	$96.7	$6.8	$231.1	$(67.0)	$(25.5)	$(7.0)	$263.9
Distributions to ESOP	(0.2)		0.2					—
Stock options exercised		1.0	3.6					4.6
Shares issued to acquire business			1.8		2.7			4.5
Net income				60.1				60.1
Cash dividends:								
Preferred @ $5,362.50 per share				(1.5)				(1.5)
Common @ $1.32 per share				(21.7)				(21.7)
Restricted shares cancelled					(0.2)	0.2		—
Reduction of ESOP note						1.2		1.2
Accrued compensation						1.3		1.3
Other			1.1				(4.4)	(3.3)
Balances at June 30, 1996	28.6	97.7	13.5	268.0	(64.5)	(22.8)	(11.4)	309.1
Distributions to ESOP	(0.4)	0.1	0.3					—
Stock options exercised		0.4	1.4					1.8
Shares issued to acquire business			38.5		61.0			99.5
Net income				60.0				60.0
Cash dividends:								
Preferred @ $5,362.50 per share				(1.6)				(1.6)
Common @ $1.32 per share				(22.8)				(22.8)
Reduction of ESOP note						1.4		1.4
Accrued compensation						1.1		1.1
Other			0.6				0.2	0.8
Balances at June 30, 1997	28.2	98.2	54.3	303.6	(3.5)	(20.3)	(11.2)	449.3
Distributions to ESOP	(0.4)	0.1	0.3					—
Common stock offering		15.8	128.6					144.4
Stock options exercised		0.9	4.3					5.2
Shares issued to acquire business			0.5		0.5			1.0
Net income				84.0				84.0
Cash dividends:								
Preferred @ $5,362.50 per share				(1.6)				(1.6)
Common @ $1.32 per share				(26.9)				(26.9)
Reduction of ESOP note						1.5		1.5
Accrued compensation						1.0		1.0
Other			2.0		(0.4)			1.6
Balances at June 30, 1998	$27.8	$115.0	$190.0	$359.1	$(3.4)	$(17.8)	$(11.2)	$659.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Employee Stock Ownership Plan

Carpenter has a leveraged employee stock ownership plan ("ESOP") to assist a majority of its employees with their future retiree medical obligations. Carpenter issued 461.5 shares of convertible preferred stock at $65,000 per share to the ESOP in exchange for a $30.0 million 15-year 9.345% note which is included in the shareholders' equity section of the consolidated balance sheet as deferred compensation. The preferred stock is recorded net of related issuance costs.

Principal and interest obligations on the note are satisfied by the ESOP as Carpenter makes contributions to the ESOP and dividends are paid on the preferred stock. As payments are made on the note, shares of preferred stock are allocated to participating employees' accounts within the ESOP. Carpenter contributed $1.4 million in fiscal 1998 and $1.3 million in fiscal 1997 and 1996 to the ESOP. Compensation expense related to the plan was $1.8 million in fiscal 1998, $1.9 million in fiscal 1997 and $2.0 million in fiscal 1996.

As of June 30, 1998, the ESOP held 441.1 shares of the convertible preferred stock, consisting of 164.3 allocated shares and 276.8 unallocated shares. Each preferred share is convertible into 2,000 shares of common stock. There are 882,294 common shares reserved for issuance under the ESOP at June 30, 1998. The shares of preferred stock pay a cumulative annual dividend of $5,362.50 per share, are entitled to vote together with the common stock as a single class and have 2,600 votes per share. The stock is redeemable at Carpenter's option at $67,600 per share, declining to $65,000 per share by 2001.

Issuance Of Subsidiary Stock

CBS CORPORATION (DEC)

Consolidated Statement of Shareholders' Equity

(In millions)	Preferred Stock	Common Stock at Par Value	Capital in Excess of Par Value	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 1995	$4	$426	$1,847	$(720)	$1,116	$(1,220)	$1,453
Shares issued under various compensation and benefit plans			(41)	161			120
Shares issued under dividend reinvestment plan			(3)	13			10
Shares issued for Old Infinity acquisition		183	3,573				3,756
Comprehensive income:							
Pension liability adjustment, net of deferred taxes						424	424
Net income					95		95
Dividends paid					(127)		(127)
Balance at December 31, 1996	$4	$609	$5,376	$(546)	$1,084	$(796)	$5,731
Series C preferred shares converted	(4)	32	(28)				—
Shares issued under various compensation and benefit plans		18	333	15			366
Shares issued under dividend reinvestment plan			7	1			8
Shares issued for TNN and CMT acquisition		59	1,490				1,549
Comprehensive income:							
Pension liability adjustment, net of deferred taxes						25	25
Net income					549		549
Dividends paid					(148)		(148)
Balance at December 31, 1997	$—	$718	$7,178	$(530)	$1,485	$(771)	$8,080
Gain on issuance of subsidiary stock (note 14)			1,439				1,439
Shares issued under various compensation and benefit plans		16	293	174			483
Shares issued under dividend reinvestment plan			4				4
Shares repurchased				(859)			(859)
Comprehensive income:							
Pension liability adjustment, net of deferred taxes						(37)	(37)
Unrealized gain on marketable securities, net of deferred taxes						1	1
Net loss					(21)		(21)
Dividends paid					(36)		(36)
Balance at December 31, 1998	$—	$734	$8,914	$(1,215)	$1,428	$(807)	$9,054

NOTES TO THE FINANCIAL STATEMENTS

14. Issuance of Subsidiary Stock

In December 1998, Infinity, the Corporation's wholly owned subsidiary, issued 155,250,000 shares of its class A common stock in an initial public offering. The Corporation owns all of the 700,000,000 outstanding shares of Infinity's class B common stock. Holders of class A common stock generally have identical rights to the holders of class B common stock except that the holders of class A common stock are entitled to one vote per share, while holders of class B common stock are entitled to five votes per share on matters submitted to a vote of Infinity stockholders and the shares of class B common stock maintain certain conversion rights and transfer restrictions. As a result of the initial public offering, at December 31, 1998, the Corporation beneficially owned 81.8 percent of Infinity's equity, which represented 95.8 percent of the voting power.

Proceeds from the offering, based on the offering price of $20.50 per share, totaled $3.2 billion ($3.0 billion, net of offering expenses). A gain of $1.4 billion was recognized by the Corporation in shareholders' equity as a direct increase in capital in excess of par value.

Under an intercompany agreement, the Corporation provides to Infinity a number of services, including executive, human resources, legal, finance, information management, internal audit, tax, and treasury services. The costs of these services are allocated according to established methodologies determined by the Corporation on an annual basis. In addition, a tax sharing agreement generally provides that, for any taxable period in which Infinity is included in the Corporation's consolidated tax return, the amount of income taxes to be paid by Infinity will be determined as if Infinity had filed separate income tax returns.

Par Value Reduced

CHIQUITA BRANDS INTERNATIONAL, INC. (DEC)

Consolidated Statement of Shareholders' Equity

(In thousands)	Preferred and preference stock	Common stock	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
December 31, 1995	$138,369	$18,256	$577,799	$(65,437)	$3,220	$672,207
Net loss	—	—	—	(50,566)	—	(50,566)
Unrealized translation loss	—	—	—	—	(2)	(2)
Comprehensive loss						(50,568)
Share issuances						
Option exercises	—	182	5,097	—	—	5,279
Preferred stock	110,887	—	—	—	—	110,887
Other	—	176	8,771	—	—	8,947
Dividends						
Common stock	—	—	—	(11,094)	—	(11,094)
Preferred stock	—	—	—	(11,405)	—	(11,405)
December 31, 1996	249,256	18,614	591,667	(138,502)	3,218	724,253
Net income	—	—	—	343	—	343
Unrealized translation loss	—	—	—	—	(6,626)	(6,626)
Comprehensive loss						(6,283)
Share issuances						
Option exercises	—	170	6,045	—	—	6,215
Acquisitions of businesses	3,983	1,528	67,258	—	—	72,769
Other	—	77	11,382	—	—	11,459
Dividends						
Common stock	—	—	—	(11,395)	—	(11,395)
Preferred and preference stock	—	—	—	(16,932)	—	(16,932)
December 31, 1997	253,239	20,389	676,352	(166,486)	(3,408)	780,086
Net loss	—	—	—	(18,412)	—	(18,412)
Unrealized translation gain	—	—	—	—	2,566	2,566
Comprehensive loss						(15,846)
Reduction in par value of common stock	—	(19,777)	19,777	—	—	—
Share issuances						
Option exercises	—	1	1,482	—	—	1,483
Acquisitions of businesses	236	41	58,049	—	—	58,326
Dividends						
Common stock	—	—	—	(12,970)	—	(12,970)
Preferred and preference stock	—	—	—	(17,099)	—	(17,099)
December 31, 1998	$253,475	$ 654	$755,660	$(214,967)	$ (842)	$793,980

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Shareholders' Equity

In 1998, the Company's shareholders approved a change of title and par value of the Company's Capital Stock, $.33 par value, to Common Stock, $.01 par value. Also, the shareholders approved an increase in the number of authorized common shares from 150 million to 200 million. At December 31, 1998, unissued common shares were reserved for the following purposes:

Issuance under stock option and employee benefit plans	23 million
Conversion of 7% subordinated debentures	3 million
Conversion of preferred and preference stock	26 million

Sale of Put Warrants

LIZ CLAIBORNE INC.

***Consolidated Statements of Stockholders' Equity** (In Part)*

(All dollar amounts in thousands)	Common Stock Number of Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Common Stock in Treasury	Total
		• • • • • •						
Balance, December 28, 1996	88,218,617	88,219	38,577	1,382,628	—	(4,692)	(484,240)	1,020,492
Net income	—	—	—	184,644	184,644	—	—	184,644
Other comprehensive income (loss), net of tax:								
Translation adjustment	—	—	—	—	1,638	—	—	—
Adjustment to unrealized gains (losses) on available for sale securities	—	—	—	—	1,347	2,985	—	2,985
Comprehensive income	—	—	—	—	187,629	—	—	—
Exercise of stock options and related tax benefits	—	—	3,670	638	—	—	14,564	18,872
Cash dividends paid	—	—	—	(31,162)	—	—	—	(31,162)
Proceeds from sale of put warrants	—	—	6,607	—	—	—	—	6,607
Reclassification of put warrant obligations, net	—	—	(18,123)	—	—	—	—	(18,123)
Purchase of 5,382,600 shares of common stock	—	—	—	—	—	—	(264,852)	(264,852)
Issuance of common stock under restricted stock and employment agreements, net	—	—	—	4,180	—	—	(2,016)	2,164
Balance, January 3, 1998	88,218,617	88,219	30,731	1,540,928	—	(1,707)	(736,544)	921,627
Net income	—	—	—	169,377	169,377	—	—	169,377
Other comprehensive income (loss), net of tax:								
Translation adjustment	—	—	—	—	(348)	—	—	—
Adjustment to unrealized gains (losses) on available for sale securities	—	—	—	—	(666)	(1,014)	—	(1,014)
Comprehensive income	—	—	—	—	168,363	—	—	—
Exercise of stock options and related tax benefits	—	—	4,801	(8,006)	—	—	22,330	19,125
Cash dividends paid	—	—	—	(29,327)	—	—	—	(29,327)
Proceeds from sale of put warrants	—	—	231	—	—	—	—	231
Reclassification of put warrant obligations, net	—	—	14,665	—	—	—	—	14,665
Purchase of 3,092,513 shares of common stock	—	—	—	—	—	—	(116,618)	(116,618)
Issuance of common stock under restricted stock and employment agreements, net	—	—	—	(10,737)	—	—	13,781	3,044
Balance, January 2, 1999	88,218,617	$88,219	$50,428	$1,662,235	$ —	$(2,721)	$(817,051)	$981,110

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 (In Part): Commitments, Contingencies and Other Matters

In 1998, in connection with its ongoing stock repurchase program, the Company sold put warrants on 1.25 million shares of common stock in privately negotiated transactions based on the then-current market price of the common stock. The warrants give the holders the right at maturity to require the Company to repurchase shares of its common stock at specified prices. The Company has the option to settle in cash or shares of common stock. In 1998, warrants on 420,000 shares of common stock expired unexercised, and warrants on 830,000 shares of common stock were exercised. Warrants on an additional 900,000 shares remained outstanding at January 2, 1999; if exercised, these warrants will require the Company to purchase up to 900,000 shares of its common stock at various dates ranging from March 24 through July 7, 1999, with strike prices ranging from $26.49 to $39.97. In 1997, the Company sold put warrants on 1.65 million shares of common stock. As of January 3, 1998, warrants on 1.5 million shares of common stock had expired unexercised and warrants on an additional 900,000 shares remained outstanding, and expired at various dates ranging from January 15 through August 17, 1998, with strike prices ranging from $42.61 to $53.25. The proceeds from the sale of put warrants of $4.7 million in 1998 and $6.6 million in 1997 have been recorded in capital in excess of par value. The Company's potential obligations of $30.8 million in 1998 and $45.5 million in 1997 to buy back 900,000 shares, as of each year end, of common stock have been charged to capital in excess of par value and reflected as put warrants on the consolidated balance sheets.

Conversion of Exchangeable Shares

LAFARGE CORPORATION

Consolidated Statements of Shareholders' Equity

	1998		1997		1996	
(In thousands)	Amount	Shares	Amount	Shares	Amount	Shares
Common equity interests						
Common stock						
Balance at January 1	$ 65,268	65,268	$ 62,590	62,590	$ 60,735	60,735
Issuance of shares for:						
Dividend reinvestment plans	83	83	256	256	814	814
Employee stock purchase plan	31	31	33	33	36	36
Conversion of exchangeable shares	1,527	1,527	1,421	1,421	810	810
Exercise of stock options	461	461	968	968	195	195
Balance at December 31	$ 67,370	67,370	$ 65,268	65,268	$ 62,590	62,590
Exchangeable shares						
Balance at January 1	$ 45,259	6,409	$ 53,817	7,764	$ 58,311	8,501
Issuance of shares for:						
Dividend reinvestment plans	966	29	1,035	40	827	45
Employee stock purchase plan	172	25	180	26	190	28
Conversion of shares	(10,583)	(1,527)	(9,773)	(1,421)	(5,511)	(810)
Balance at December 31	$ 35,814	4,936	$ 45,259	6,409	$ 53,817	7,764
Additional paid-in capital						
Balance at January 1	$ 649,082		$ 615,993		$ 593,310	
Issuance of common stock and/or exchangeable shares for:						
Dividend reinvestment plans	2,687		5,719		14,203	
Employee stock purchase plan	1,923		1,241		1,154	
Conversion of exchangeable shares	9,056		8,352		4,701	
Exercise of stock options	10,170		17,777		2,625	
Other	(363)		—		—	
Balance at December 31	$ 672,555		$ 649,082		$ 615,993	
Retained earnings						
Balance at January 1	$ 593,438		$ 441,481		$ 328,623	
Net income	235,500		181,976		140,866	
Dividends—common equity interests	(36,880)		(30,019)		(28,008)	
Balance at December 31	$ 792,058		$ 593,438		$ 441,481	
Accumulated other comprehensive income (loss)						
Balance at January 1	$ (97,359)		$ (63,342)		$ (60,001)	
Foreign currency translation adjustments	(55,264)		(34,017)		(3,341)	
Balance at December 31	$ (152,623)		$ (97,359)		$ (63,342)	
Total shareholders' equity	$1,415,174		$1,255,688		$1,110,539	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Equity Interests

Holders of Exchangeable Shares have voting, dividend and liquidation rights that parallel those of holders of the Company's Common Stock. The Exchangeable Shares may be converted to the Company's Common Stock on a one-for-one basis. Dividends on the Exchangeable Shares are cumulative and payable at the same time as any dividends declared on the Company's Common Stock. The Company has agreed not to pay dividends on its Common Stock without causing LCI to declare an equivalent dividend in Canadian dollars on the Exchangeable Shares. Dividend payments and the exchange rate on the Exchangeable Shares are subject to adjustment from time to time to take into account certain dilutive events.

At December 31, 1998, the Company had reserved for issuance approximately 6.7 million shares of Common Stock for the exchange of outstanding Exchangeable Shares. Additional common equity shares are reserved to cover grants under the Company's stock option program (7.8 million), employee stock purchase plan (0.6 million) and issuances pursuant to the Company's optional stock dividend plan (2.0 million).

Expiration Of Redemption Feature On Common Stock

PRIMEDIA INC. (DEC)

Statements of Shareholders' Equity (Deficiency)

(Dollars in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Cumulative Other Comprehensive Income (Loss)	Common Stock in Treasury Shares	Common Stock in Treasury Amount	Total
• • • • • •								
Balance at December 31, 1997	129,797,078	1,298	780,191	(929,011)	(1,543)	1,048,600	(13,158)	(162,223)
Comprehensive loss:								
Net loss				(37,736)				(37,736)
Other comprehensive loss—foreign currency translation adjustments					(177)			(177)
Comprehensive loss								(37,913)
Issuances of common stock, net of issuance costs	17,083,484	171	201,986					202,157
Purchases of treasury stock						1,703,700	(19,983)	(19,983)
Expiration of redemption feature on common stock subject to redemption	86,000	1	1,055					1,056
$11.625 Series B Exchangeable Preferred Stock—cash dividends				(4,022)				(4,022)
$11.625 Series B Exchangeable Preferred Stock Redemption Premium				(9,141)				(9,141)
$10.00 Series D Exchangeable Preferred Stock—cash dividends				(20,000)				(20,000)
$9.20 Series F Exchangeable Preferred Stock—cash dividends				(11,436)				(11,436)
$8.625 Series H Exchangeable Preferred Stock—cash dividends				(18,686)				(18,686)
Reduction (accretion) of differences between carrying value and redemption value of:								
$11.625 Series B Exchangeable Preferred Stock			(2,317)					(2,317)
$10.00 Series D Exchangeable Preferred Stock			(546)					(546)
$9.20 Series F Exchangeable Preferred Stock			(288)					(288)
$8.625 Series H Exchangeable Preferred Stock			(582)					(582)
Common stock subject to redemption			221					221
Balance at December 31, 1998	146,966,562	$1,470	$979,720	$(1,030,032)	$(1,720)	2,752,300	$(33,141)	$(83,703)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 (In Part): Common Stock

Common Stock Subject to Redemption

Under the following circumstances, employees who purchased shares prior to the Company's initial public offering of common stock have the right to resell their shares of common stock to the Company: termination of employment in connection with the sale of the business for which they work, death, disability or retirement after age 65. The resale feature expires five years after the effective purchase date of the common stock. Since inception of the Company, none of the employees has exercised such resale feature as a result of such sale, death, disability or retirement and the likelihood of significant resales is considered by management to be remote because the stock is freely tradeable on the public market.

The following summarizes the activity of the common stock subject to redemption:

	Shares	Amount
Balance at January 1, 1996	2,406,513	$29,179
Acquisitions of common stock held by management	(17,269)	(148)
Expiration of redemption feature	(1,745,934)	(21,230)
Reduction in carrying value	—	(885)
Balance at December 31, 1996	643,310	6,916
Acquistions of common stock held by management	(2,320)	(19)
Expiration of redemption feature	(238,340)	(2,569)
Accretion in carrying value	—	755
Balance at December 31, 1997	402,650	5,083
Acquistions of common stock held by management	(22,531)	(314)
Expiration of redemption feature	(86,000)	(1,056)
Reduction in carrying value	—	(221)
Balance at December 31, 1998	294,119	$3,492

Common Stock Retirement

MARK IV INDUSTRIES, INC.

Consolidated Statements of Stockholders' Equity

(Dollars in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Foreign Currency Translation Adjustment
Balance at February 28, 1995	$600	$550,200	$90,800	$(6,100)
Net income for fiscal 1996			92,400	
Cash dividends of $.113 per share			(7,500)	
Stock dividend of 5%		66,000	(66,000)	
Restricted stock amortization		1,300		
Stock options activity, including related tax benefits		100		
Translation adjustment				3,700
Balance at February 29, 1996	600	617,600	109,700	(2,400)
Net income for fiscal 1997			56,100	
Cash dividends of $.138 per share			(9,100)	
Stock dividend of 5%	100	77,300	(77,400)	
Restricted stock amortization		1,300		
Stock options activity, including related tax benefits		300		
Translation adjustment				(15,700)
Balance at February 28, 1997	700	696,500	79,300	(18,100)
Net income for fiscal 1998			98,600	
Cash dividends of $.17 per share			(10,800)	
Purchase and retirement of 3,474,420 shares of Common Stock (average cost of $23.14 per share)	(100)	(80,300)		
Restricted stock amortization		1,300		
Stock options activity, including related tax benefits		300		
Translation adjustment				(15,400)
Balance at February 28, 1998	$600	$617,800	$167,100	$(33,500)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 (In Part): Stockholders' Equity and Stock Options

In March 1997, the Company announced its intention to acquire up to 7.3 million shares of its Common Stock outstanding. It is expected that such shares would be purchased in the open-market, or through privately negotiated transactions, at prices which the Company considers to be attractive. Through February 28, 1998, the Company had acquired and retired approximately 3.5 million of such shares, at an average cost of $23.14 per share, or a total cost of approximately $80.4 million. The Company is also authorized to issue 10 million shares of Preferred Stock, and there are no shares outstanding at the present time.

Forward Stock Purchase Contract Amendment

MAYTAG CORPORATION (DEC)

Consolidated Statements of Shareowners' Equity (In Part)

(In thousands)	1998	1997	1996
Common stock			
Balance at beginning of year	$146,438	$146,438	$146,438
Balance at end of year	146,438	146,438	146,438
Additional paid-in capital			
Balance at beginning of year	494,646	471,158	472,602
Stock issued under stock option plans	(5,596)	(7,375)	(2,324)
Stock issued under restricted stock awards, net	1,426	(86)	(176)
Additional ESOP shares issued	308	(139)	(264)
Tax benefit of ESOP dividends and stock options	9,994	6,640	1,320
Forward stock purchase contract premium		14,592	
Forward stock purchase contract amendment	(63,782)		
Put option premiums	30,196	9,856	
Balance at end of year	467,192	494,646	471,158
Retained earnings			
Balance at beginning of year	542,118	423,552	344,346
Net income	280,610	180,290	136,429
Dividends on common stock	(62,613)	(61,724)	(57,223)
Balance at end of year	760,115	542,118	423,552
Treasury stock			
Balance at beginning of year	(508,115)	(405,035)	(255,663)
Purchase of common stock for treasury	(318,139)	(138,051)	(164,439)
Stock issued under stock option plans	18,779	29,309	8,435
Stock issued under restricted stock awards, net	1,226	3,212	3,951
Additional ESOP shares issued	447	2,450	2,681
Balance at end of year	(805,802)	(508,115)	(405,035)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Financial Instruments

The Company uses foreign exchange forward and option contracts to manage certain foreign currency exchange rate risks associated with its international operations. The outstanding contracts are marked to market each period with the gains and losses included in income.

The Company has interest rate swap contracts outstanding which are marked to market each period with the gains and losses included in income.

The Company has a forward stock purchase contract outstanding in its own shares which allows the Company to determine whether the contract is settled in cash or shares. As such, the contract is considered an equity instrument and changes in fair value are not recognized in the Company's financial statements. If the Company determines to settle the contract in cash, the amount of cash paid or received would be reported as a reduction of, or an addition to, paid-in capital.

The Company has put option contracts outstanding in its own shares which allow the Company to determine whether the contracts are settled in cash or shares. As such, the contracts are considered equity instruments and changes in fair value are not recognized in the Company's financial statements. The premiums received from the sale of put options are recorded as an addition to paid-in capital. If the Company determines to settle the contracts in cash, the amount of cash paid would be reported as a reduction of paid-in capital.

Shareowners' Equity (In Part)

In 1997, the Company's board of directors authorized the repurchase of up to 15 million additional shares beyond the previous share repurchase authorizations totalling 15.8 million shares. Under these authorizations, the Company has repurchased 22.1 million shares at a cost of $675 million. As of December 31, 1998, of the 8.7 million shares which may be repurchased under then existing board authorization, the Company is committed to purchase 4 million shares under put options contracts, if such options are exercised. (See discussion of these put option contracts below.) The Company plans to continue the repurchase of shares over a non-specified period of time.

During the first quarter of 1998, the Company amended the forward stock purchase agreement associated with the repurchase of 4 million shares by the Company during 1997. The future contingent purchase price adjustment included in the forward stock purchase agreement was amended to provide for settlement 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 March 24, 1998 rather than as of August 20, 1997. The net cost of the amendment was $64 million. During the third quarter of 1998, the Company further amended the forward stock purchase agreement to establish the future settlement price on 1 million of the total 4 million shares. 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.

In connection with the share repurchase program, the Company sells put options which give 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 1998 and 1997, the Company received $30 million and $10 million, respectively, in premium proceeds from the sale of put options. As of December 31, 1998, there were put options outstanding for 4 million shares with strike prices ranging from $43.25 to $56.838 (the weighted-average strike price was $51.92).

OTHER COMPONENTS OF STOCKHOLDERS' EQUITY

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 are 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 statements reporting changes in separate components of stockholders' equity, other than those previously discussed, follow.

Other Comprehensive Income

ALLIEDSIGNAL INC.

***Consolidated Statement of Shareowners' Equity** (In Part)*

(In millions, except per share amounts)	Common stock issued Shares	Common stock issued Amount	Additional paid-in capital	Common stock held in treasury Shares	Common stock held in treasury Amount	Accumulated other nonowner changes	Retained earnings	Total shareowners' equity
• • • • • •								
Balance at December 31, 1996	716.4	716	2,189	(150.8)	(1,953)	14	3,214	4,180
Net income							1,170	1,170
Foreign currency translation adjustments (net of tax benefit of $120)						(183)		(183)
Unrealized holding loss on marketable securities (net of tax benefit of $8)						(10)		(10)
Nonowner changes in shareowners' equity								977
Common stock issued for acquisitions			32	1.0	8			40
Common stock issued for employee benefit plans (including related tax benefits)			240	12.7	94			334
Repurchases of common stock				(21.0)	(814)			(814)
Cash dividends on common stock ($.52 per share)							(295)	(295)
Other			(36)					(36)
Balance at December 31, 1997	716.4	716	2,425	(158.1)	(2,665)	(179)	4,089	4,386
Net income							1,331	1,331
Foreign currency translation adjustments (net of taxes of $7)						19		19
Unrealized holding gain on marketable securities (net of taxes of $59)						90		90
Nonowner changes in shareowners' equity								1,440
Common stock issued for acquisitions			322	11.1	98			420
Common stock issued for employee benefit plans (including related tax benefits)			234	11.0	96			330
Repurchases of common stock				(22.0)	(942)			(942)
Cash dividends on common stock ($.60 per share)							(338)	(338)
Other			1					1
Balance at December 31, 1998	716.4	$716	$2,982	(158.0)	$(3,413)	$(70)	$5,082	$5,297

NOTES TO FINANCIAL STATEMENTS
(dollars in millions)

1 (In Part): Summary of Significant Accounting Policies

Recent Accounting Pronouncements

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No. 130), which establishes standards for the reporting and presentation of changes in equity from nonowner sources in the financial statements. Nonowner changes in shareowners' equity consists of net income, foreign currency translation adjustments and unrealized holding gains and losses on marketable securities and, as permitted under the provisions of SFAS No. 130, are presented in the Consolidated Statement of Shareowners' Equity. Prior year financial statements have been reclassified to conform to the SFAS No. 130 requirements. The components of Accumulated Other Nonowner Changes are as follows:

	1998	1997	1996
Cumulative foreign exchange translation adjustment	$(162)	$(181)	$ 2
Unrealized holding gains on marketable securities	92	2	12
	$(70)	$(179)	$14

Reclassification adjustments are as follows:

	1998	1997	1996
Unrealized holding gains (losses) arising during period	$90	$(3)	$(12)
Loss reclassification adjustment for gains previously included in other nonowner changes	—	7	3
Net unrealized holding gains (losses) on marketable securities	$90	$(10)	$(15)

JOHNSON & JOHNSON

Consolidated Statement of Equity

(Dollars in millions)	Total	Comprehensive Income	Retained Earnings	Note Receivable From Employee Stock Ownership Plan (ESOP)	Accumulated Other Comprehensive Income	Common Stock Issued Amount	Treasury Stock Amount
Balance, December 31, 1995	$ 9,045		9,702	(64)	189	1,535	2,317
Net earnings	2,887	2,887	2,887				
Cash dividends paid	(974)		(974)				
Employee compensation and stock option plans	204		(185)				(389)
Repurchase of common stock	(412)						412
Business combinations	318		(490)				(808)
Other comprehensive income, net of tax:							
Currency translation adjustments	(270)	(270)					
Unrealized gains on securities	31	31					
Other comprehensive income		(239)			(239)		
Total comprehensive income		2,648					
Note receivable from ESOP	7			7			
Balance, December 29, 1996	$10,836		10,940	(57)	(50)	1,535	1,532
Net earnings	3,303	3,303	3,303				
Cash dividends paid	(1,137)		(1,137)				
Employee compensation and stock option plans	290		(333)				(623)
Repurchase of common stock	(628)						628
Business combinations	17		(112)				(129)
Other comprehensive income, net of tax:							
Currency translation adjustments	(289)	(289)					
Unrealized gains (losses) on securities	(39)	(39)					
Other comprehensive income		(328)			(328)		
Total comprehensive income		2,975					
Note receivable from ESOP	6			6			
Balance, December 28, 1997	$12,359		12,661	(51)	(378)	1,535	1,408
Net earnings	3,059	3,059	3,059				
Cash dividends paid	(1,305)		(1,305)				
Employee compensation and stock option plans	340		(494)				(834)
Repurchase of common stock	(930)						930
Business combinations	10		7				(3)
Other comprehensive income, net of tax:							
Currency translation adjustments	82	82					
Unrealized gains (losses) on securities	(32)	(32)					
Other comprehensive income		50			50		
Total comprehensive income		3,109					
Note receivable from ESOP	7			7			
Balance, January 3, 1999	$13,590		13,928	(44)	(328)	1,535	1,501

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Accumulated Other Comprehensive Income

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 "Reporting Comprehensive Income" that the Company adopted in the first quarter of 1998. SFAS 130 requires presentation of comprehensive income and its components in the financial statements. Components of other comprehensive income/(loss) consist of the following:

(Dollars in millions)	Foreign Currency Translation	Unrealized Gains/(Losses) on Securities	Accumulated Other Comprehensive Income/(Loss)
December 31, 1995	$148	41	189
1996 change	(270)	31	(239)
December 29, 1996	(122)	72	(50)
1997 change	(289)	(39)	(328)
December 28, 1997	(411)	33	(378)
1998 change	82	(32)	50
January 3, 1999	$(329)	1	(328)

The change in unrealized gains/(losses) on marketable securities during 1998 includes reclassification adjustments of $38 million of losses realized from the write-down of marketable securities and the associated tax benefit was $13 million. The tax effect on the components of other comprehensive income are benefits of $17 million and $21 million in 1998 and 1997, respectively and expense of $16 million in 1996 related to unrealized gains (losses) on securities.

The currency translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries.

SUIZA FOODS CORPORATION

Consolidated Statements of Stockholders' Equity

(Dollars in thousands)	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Comprehensive Income
Balance, January 1, 1996	$3,800	20,979,013	$210	$104,791	$3,108		$111,909	
Issuance of common stock		4,480,369	45	59,599			59,644	
Redemption of common and preferred stock	(59)	(456,559)	(5)		(4,296)		(4,360)	
Dividends on preferred stock					(302)		(302)	
Net income and comprehensive income					46,963		46,963	$46,963
Balance, December 31, 1996	3,741	25,002,823	250	164,390	45,473		213,854	
Issuance of common stock		5,611,214	56	117,383			117,439	
Dividends on preferred stock					(300)		(300)	
Net income and comprehensive income					28,764		28,764	$28,764
Adjustment for conforming the year-end of Country Fresh					(447)		(447)	
Balance, December 31, 1997	3,741	30,614,037	306	281,773	73,490		359,310	
Issuance of common stock		4,494,437	45	210,443			210,488	
Purchase and retirement of treasury stock		(1,510,400)	(15)	(45,986)			(46,001)	
Repurchase of 11,691 shares of preferred stock	(3,741)						(3,741)	
Dividends on preferred stock					(237)		(237)	
Net income					131,606		131,606	$131,606
Other comprehensive income:								
Cumulative translation adjustment						$4,273	4,273	4,273
Minimum pension liability adjustmnet						73	73	73
Comprehensive income								$135,952
Balance, December 31, 1998	$ —	33,598,074	$336	$446,230	$204,859	$4,346	$655,771	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Other Comprehensive Income

During 1998, we adopted SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and displaying comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements. The changes in the components of other comprehensive income during the year ended December 31, 1998 are included below. There were no components of comprehensive income during 1996 and 1997.

(In thousands)	Pre-tax Income	Tax Expense	Net Amount
Cumulative translation adjustment	$7,005	$(2,732)	$4,273
Minimum pension liability adjustment	120	(47)	73
Other comprehensive income	$7,125	$(2,779)	$4,346

TRW INC.

Statements of Changes in Shareholders' Investment

(In millions)	Serial Preference Stock II Series 1&3	Common Stock	Other Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Investment
Balance at December 31, 1995	$1	$40	$398	$1,693	$(31)	$71	$2,172
Net earnings—1996				480			480
Other comprehensive income							
Translation loss, net of tax of $2 million						(29)	(29)
Minimum pension liability, net of tax of $2 million						3	3
Total comprehensive income							454
Stock dividend		42		(42)			—
Dividends declared							
Preference				(1)			(1)
Common ($1.17 per share)				(150)			(150)
ESOP funding					17		17
Purchase and sale of shares and other		(2)	39		(372)		(335)
Shares sold under stock options					32		32
Balance at December 31, 1996	1	80	437	1,980	(354)	45	2,189
Net earnings (loss)—1997				(49)			(49)
Other comprehensive income							
Translation loss, net of tax of $7 million						(177)	(177)
Unrealized gain on securities, net of tax of $6 million						12	12
Total comprehensive income (loss)							(214)
Dividends declared							
Preference				(1)			(1)
Common ($1.24 per share)				(152)			(152)
ESOP funding					2		2
Purchase and sale of shares and other		(2)	13		(262)		(251)
Shares sold under stock options					51		51
Balance at December 31, 1997	1	78	450	1,778	(563)	(120)	1,624
Net earnings—1998				477			477
Other comprehensive income							
Translation gain, net of tax of $3 million						75	75
Unrealized gain on securities, net of tax of $10 million						18	18
Minimum pension liability, net of tax of $5 million						(11)	(11)
Total comprehensive income							559
Dividends declared							
Preference				(1)			(1)
Common ($1.28 per share)				(154)			(154)
Purchase and sale of shares and other	(1)	(3)	7	3	(181)		(175)
Credits (charges) from issuance of treasury shares				(82)	82		—
Shares sold under stock options					25		25
Balance at December 31, 1998	$—	$75	$457	$2,021	$(637)	$(38)	$1,878

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part)

Comprehensive Income

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income" during the first quarter of 1998. This statement requires that foreign currency translation, unrealized gains or losses on the Company's available-for-sale securities and minimum pension liability adjustments be included in other comprehensive income and that the accumulated balance of other comprehensive income be separately displayed. Prior year information has been restated to conform to the requirements of Statement 130.

The components of accumulated other comprehensive income at December 31, 1998 and 1997 are as follows:

(In millions)	1998	1997
Foreign currency translation loss (net of tax of $1 million in 1998 and $4 million in 1997)	$(55)	$(130)
Unrealized gain on securities (net of tax of $16 million in 1998 and $6 million in 1997)	30	12
Minimum pension liability adjustments (net of tax of $7 million in 1998 and $2 million in 1997)	(13)	(2)
Accumulated other comprehensive income (loss)	$(38)	$(120)

UST INC.

Consolidated Statement of Changes in Stockholders' Equity

(Dollars in thousands, except per share amounts)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 1995	$101,040	$373,935	$208,238	$(5,355)	$(385,077)	$292,781
Comprehensive income:						
Net earnings	—	—	463,999	—	—	463,999
Other comprehensive loss, net of tax:						
Foreign currency translation adjustment	—	—	—	(38)	—	(38)
Minimum pension liability adjustment	—	—	—	(1,851)	—	(1,851)
Other comprehensive loss						(1,889)
Comprehensive income						462,110
Cash dividends—$1.48 per share	—	—	(277,302)	—	—	(277,302)
Exercise of stock options—2,075,500 shares	1,037	25,895	—	—	—	26,932
Income tax benefits, net of increase in receivables from exercise of stock options	—	13,709	—	—	—	13,709
Stock repurchased for treasury—7,405,800 shares	—	—	—	—	(237,759)	(237,759)
Put option proceeds and obligations	—	735	—	—	—	735
Balance at December 31, 1996	102,077	414,274	394,935	(7,244)	(622,836)	281,206
Comprehensive income:						
Net earnings	—	—	439,138	—	—	439,138
Other comprehensive loss, net of tax:						
Foreign currency translation adjustment	—	—	—	(322)	—	(322)
Minimum pension liability adjustment	—	—	—	(1,066)	—	(1,066)
Other comprehensive loss						(1,388)
Comprehensive income						437,750
Cash dividends—$1.62 per share	—	—	(298,059)	—	—	(298,059)
Exercise of stock options—2,459,500 shares	1,230	36,645	—	—	—	37,875
Income tax benefits and decrease in receivables from exercise of stock options	—	15,956	—	—	—	15,956
Stock repurchased for treasury—1,526,000 shares	—	—	—	—	(45,719)	(45,719)
Put option obligations, net of proceeds	—	7,786	—	—	—	7,786
Balance at December 31, 1997	103,307	474,661	536,014	(8,632)	(668,555)	436,795
Comprehensive income:						
Net earnings	—	—	455,279	—	—	455,279
Other comprehensive loss, net of tax:						
Foreign currency translation adjustment	—	—	—	(602)	—	(602)
Minimum pension liability adjustment	—	—	—	(9,186)	—	(9,186)
Other comprehensive loss						(9,788)
Comprehensive income						445,491
Cash dividends—$1.62 per share	—	—	(301,145)	—	—	(301,145)
Exercise of stock options—1,681,600 shares	841	29,759	—	—	—	30,600
Income tax benefits, net of increase in receivables from exercise of stock options	—	8,169	—	—	—	8,169
Stock repurchased for treasury—4,383,500 shares	—	—	—	—	(151,617)	(151,617)
Retirement of treasury stock—200,000 shares	(100)	(500)	(5,659)	—	6,259	—
Balance at December 31, 1998	$104,048	$512,089	$684,489	$(18,420)	$(813,913)	$468,293

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accumulated Other Comprehensive Loss

In 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income," which establishes rules for the reporting of comprehensive income and its components. The main components of comprehensive income that relate to the Company are net earnings, foreign currency translation adjustments, and additional minimum pension liability adjustments, all of which are presented in the Consolidated Statement Changes in Stockholders' Equity. Prior to adoption, the pension adjustment was included in stockholders' equity and the translation adjustment was included in other assets. The Consolidated Statements of Financial Position and Changes in Stockholders' Equity have been revised to conform to the requirements of SFAS No. 130.

Accumulated other comprehensive loss consists of the following components, net taxes:

	Foreign Currency Translation Adjustment	Minimum Pension Liability Adjustment
Balance at December 31, 1995	$ (776)	$ (4,579)
Net change for the year	(38)	(1,851)
Balance at December 31, 1996	(814)	(6,430)
Net change for the year	(322)	(1,066)
Balance at December 31, 1997	(1,136)	(7,496)
Net change for the year	(602)	(9,186)
Balance at December 31, 1998	$(1,738)	$(16,682)

The net change for the year in foreign currency translation adjustment is reflected net of tax benefits of $.3 million, $.2 million and $.02 million in 1998, 1997 and 1996, respectively. The net change for the year in minimum pension liability adjustment is reflected net of tax benefits of $4.9 million, $.6 million and $1 million in 1998, 1997 and 1996, respectively.

Unearned Compensation Expense

HARTMARX CORPORATION

Consolidated Statement of Shareholders' Equity

(000's omitted)	Par Value of Common Stock	Paid-in Capital	Retained Earnings (Deficit)	Unearned Employee Benefits
Balance at November 30, 1995	$81,899	$76,771	$(14,084)	$(10,095)
Net earnings for the year			24,555	
Issuance of 473,020 shares, primarily to employee benefit plans	1,183	992		
Long-term incentive plan awards for 132,500 shares	331	456		(787)
Allocation of unearned employee benefits		(864)		1,609
Balance at November 30, 1996	83,413	77,355	10,471	(9,273)
Net earnings for the year			25,240	
Issuance of 357,699 shares, primarily to employee benefit plans	895	1,507		
Stock options exercised (292,619 shares issued upon exercise of 293,646 options and awards)	732	937		
Long-term incentive plan awards for 132,500 shares, net of forfeitures	331	710		(1,041)
Issuance of 71,266 shares for Restricted Stock Awards	178	187		
Allocation of unearned employee benefits		(762)		1,404
Balance at November 30, 1997	85,549	79,934	35,711	(8,910)
Net earnings for the year			14,620	
Issuance of 312,659 shares, primarily to employee benefit plans	782	1,298		
Stock options exercised (119,371 shares issued upon exercise of 119,371 options)	298	445		
Long-term incentive plan awards for 188,000 shares, net of forfeitures	470	1,070		(1,540)
Allocation of unearned employee benefits		(753)		1,986
Balance at November 30, 1998	$87,099	$81,994	$50,331	$(8,464)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Option Plans and Restricted Stock (In Part)

During 1998, long term incentive plan restricted stock awards were made to 28 executives aggregating 204,000 shares, at a weighted average price of $8.09. These awards vest at the earliest of ten years from the date of grant, age 65 retirement, the Company's stock price equalling or exceeding $12.50 for thirty consecutive calendar days or as otherwise authorized by the Compensation Committee of the Board of Directors. During 1997, long term incentive plan restricted stock awards for 142,500 shares, at a weighted average price of $7.72, were made to 18 executives, of which awards for 8,500 shares were cancelled during 1998 pertaining to executives no longer with the Company. These awards vest at the earliest of ten years from the date of grant, age 65 retirement, the Company's stock price exceeding $11.50 for thirty consecutive calendar days or as otherwise authorized by the Compensation Committee of the Board of Directors. During 1996, long term incentive plan restricted stock awards for 132,500 shares, at a weighted average price of $5.94, were made to 20 executives, of which awards for 17,500 shares have been subsequently cancelled pertaining to executives no longer with the Company. These awards vest at the earliest of ten years from the date of grant, age 65 retirement, the Company stock price exceeding $9.00 for thirty consecutive calendar days or as otherwise authorized by the Compensation Committee of the Board of Directors. As of November 30, 1998, none of the awards had vested. Expense is being recognized over the anticipated vesting period of the awards.

OAK INDUSTRIES INC.

Consolidated Statement of Stockholders' Equity

(Dollars in thousands)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Unearned Compensation	Treasury Stock	Stock Purchase Loans	Total
Balance, December 31, 1995	$177	$282,179	$(161,528)	$248	$—	$(1,316)	$(547)	$119,213
Net income	—	—	41,836	—	—	—	—	41,836
Currency translation adjustments	—	—	—	(626)	—	—	—	(626)
Comprehensive income	—	—	—	—	—	—	—	41,210
Exercise of options	6	8,762	—	—	—	(133)	—	8,635
Tax benefit from stock options	—	2,300	—	—	—	—	—	2,300
Issuance of restricted stock	1	2,944	—	—	(2,945)	—	—	—
Other	—	—	—	—	—	80	285	365
Balance, December 31, 1996	184	296,185	(119,692)	(378)	(2,945)	(1,369)	(262)	171,723
Net income	—	—	21,736	—	—	—	—	21,736
Currency translation adjustments	—	—	—	(1,520)	—	—	—	(1,520)
Unrealized gains on securities	—	—	—	186	—	—	—	186
Comprehensive income	—	—	—	—	—	—	—	20,402
Exercise of options	6	7,779	—	—	—	—	—	7,785
Tax benefit from stock options	—	2,162	—	—	—	—	—	2,162
Issuance of restricted stock	—	208	—	—	(208)	—	—	—
Amortization of restricted stock	—	—	—	—	805	—	—	805
Cancellation of restricted stock	—	(594)	—	—	594	—	—	—
Stock repurchases	—	—	—	—	—	(20,544)	—	(20,544)
Other	—	—	—	—	—	(179)	—	(179)
Balance, December 31, 1997	190	305,740	(97,956)	(1,712)	(1,754)	(22,092)	(262)	182,154
Net income	—	—	27,339	—	—	—	—	27,339
Currency translation adjustments	—	—	—	(1,067)	—	—	—	(1,067)
Minimum pension liability adjustment	—	—	—	(1,697)	—	—	—	(1,697)
Reclassification adjustment on unrealized gains on securities	—	—	—	(186)	—	—	—	(186)
Comprehensive income	—	—	—	—	—	—	—	24,389
Exercise of options	2	5,474	—	—	—	1,219	—	6,695
Tax benefit from stock options	—	1,671	—	—	—	—	—	1,671
Issuance of restricted stock	—	40	—	—	(108)	68	—	—
Amortization of restricted stock	—	—	—	—	867	—	—	867
Stock repurchases	—	—	—	—	—	(14,581)	—	(14,581)
Other	—	(65)	—	—	—	(155)	—	(220)
Balance, December 31, 1998	$192	$312,860	$(70,617)	$(4,662)	$(995)	$(35,541)	$(262)	$200,975

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 (In Part): Stock Options and Awards

The Company has award plans for directors, officers, employees, consultants and advisors, which provide for, among other things, the issuance of stock options and restricted stock. With respect to stock options, the Compensation Committee of the Company's Board of Directors determines the option price (not to be less than fair market value) at the date of the grant. Options granted pursuant to the Company's award plans generally vest over three years from the date of the grant and expire after ten years or ten years and one day. Certain options granted under the 1995 Stock Option and Restricted Stock plan were originally exercisable prior to the tenth anniversary of their grant date only if the Company's common stock closed at or above 150% of the grant date price for ten consecutive trading days within the three year period following the grant date. On December 4, 1996, the Board of Directors approved an amendment to the exercisabilty terms of these options. As a result, options for the purchase of 550,000 of the Company's shares were amended in order to provide for their exercisability over a peirod of 3 years from their original grant date.

During 1996 and 1997, the Company granted 124,000 and 5,000 shares, respectively, of restricted stock from the 1995 Stock Option and Restricted Stock Plan (the "1995 Plan") to certain of its officers and employees. These shares vest on the third anniversary of the date of grant provided that the recipient is still employed by the Company. During 1997, 25,000 shares of the restricted stock were forfeited. The market value of the restricted stock awarded to certain officers and employees totaled $2,945,000 and $133,000 in 1996 and 1997, respectively, and these amounts have been recorded as a separate component of stockholders' equity. The Company granted no restricted stock under the 1995 Plan in 1998. The Company amortizes unearned compensation to expense over the three-year vesting period.

U.S. INDUSTRIES, INC.

Consolidated Statements of Changes in Stockholders' Equity

(In millions, except share data)	Common Stock	Paid-in Capital	Retained Earnings	Unearned Restricted Stock	Other Equity	Treasury Stock	Total
Balance at September 30, 1995	$1	$584	$93	$(24)	$(6)	$(5)	$643
Net income			138				138
Cash dividend declared ($0.25 per share) Zurn			(5)				(5)
Amortization of unearned restricted stock				7			7
Purchase of 3,581,386 shares of common stock						(46)	(46)
Common stock issued (58,707 shares) upon exercise of options	—	—					—
Common stock issued (35,993 shares) to employee and directors	—	—					—
Treasury stock issued (93,000 shares) to employees and directors		1		(2)		1	—
Forfeiture of 25,460 shares of unearned restricted stock	—	—					—
Deferred tax benefit—Note 10		20					20
Translation adjustment					(1)		(1)
Minimum pension liability adjustment					2		2
Balance at September 30, 1996	1	605	226	(19)	(5)	(50)	758
Net income			252				252
Less net income for Zurn for the six months ended March 31, 1997			(2)				(2)
Cash dividend declared ($0.05 per share)			(4)				(4)
Cash dividend declared ($0.12 per share) Zurn			(2)				(2)
Amortization of unearned restricted stock				7			7
Purchase of 3,134,343 shares of common stock						(67)	(67)
Common stock issued to employees and directors (11,360 shares)	—	—					—
Common stock issued (336,714 shares) upon exercise of options	—	3					3
Common stock issued (46,576 shares) to Zurn pension plans	—	1					1
Treasury stock issued (550,307 shares) to employees and directors		1		(5)		6	2
Forfeiture of 166,065 shares of unearned restricted stock		(1)		1			—
Income tax benefit relating to stock plans		3					3
Translation adjustment					(2)		(2)
Minimum pension liability adjustment					1		1
Balance at September 30, 1997	1	612	470	(16)	(6)	(111)	950
Net loss			(44)				(44)
Cash dividends declared ($0.20 per share)			(20)				(20)
Amortization of unearned restricted stock				6			6
Purchase of 1,260,900 shares of common stock						(35)	(35)
Retirement of 348,603 shares of treasury stock		(5)				5	—
Forfeiture of 373,709 shares of restricted stock				2		(4)	(2)
Treasury stock issued (1,303,118 shares) to employees, directors and upon exercise of options		4		(9)		15	10
Common stock issued (559,359 shares) upon exercise of options and to Zurn pension plans	—	12					12
Common stock issued (3,685,520 shares) for acquisition	—	96					96
Income tax benefit relating to stock plans		5					5
Translation adjustment					(9)		(9)
Minimum pension liability adjustment					(9)		(9)
Balance at September 30, 1998	$1	$724	$406	$(17)	$(24)	$(130)	$960

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 (In Part): Stock Compensation Plans

The Company's stock-based compensation plans consist of USI's and Zurn's respective plans that were in effect prior to the merger, as amended and as adjusted to give effect to the exchange ratio in the merger.

USI maintains stock incentive plans (the "Stock Plans") that provides for awards of restricted stock and options to purchase common stock to key employees at prices equal to the fair market value of the shares at the date of grant, and for formula grants of Common Stock to non-employee directors of USI.

In fiscal 1995, 2,764,995 restricted shares of Common Stock were awarded to certain key employees and a total of 9,000 shares of common stock were issued to non-employee directors. As holders of restricted stock have all the rights of other stockholders, subject to certain restrictions and forfeiture provisions, such restricted stock is considered to be issued and outstanding. Restrictions on the shares will expire and are amortized over seven years. Unearned restricted stock of $26 million was recorded at June 8, 1995 based on the market value of the shares on the date of issuance and is included as a separate component of stockholders' equity.

In fiscal 1996, 108,260 incentive shares were awarded to certain key employees and 20,733 shares of common stock were issued to non-employee directors. The incentive shares are substantially identical in terms of issuance and restrictions to restricted stock. Based on the market value of the shares on the dates of issuance, $2 million of unearned restricted stock was recorded during fiscal 1996.

In fiscal 1998 and 1997, 345,602 and 195,750 restricted shares of Common Stock, respectively, were awarded to certain key employees. The restrictions on the shares will expire after seven years. The expiration of the restrictions can be accelerated under certain circumstances. Based on the market value of the shares on the various dates of issuance, $9 million and $5 million of additional unearned restricted stock was recorded during fiscal 1998 and 1997, respectively. Additionally, 373,709, 166,065 and 25,460 restricted shares were forfeited in fiscal 1998, 1997 and 1996, respectively.

ESOP

CENTRAL SPRINKLER CORPORATION

Consolidated Statements of Shareholders' Equity

(Amounts in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Cumulative Translation Adjustments	Deferred Cost-ESOP	Unrealized Investment Holding Gains, Net	Treasury Stock, Common
Balance, October 31, 1995	5,472	$55	$29,118	$42,939	$(109)	$(6,360)	$10	$(16,103)
Unrealized investment holding losses, net	—	—	—	—	—	—	(10)	—
Exercise of stock options	2	—	40	—	—	—	—	—
Annual ESOP costs	—	—	605	—	—	342	—	—
Translation adjustments	—	—	—	—	102	—	—	—
Net income	—	—	—	3,763	—	—	—	—
Balance, October 31, 1996	5,474	55	29,763	46,702	(7)	(6,018)	—	(16,103)
Exercise of stock options	94	1	811	—	—	—	—	(806)
Annual ESOP costs	—	—	485	—	—	366	—	—
Translation adjustments	—	—	—	—	191	—	—	—
Net loss	—	—	—	(2,542)	—	—	—	—
Balance, October 31, 1997	5,568	56	31,059	44,160	184	(5,652)	—	(16,909)
Annual ESOP costs	—	—	120	—	—	392	—	—
Translation adjustments	—	—	—	—	(39)	—	—	—
Net loss	—	—	—	(22,604)	—	—	—	—
Balance, October 31, 1998	5,568	$56	$31,179	$21,556	$145	$(5,260)	$ —	$(16,909)

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

13 (In Part): Employee Benefit Plans

The Company has an Employee Stock Ownership Plan ("ESOP") which covers certain employees not covered by collective bargaining agreements. At October 31, 1998, the ESOP holds 769 shares of the Company's common stock. On April 28, 1993, the ESOP purchased 750 shares of the Company's common stock in a leveraged transaction at a market value of $9.70 per share for a total cost of $7,275. The total cost of the plan for this transaction is being amortized over 15 years. The unamortized cost is reported as Deferred Cost-ESOP in the equity section of the accompanying balance sheets. The ESOP issued a note payable to the Company which will be repaid over 15 years with interest at a variable rate. This note will be repaid from cash contributed to the plan by the Company. The stock will be committed to be released to the eligible employees over 15 years based upon the annual principal and interest payments made by the ESOP on the note payable to the Company. As required under SOP 93-6, compensation expense is recorded for shares committed to be released to employees based on the fair market value of those shares in the period in which they are committed to be released. The difference between cost and fair market value of committed to be released common shares, which was $120, $485 and $605 for the years ended October 31, 1998, 1997 and 1996, respectively, is recorded in additional paid-in capital.

The ESOP shares are summarized as follows:

	October 31, 1998	1997
Committed to be released shares	226	194
Unreleased shares	543	583
Total ESOP shares	769	777
Fair value of unreleased share	$5,091	$10,861

The ESOP expense for the years ended October 31, 1998, 1997 and 1996 was $512, $851, and $947, respectively.

K2 INC.

Statements of Consolidated Shareholders' Equity

(In thousands, except per share figures)	Common Stock	Additional paid-in capital	Retained earnings	Employee Stock Ownership Plan and stock option loans	Treasury shares, at cost	Accumulated other comprehensive income	Total
Balance at December 31, 1995	$17,064	$130,995	$37,121	$(4,778)	$(4,189)	$(397)	$175,816
Net income for the year 1996			25,217				25,217
Translation adjustments						(615)	(615)
Comprehensive income							24,602
Exercise of stock options	68	632		(256)			444
Cash dividends, $.44 per share			(7,291)				(7,291)
Repurchase of shares and stock option loan repayments				2,443	(2,530)		(87)
Employee Stock Ownership Plan, amortization, loan and partial loan repayment				(4,496)			(4,496)
Balance at December 31, 1996	17,132	131,627	55,047	(7,087)	(6,719)	(1,012)	188,988
Net income for the year 1997			21,900				21,900
Translation adjustments						(3,905)	(3,905)
Comprehensive income							17,995
Exercise of stock options	28	459					487
Cash dividends, $.44 per share			(7,279)				(7,279)
Repurchase of shares and stock option loan repayments				1,070	(1,387)		(317)
Employee Stock Ownership Plan, amortization, loan and partial loan repayment				3,011			3,011
Balance at December 31, 1997	17,160	132,086	69,668	(3,006)	(8,106)	(4,917)	202,885
Net income for the year 1998			4,843				4,843
Translation adjustments						217	217
Comprehensive income							5,060
Exercise of stock options	31	402					433
Cash dividends, $.44 per share			(7,284)				(7,284)
Stock option loan repayments				(96)			(96)
Employee Stock Ownership Plan, amortization, loan and partial loan repayment				1,121			1,121
Balance at December 31, 1998	$17,191	$132,488	$67,227	$(1,981)	$(8,106)	$(4,700)	$202,119

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 (In Part): Shareholders' Equity

Employee Stock Ownership Plan

The Company has an Employee Stock Ownership Plan ("ESOP") which covers substantially all of its domestic non-union employees with at least one year of service. As of December 31, 1998, the trust was indebted to the Company in the aggregate amount of $565,000 in connection with stock purchases made from 1982 through 1984 of which 131,836 shares with an aggregate market value of $1,360,000 as of December 31, 1998 remained unallocated to participants. These loans are repayable over the next four to six years with interest at prime plus ½%, not to exceed 18%, and the unallocated shares will be released to participants proportionately as these loans are repaid. Of the total dividends received by the ESOP on its investment in the Company's Common Stock, dividends on allocated and unallocated shares in the amount of $167,000 in 1998 and 1997, were used to service these loans. Allocated shares as of December 31, 1998 totaled 1,650,557. Additionally, the trust was indebted to the Company in the amount of $1,100,000 and $2,100,000 at December 31, 1998 and 1997, respectively, in connection with distributions made to terminees.

Shareholders' equity has been reduced by the amounts of the loans and any payments made by the Company on behalf of the trust. The payments, made by the Company on behalf of the trust, which at December 31, 1998 totaled $99,000, are being amortized to expense over the lives of the loans.

The amount of the Company's annual contribution to the ESOP is at the discretion of the Company's Board of Directors. For the two years 1998 and 1996, contributions were limited to amounts in excess of annual dividends, net of debt service, of the ESOP necessary to fund obligations arising in each of those years to retired and terminated employees. These amounts were $100,000 and $236,000, respectively. ESOP expense, including amortization of the foregoing payments, was $156,000 and $389,000 in 1998 and 1996, respectively. No expense was recorded and no contributions were made in 1997.

Section 6: 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.

This section reviews the format and content of the Statement of Cash Flows.

PRESENTATION IN ANNUAL REPORT

Table 6-1 shows where in relation to other financial statements a Statement of Cash Flows is presented in an annual report. As shown in Table 6-1, 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 6-1: PRESENTATION IN ANNUAL REPORT

	1998	1997	1996	1995
Follows income statement and balance sheet	286	261	250	249
Final statement	283	310	320	317
Between income statement and balance sheet	31	29	30	34
Total Companies	**600**	**600**	**600**	**600**

TITLE

As indicated in Table 6-2, the survey companies, with a few exceptions, used the title set forth in *SFAS No. 95* to identify a Statement of Cash Flows.

TABLE 6-2: TITLE

	1998	1997	1996	1995
Cash Flows	581	583	577	583
Cash Flow	19	17	23	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. Two survey companies changed from the direct to indirect method. The companies described such a change as a reclassification.

Table 6-3 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 6-4 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 6-3: METHOD OF REPORTING CASH FLOWS FROM OPERATING ACTIVITIES

	1998	1997	1996	1995
Indirect method	593	590	589	585
Direct method	7	10	11	15
Total Companies	**600**	**600**	**600**	**600**

TABLE 6-4: INTEREST AND INCOME TAX PAYMENTS

	1998	1997	1996	1995
Interest Payments				
Notes to financial statements	323	323	325	329
Bottom of Statement of Cash Flows	251	248	245	243
Within Statement of Cash Flows	8	12	19	17
Amount not disclosed	18	17	11	11
Total Companies	**600**	**600**	**600**	**600**
Income Tax Payments				
Notes to financial statements	333	325	332	332
Bottom of Statement of Cash Flows	249	247	244	240
Within Statement of Cash Flows	13	18	16	22
Amount not disclosed	5	10	8	6
Total Companies	**600**	**600**	**600**	**600**

Reclassifications

FLOWERS INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Basis of Presentation and Summary of Significant Accounting Policies

Reclassifications

During fiscal 1998, the Company changed its method of presenting the statement of cash flows from the direct method to the indirect method. This and certain other reclassifications of prior year information have been made to conform with the current year presentation.

HUGHES SUPPLY, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Description of Business and Summary of Significant Accounting Policies

Reclassifications

The January 30, 1998 balance sheet contains certain reclassifications which were made to conform to the January 29, 1999 financial statement format. None of these reclassifications affected net income or shareholders' equity.

In fiscal 1999, the Company changed the format of its statements of cash flows from the direct method to the indirect method for purposes of reporting cash flows from operating activities. Accordingly, the statements of cash flows for fiscal 1998 and 1997 contain certain reclassifications which were made to conform to the Company's current financial statement format.

Direct Method

ABM INDUSTRIES INCORPORATED (OCT)

Consolidated Statements of Cash Flows

(In thousands of dollars)	1996	1997	1998
Cash flows from operating activities:			
Cash received from customers	$1,055,112	$1,203,314	$1,463,918
Other operating cash receipts	1,270	1,126	1,331
Interest received	449	552	682
Cash paid to suppliers and employees	(1,017,329)	(1,154,572)	(1,406,600)
Interest paid	(2,418)	(2,685)	(3,334)
Income taxes paid	(20,355)	(19,988)	(23,936)
Net cash provided by operating activities	16,729	27,747	32,061
Cash flows from investing activities:			
Additions to property, plant and equipment	(10,751)	(13,272)	(11,715)
Proceeds from sale of assets	777	660	497
Increase (decrease) in investments and long-term receivables	(5,657)	3,041	495
Intangible assets acquired	(13,044)	(28,606)	(10,010)
Net cash used in investing activities	(28,675)	(38,177)	(20,733)
Cash flows from financing activities:			
Common stock issued, including tax benefit	8,022	8,778	15,151
Dividends paid	(7,235)	(8,597)	(10,708)
Increase (decrease) in bank overdraft	(426)	8,035	(10,500)
Increase (decrease) in notes payable	223	491	(528)
Long-term borrowings	110,777	115,654	93,204
Repayments of long-term borrowings	(99,688)	(113,715)	(97,886)
Net cash provided by financing activities	11,673	10,646	(11,267)
Net (decrease) increase in cash and cash equivalents	(273)	216	61
Cash and cash equivalents beginning of year	1,840	1,567	1,783
Cash and cash equivalents end of year	$ 1,567	$ 1,783	$ 1,844
Reconciliation of net income to net cash provided by operating activities:			
Net income	$ 21,720	$ 27,239	$ 33,930
Adjustments:			
Depreciation and amortization	13,651	16,118	19,593
Impairment of long-lived assets	—	2,700	—
Provision for bad debts	2,039	2,988	2,821
Gain on sale of assets	(314)	(257)	(202)
Increase (decrease) in deferred income taxes	(3,556)	237	(4,521)
Increase in accounts receivable	(26,890)	(50,312)	(28,907)
Decrease (increase) in inventories	516	(4,069)	(1,768)
Increase in prepaid expenses and other current assets	(1,170)	(5,628)	(2,440)
Decrease (increase) in other assets	(645)	1,580	454
Increase (decrease) in income taxes payable	(414)	(500)	4,163
Increase in retirement plans accrual	2,513	3,273	2,561
Increase (decrease) in insurance claims liability	4,854	5,212	(778)
Increase in trade accounts payable and other accrued liabilities	4,425	29,166	7,155
Total adjustments to net income	(4,991)	508	(1,869)
Net cash provided by operating activities	$ 16,729	$ 27,747	$ 32,061
Supplemental data:			
Non-cash investing activities:			
Common stock issued for net assets of business acquired	—	$ 6,100	$ 1,348

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid instruments with original maturities of three months or less to be cash and cash equivalents.

STORAGE TECHNOLOGY CORPORATION (DEC)

Consolidated Statement of Cash Flows

(In thousands of dollars)	1998	1997	1996
Operating activities			
Cash received from customers	$2,124,070	$2,110,587	$2,158,927
Cash paid to suppliers and employees	(1,926,451)	(1,615,636)	(1,662,990)
Interest received	15,274	29,103	26,448
Interest paid	(6,657)	(3,640)	(21,866)
Income taxes paid, net	(118,131)	(73,754)	(35,819)
Net cash provided by operating activities	88,105	446,660	464,700
Investing activities			
Short-term investments, net	77,275	(48,099)	(29,176)
Purchase of property, plant and equipment, net	(116,903)	(65,893)	(68,946)
Other assets, net	(21,008)	8,366	10,059
Net cash used in investing activities	(60,636)	(105,626)	(88,063)
Financing activities			
Repayments of nonrecourse borrowings and other debt, net	(4,936)	(5,245)	(100,036)
Repurchases of common stock (Note 8)	(359,395)	(484,996)	(195,498)
Proceeds from credit facilities, net	273,211		
Proceeds from employee stock plans	36,924	29,790	39,154
Net cash used in financing activities	(54,196)	(460,451)	(256,380)
Effect of exchange rate changes on cash	2,393	(12,665)	3,642
Increase (decrease) in cash and cash equivalents	(24,334)	(132,082)	123,899
Cash and cash equivalents—beginning of the year	256,319	388,401	264,502
Cash and cash equivalents—end of the year	$ 231,985	$ 256,319	$ 388,401
Reconciliation of net income to net cash provided by operating activities			
Net income	$ 198,248	$ 231,817	$ 180,327
Depreciation and amortization expense	122,864	112,317	174,763
Translation (gain) loss	(7,773)	17,793	4,193
Other non-cash adjustments to income	19,124	32,862	16,208
Increase in accounts receivable	(137,940)	(67,955)	(143,103)
Decrease in notes receivable and sales-type leases			246,297
(Increase) decrease in inventories	(49,961)	83,499	11,886
Increase in equipment held for sale or lease, net			(24,080)
Increase in spare parts, net	(22,737)	(9,300)	(9,316)
(Increase) decrease in net deferred income tax asset, net	9,679	(13,635)	(42,689)
Increase (decrease) in accounts payable	31,792	22,889	(9,360)
Increase (decrease) in accrued liabilities	(58,305)	20,219	(11,396)
Increase (decrease) in income taxes payable	(16,886)	16,154	70,970
Net cash provided by operating activities	$ 88,105	$ 446,660	$ 464,700

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents and Short-Term Investments

Cash equivalents are short-term, highly liquid investments that are both readily convertible to cash and have original maturities of three months or less at the time of acquisition. The carrying value of the Company's cash equivalents approximates fair value. Financial investments that do not qualify as cash equivalents are classified as short-term investments. Short-term investments are principally comprised of commercial paper and are recorded at cost plus accrued interest, which approximates fair value.

Reconciliation of Net Income to Net Cash Flow From Operating Activities

BROWN GROUP, INC. (JAN)

Consolidated Statement of Cash Flows

(Thousands)	1998	1997	1996
Operating activities:			
Net earnings (loss)	$23,669	$(20,896)	$20,315
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	26,943	26,686	25,886
Loss on disposal or impairment of facilities and equipment	961	1,475	655
Provision for losses on accounts receivable	2,772	5,145	5,982
Changes in operating assets and liabilities:			
Receivables	6,768	7,746	(10,256)
Inventories	17,903	18,626	(56,521)
Prepaid expenses and other current assets	9,100	6,178	4,541
Trade accounts payable and accrued expenses	2,904	16,349	17,221
Income taxes	(5,553)	7,990	(330)
Other, net	(6,587)	(10,615)	(4,223)
Net cash provided by operating activities	78,880	58,684	3,270
Investing activities:			
Capital expenditures	(22,747)	(21,727)	(21,044)
Proceeds from sales of fixed assets	58	401	1,414
Net cash used by investing activities	(22,689)	(21,326)	(19,630)
Financing activities:			
Decrease in short-term notes payable	(54,000)	(8,000)	(50,000)
Debt issuance costs	—	(678)	(3,714)
Principal payments of long-term debt and capitalized leases	—	(2,000)	(8,450)
Proceeds from issuance of long-term debt	—	—	100,000
Proceeds from issuance of common stock	428	93	108
Dividends paid	(7,223)	(15,323)	(17,956)
Net cash (used) provided by financing activiites	(60,795)	(25,908)	(19,988)
(Decrease) increase in cash and cash equivalents	(4,604)	11,450	3,628
Cash and cash equivalents at beginning of year	50,136	38,686	35,058
Cash and cash equivalents at end of year	$45,532	$ 50,136	$38,686

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all short-term investments with maturities of three months or less to be cash equivalents.

5 (In Part): Income Taxes

The Company made net tax payments, including federal, state and foreign taxes, of $13.7 million, $4.9 million and $6.8 million in fiscal 1998, 1997 and 1996, respectively.

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

Cash payments of interest for fiscal 1998, 1997 and 1996 were $20.1 million, $22.5 million, and $16.5 million, respectively.

KNAPE & VOGT MANUFACTURING COMPANY (JUN)

Consolidated Statements of Cash Flows

	1998	1997	1996
Operating activities			
Net income (loss)	$(9,737,460)	$7,853,604	$ 65,132
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation of fixed assets	6,604,799	6,542,750	6,190,031
Amortization of other assets	1,361,584	1,185,853	1,155,322
Decrease in deferred income taxes	(752,000)	(334,800)	(1,060,000)
Increase in supplemental retirement benefits	264,957	76,740	64,612
Decrease in deferred lease costs	(556,992)	(541,696)	(524,966)
Loss on sale of discontinued operation	937,268	—	3,866,000
Write-off of foreign currency translation adjustment	1,605,305	—	—
Impairment loss—Hirsh	12,800,000	—	—
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	(809,180)	(2,248,856)	515,079
Refundable income taxes	1,157,735	272,579	(1,627,737)
Inventories	1,903,218	4,372,415	720,025
Net assets of discontinued operation	(995,000)	592,226	636,106
Prepaid expenses	384,903	(629,600)	(160,535)
Increase (decrease) in:			
Accounts payable	8,776,835	1,158,861	289,679
Accrued restructuring costs	672,004	(3,440,184)	3,440,184
Accruals	(383,204)	1,326,505	(83,555)
Net cash provided by operating activities	23,234,772	16,186,397	13,485,377
Investing activities			
Additions to property, plant and equipment	(4,228,552)	(7,763,482)	(8,032,779)
Sales of property, plant and equipment	2,564,744	2,985,833	175,651
Disposition of discontinued operation	2,045,364	—	—
Payments for other assets	803,530	(1,079,168)	(1,471,438)
Net cash provided by (used for) investing activities	1,185,086	(5,856,817)	(9,328,566)
Financing activities			
Cash dividends declared	(3,760,383)	(3,738,138)	(3,727,321)
Proceeds from issuance of common stock	448,041	305,974	16,624
Payments on long-term debt	(19,300,000)	(6,000,000)	(800,000)
Net cash used for financing activities	(22,612,342)	(9,432,164)	(4,510,697)
Effect of exchange rate changes on cash	103,096	4,859	63,877
Net increase (decrease) in cash	1,910,612	902,275	(290,009)
Cash, beginning of year	1,146,546	244,271	534,280
Cash, end of year	$ 3,057,158	$1,146,546	$244,271

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Supplemental Cash Flow Information

Total interest paid during the years ended June 30, 1998, 1997 and 1996, was $1,310,066, $2,025,599 and $2,245,136, respectively.

Total income taxes paid during the years ended June 30, 1998, 1997 and 1996, were $3,686,753, $4,324,000 and $2,540,139, respectively.

In 1998 the Company recorded an accrued liability of approximately $3,000,000 in connection with the sale of Hirsh. The accrual represents closing and other costs associated with the planned sale of Hirsh.

SPEIZMAN INDUSTRIES, INC. (JUN)

Consolidated Statements of Cash Flows

	1998	1997	1996
Cash flows from operating activities:			
Net income (loss)	$1,933,315	$2,685,551	$(573,066)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Gain on disposal of fixed assets	(4,980)	—	—
Depreciation and amortization	1,184,724	484,152	173,336
Provision for losses on accounts receivable	189,545	214,521	113,500
Provision for inventory obsolescence	275,000	154,133	139,436
Provision for deferred income taxes	(187,000)	(121,000)	(58,000)
Provision for deferred compensation	379	(25,220)	6,782
Foreign currency translation adjustment	11,000	(5,777)	(5,954)
(Increase) decrease in:			
Accounts receivable	5,304,947	(9,129,210)	3,804,734
Inventories	(337,132)	(1,484,715)	1,649,026
Prepaid expenses	22,717	(701,675)	159,244
Other assets	590,564	229,728	(69,076)
Increase (decrease) in:			
Accounts payable	(9,302,942)	4,211,199	(192,360)
Accrued expenses and customers' deposits	(985,393)	114,895	1,214,580
Net cash provided by (used in) operating activities	(1,305,256)	(3,373,418)	6,362,182
Cash flows from investing activities:			
Acquisition of Wink Davis Equipment Company, Inc.	(9,467,677)	—	—
Acquisition of Todd Motion Controls, Inc.	(1,841,304)	—	—
Capital expenditures	(470,221)	(846,845)	(1,159,659)
Proceeds from property and equipment disposals	76,304	27,125	347,557
Net cash used in investing activities	(11,702,898)	(819,720)	(812,102)
Cash flows from financing activities:			
Net borrowings on line of credit agreement	4,000,000	—	—
Principal payments on long term debt	(1,154,202)	(11,052)	(5,216)
Issuance of common stock upon exercise of stock options	285,001	55,001	—
Purchase of treasury stock	(61,850)	—	—
Proceeds from issuance of long term notes due to bank	8,300,000	—	—
Net cash provided by (used in) financing activities	11,368,949	43,949	(5,216)
Net increase (decrease) in cash and cash equivalents	(1,639,205)	(4,149,189)	5,544,864
Cash and cash equivalents, at beginning of year	3,832,534	7,981,723	2,436,859
Cash and cash equivalents, at end of year	$ 2,193,329	$3,832,534	$7,981,723

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates fair value due to the short-term maturity of these instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Supplemental Disclosures of Cash Flow Information

		Year Ended	
	June 27, 1998	June 28, 1997	June 29, 1996
Cash paid during year for:			
Interest	$776,544	$101,315	$81,578
Income taxes	1,381,196	1,440,696	120,086

PILGRIM'S PRIDE CORPORATION (SEP)

Consolidated Statements of Cash Flows

(In thousands, except per share data)	1998	1997	1996
Cash flows from operating activities:			
Net income (loss)	$50,010	$41,036	$(7,284)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization	32,591	29,796	28,024
(Gain) loss on property disposals	132	874	(211)
Provision for doubtful accounts	409	(60)	1,003
Deferred income taxes	571	2,613	(354)
Extraordinary charge	—	—	4,587
Changes in operating assets and liabilities:			
Accounts and other receivables	(4,255)	(15,213)	(6,858)
Inventories	4,496	(9,314)	(24,830)
Prepaid expenses and other current assets	(246)	(999)	(674)
Accounts payable and accrued expenses	996	1,056	18,165
Other	312	(174)	(177)
Cash provided by operating activities	85,016	49,615	11,391
Investing activities:			
Acquisitions of property, plant and equipment	(53,518)	(50,231)	(34,314)
Proceeds from property disposals	5,629	3,853	1,468
Other, net	595	(1,291)	312
Cash used in investing activities	(47,294)	(47,669)	(32,534)
Financing activities:			
Proceeds from notes payable to banks	35,500	68,500	91,000
Repayments on notes payable to banks	(35,500)	(95,500)	(77,000)
Proceeds from long-term debt	21,125	39,030	51,028
Payments on long-term debt	(51,968)	(10,027)	(32,140)
Cash dividends paid	(1,655)	(1,655)	(1,655)
Extraordinary charge, cash items	—	—	(3,920)
Cash provided by (used in) financing activities	(32,498)	348	27,313
Effect of exchange rate changes on cash and cash equivalents	(437)	4	(22)
Increase in cash and cash equivalents	4,787	2,298	6,148
Cash and cash equivalents at beginning of year	20,338	18,040	11,892
Cash and cash equivalents at end of year	$25,125	$20,338	$18,040
Supplemental disclosure information:			
Cash paid during the year for:			
Interest (net of amount capitalized)	$20,979	$22,026	$20,310
Income taxes	$ 4,543	$ 2,021	$ 4,829

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. (In Part): Business and Summary of Significant Accounting Policies

Cash Equivalents

The Company considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Interest and Income Tax Payments

CHAMPION INTERNATIONAL CORPORATION (DEC)

Consolidated Statements of Cash Flows

(In millions of dollars)	1998	1997	1996
Cash flows from operating activities:			
Net income (loss)	$ 75.3	$(548.5)	$141.3
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for restructuring	80.0	891.0	—
Depreciation expense	395.3	424.6	407.8
Cost of timber harvested	91.6	93.4	94.1
Gain on disposal of assets	(22.4)	(24.0)	(23.1)
Pension contributions	(8.7)	(16.4)	(70.2)
Deferred income taxes	(61.6)	(370.9)	3.2
Changes in assets and liabilities, net of acquisitions and divestitures:			
Receivables	72.2	(15.7)	65.0
Inventories	(59.8)	6.6	(34.4)
Prepaid expenses	10.0	4.2	(4.6)
Accounts payable and accrued liabilities	(42.5)	(23.0)	(38.2)
Income taxes payable	(13.6)	(12.2)	(102.1)
Other liabilities	15.1	9.5	(13.9)
All other—net	35.1	66.9	13.5
Net cash provided by operating activities	566.0	485.5	438.4
Cash flows from investing activities:			
Expenditures for property, plant and equipment	(304.9)	(321.1)	(460.5)
Timber and timberlands expenditures	(127.3)	(128.4)	(121.2)
Acquisition of timberlands and mills	(103.7)	(46.9)	(130.4)
Purchase of investments	—	(22.1)	—
Proceeds from redemptions of investments	—	25.0	101.2
Proceeds from sales of divested operations	481.6	—	—
Proceeds from sales of property, plant and equipment and timber and timberlands	26.7	43.1	39.8
All other—net	(39.4)	(15.0)	16.6
Net cash used in investing activities	(67.0)	(465.4)	(554.5)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	571.6	473.9	834.2
Payments of current installments of long-term debt and long-term debt	(991.3)	(385.0)	(645.1)
Purchase by Weldwood of minority interest	—	—	(191.4)
Cash dividends paid	(19.5)	(19.2)	(19.2)
Payments to acquire treasury stock	(34.3)	—	(7.8)
All other—net	(0.1)	10.6	2.9
Net cash provided by (used in) financing activities	(473.6)	80.3	(26.4)
Increase (decrease) in cash and cash equivalents	25.4	100.4	(142.5)
Cash and cash equivalents:			
Beginning of period	275.0	174.6	317.1
End of period	$300.4	$275.0	$174.6
Supplemental cash flow disclosures:			
Cash paid during the year for:			
Interest (net of capitalized amounts)	$271.7	$241.2	$210.0
Income taxes (net of refunds)	17.1	42.1	178.8

NOTES TO FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

C. Cash and Cash Equivalents

Cash and cash equivalents includes all highly liquid investments with original maturities of three months or less. Short-term investments are investments which mature within 12 months but which do not meet the criteria of cash equivalents.

UNIVERSAL FOODS CORPORATION (DEC)

Consolidated Statements of Cash Flows

(Dollars in thousands)	1998	1997	1996
Cash flows from operating activities			
Net earnings	$ 72,644	$ 64,688	$ 44,205
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	38,011	32,399	29,178
Amortization	6,221	4,927	4,341
Impairment of long-lived assets and other unusual charges	—	—	25,000
(Gain) loss on sale of property, plant and equipment and other productive assets	(3,277)	16	(332)
Changes in operating assets and liabilities (net of effects from acquisition of businesses):			
Trade accounts receivable	(1,111)	(13,351)	(2,041)
Inventories	(5,664)	(13,418)	2,355
Prepaid expenses, income taxes and other assets	(8,063)	(283)	(1,316)
Accounts payable and accrued expenses	(21,782)	7,844	(626)
Salaries, wages and withholdings from employees	1,320	2,882	(357)
Income taxes	7,516	2,044	(6,688)
Deferred income taxes	8,056	4,838	(1,857)
Other liabilities	182	1,160	145
Net cash provided by operating activities	94,053	93,746	92,007
Cash flows from investing activities			
Acquisition of property, plant and equipment	(66,063)	(73,502)	(59,012)
Acquisition of new businesses—net of cash acquired	(68,670)	(50,492)	(529)
Proceeds from disposition of business and sale of property, plant and equipment and other productive assets	6,656	438	658
Increase in investments	(5,860)	(5,719)	(2,740)
Net cash used in investing activities	(133,937)	(129,275)	(61,623)
Cash flows from financing activities			
Proceeds from additional borrowings	80,690	66,455	76,822
Reduction in debt	(5,720)	(6,651)	(60,110)
Purchase of treasury stock	(21,796)	(5,785)	(27,589)
Dividends	(27,139)	(26,534)	(25,798)
Proceeds from options exercised and other equity transactions	13,579	8,089	1,627
Net cash provided by (used in) financing activities	39,614	35,574	(35,048)
Effect of exchange rate changes on cash and cash equivalents	644	(2,182)	(658)
Net increase (decrease) in cash and cash equivalents	374	(2,137)	(5,322)
Cash and cash equivalents at beginning of year	1,258	3,395	8,717
Cash and cash equivalents at end of year	$ 1,632	$ 1,258	$ 3,395
Cash paid during the year for:			
Interest	$ 21,372	$ 16,062	$ 15,175
Income taxes	16,074	16,261	27,222

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when acquired to be cash equivalents.

Discontinued Operations

SUIZA FOODS CORPORATION (DEC)

Consolidated Statements of Cash Flows

(Dollars in thousands)	1998	1997	1996
Cash flows from operating activities:			
Net income	$131,606	$28,764	$46,963
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss (income) from discontinued operations	3,161	(717)	(2,315)
Depreciation and amortization	91,779	44,607	28,003
Minority interest	1,559	—	—
Extraordinary (gain) loss	(31,698)	11,283	2,215
Merger and other costs	—	37,003	571
Deferred income taxes	20,386	27,355	(14,511)
Other	(764)	462	(178)
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	(49,065)	6,685	(10,740)
Inventories	(4,600)	(5,259)	(6,084)
Prepaid expenses and other assets	(13,566)	(3,284)	(778)
Accounts payable and accrued expenses	24,481	(12,667)	13,913
Income taxes	22,998	(5,189)	(325)
Net cash provided by continuing operations	196,277	129,043	56,734
Net cash provided by (used in) discontinued operations	(2,068)	7,578	7,449
Net cash provided by operating activities	194,209	136,621	64,183
Cash flows from investing activities:			
Net additions to property, plant, and equipment	(176,870)	(62,120)	(30,079)
Cash outflows for acquisitions	(599,197)	(429,898)	(251,961)
Net proceeds from the sale of discontinued operations	172,732	—	—
Other	1,369	—	(477)
Net cash used in continuing operations	(601,966)	(492,018)	(282,517)
Net cash used in discontinued operations	(14,022)	(58,028)	(8,330)
Net cash used in investing activities	(615,988)	(550,046)	(290,847)
Cash flows from financing activities:			
Proceeds from issuance of debt	965,820	1,230,604	270,550
Repayment of debt	(1,082,464)	(856,980)	(92,164)
Payments of deferred financing, debt restructuring and merger costs	(1,256)	(54,410)	(3,520)
Issuance of common stock, net of expenses	37,808	95,076	59,644
Redemption of common and preferred stock	(49,742)	—	(4,360)
Issuance of trust issued preferred securities, net of expenses	582,500	—	—
Preferred dividends paid and other	(353)	(300)	(302)
Net cash provided by financing activities	452,313	413,990	229,848
Increase in cash and cash equivalents	30,534	565	3,184
Cash and cash equivalents, beginning of period	24,388	23,823	20,639
Cash and cash equivalents, end of period	$ 54,922	$ 24,388	$ 23,823

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents and Temporary Investments
We consider all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents. Temporary investments consist of held-to-maturity U.S. government obligations due within one year, certificates of deposit or Eurodollar deposits due within one year, and highly rated commercial paper. These temporary investments are stated at amortized cost, which approximates market value.

16. Supplemental Cash Flow Information

Years Ended December 31, (In thousands)	1998	1997	1996
Cash paid for interest and financing charges	$74,989	$43,386	$21,896
Cash paid for taxes	17,908	23,668	10,477
Noncash transactions:			
Issuance of notes payable and common and preferred stock in connection with business and property acquisitions	136,751	17,049	1,993
Issuance of mandatorily redeemable preferred securities and subsidiary preferred and common securities in connection with two acquisitions	220,000		
Subordinated notes and preferred stock issued in lieu of interest and dividends			236

RYERSON TULL, INC. (DEC)

Consolidated Statement of Cash Flows

Dollars in millions Increase (decrease) in cash	1998	1997	1996
Operating activities			
Net income	$550.9	$119.3	$ 45.7
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Loss (income) from discontinued operations	(13.8)	(54.8)	17.9
Depreciation and amortization	33.2	27.7	23.2
Deferred income taxes	2.8	3.9	8.2
Deferred employee benefit cost	0.4	(11.3)	6.1
Stock issued for coverage of employee benefit plans	39.4	21.8	22.6
Gain from sale of ISC, net of taxes	(510.8)	—	—
Gain from sale of assets	(5.9)	(8.9)	—
Gain from issuance of subsidiary stock	—	—	(31.4)
Change in:			
Receivables	21.7	(12.0)	8.1
Inventories	(77.5)	(33.8)	(50.2)
Accounts payable	(13.7)	10.2	8.4
Accrued salaries and wages	(2.8)	2.6	0.3
Other accrued liabilities	(75.6)	(9.0)	3.8
Other items	1.6	3.5	(7.6)
Net adjustments	(601.0)	(60.1)	9.4
Net cash provided by (used for) operating activities	(50.1)	59.2	55.1
Investing activities			
Capital expenditures	(40.1)	(41.3)	(25.1)
Acquisitions	(7.7)	(139.9)	—
Investments in and advances to joint ventures, net	(4.2)	(8.1)	(5.2)
Proceeds from sales of assets	919.8	18.2	2.0
Net cash provided by (used for) investing activities	867.8	(171.1)	(28.3)
Financing activities			
Issuance of subsidiary stock	—	—	77.1
Long-term debt issued	—	—	242.7
Long-term debt retired	(202.8)	(17.3)	(246.7)
Reduction of debt assumed in acquisitions	—	(25.3)	—
Redemption of Series E Preferred Stock	(81.7)	—	—
Dividends paid	(17.5)	(20.8)	(21.0)
Acquisition of treasury stock	(839.6)	(6.7)	(3.7)
Net cash provided by (used for) financing activities	(1,141.6)	(70.1)	48.4
Cash provided by (used for) discontinued operations	279.4	41.0	(104.6)
Net decrease in cash and cash equivalents	(44.5)	(141.0)	(29.4)
Cash and cash equivalents—beginning of year	97.0	238.0	267.4
Cash and cash equivalents—end of year	$ 52.5	$ 97.0	$238.0
Supplemental disclosures			
Cash paid during the period for:			
Interest	$ 32.8	$ 39.3	$ 36.6
Income taxes, net	63.4	27.5	8.6

SUMMARY OF ACCOUNTING AND FINANCIAL POLICIES

Cash Equivalents

Cash equivalents reflected in the financial statements 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.

Extraordinary Items

SEARS, ROEBUCK AND CO. (DEC)

Consolidated Statements of Cash Flows

(Millions)	1998	1997	1996
Cash flows from operating activities			
Net income	$1,048	$1,188	$1,271
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation, amortization and other noncash items	907	807	774
Extraordinary loss on early extinguishment of debt	37	—	—
Provision for uncollectible accounts	1,287	1,532	971
Loss (gain) on sale of businesses	352	(129)	—
(Gain) loss on sales of property and investments	(20)	7	(36)
Change in (net of acquisitions):			
Deferred income taxes	178	273	(31)
Retained interest in transferred credit card receivables	(978)	(1,056)	3,318
Credit card receivables	423	(2,285)	(5,739)
Merchandise inventories	(167)	(475)	(475)
Other operating assets	(65)	(160)	111
Other operating liabilities	88	(258)	1,025
Net cash provided by (used in) operating activities	3,090	(556)	1,189
Cash flows from investing activities			
Acquisition of businesses, net of cash acquired	(34)	(138)	(296)
Proceeds from sales of property and investments	220	394	42
Purchases of property and equipment	(1,212)	(1,328)	(1,189)
Net cash used in investing activities	(1,026)	(1,072)	(1,443)
Cash flows from financing activities			
Proceeds from long-term debt	2,686	3,920	4,683
Repayments of long-term debt	(3,375)	(3,299)	(1,832)
(Decrease) increase in short-term borrowings, primarily 90 days or less	(576)	1,834	(1,814)
Termination of interest rate swap agreements	—	(633)	—
Repayments of ESOP note receivable	23	16	21
Preferred stock redemption	—	—	(325)
Common shares purchased for employee stock plans	(528)	(170)	(164)
Common shares issued for employee stock plans	126	103	134
Dividends paid to shareholders	(278)	(441)	(394)
Net cash (used in) provided by financing activities	(1,922)	1,330	309
Effect of exchange rate changes on cash and cash equivalents	(5)	(4)	(1)
Net increase (decrease) in cash and cash equivalents	137	(302)	54
Balance at beginning of year	358	660	606
Balance at end of year	$ 495	$ 358	$ 660

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 the date of purchase.

4 (In Part): Income Taxes

Income taxes of $366, $886 and $386 million were paid in 1998, 1997 and 1996, respectively.

6 (In Part): Borrowings

The Company paid interest of $1.3, $1.4 and $1.3 billion in 1998, 1997 and 1996, respectively. Interest capitalized was $5, $3 and $5 million in 1998, 1997 and 1996, respectively.

TYCO INTERNATIONAL LTD. (SEP)

Consolidated Statements of Cash Flows

(In millions)	1998	1997	1996
Cash flows from operating activities:			
Net income (loss)	$1,174.7	$(835.1)	$(305.1)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Merger, restructuring and other non-recurring charges	—	207.4	217.4
Charge for the impairment of long-lived assets	—	148.4	744.7
Write-off purchased in-process research and development	—	361.0	—
Extraordinary items	2.4	58.3	8.4
Depreciation	413.3	286.3	339.0
Goodwill and other intangibles amortization	153.0	92.3	88.3
Debt and refinancing cost amortization	11.0	15.9	25.5
Interest on ITS vendor note	(11.5)	(7.7)	(8.9)
Deferred income taxes	121.0	(295.7)	32.7
Gain arising from the ownership of investments	—	—	(53.2)
Settlement gain	—	—	(69.7)
Provisions for losses on accounts receivable and inventory	115.4	58.1	36.2
Changes in assets and liabilities:			
Receivables	(86.2)	(110.1)	(99.8)
Proceeds from accounts receivable sale	—	75.0	—
Contracts in process	(91.4)	(159.7)	17.8
Inventories	(53.6)	(6.2)	(33.3)
Accounts payable, accruals and other liabilities	(317.7)	542.8	(135.8)
Income taxes payable	150.3	302.3	(13.0)
Deferred revenue	(12.4)	6.2	4.3
Other, net	68.2	37.9	25.6
Net cash provided by operating activities	1,636.5	777.4	821.1
Cash flows from investing activities:			
Purchase of property, plant and equipment	(781.3)	(519.1)	(532.9)
Acquisition of businesses	(3,816.6)	(1,344.8)	(822.6)
Disposal of other investments and other	(8.4)	—	62.7
Net cash utilized by investing activities	(4,606.3)	(1,863.9)	(1,292.8)
Cash flows from financing activities:			
Net receipts of short-term debt	202.3	918.5	232.6
Net proceeds from issuance of public debt	2,744.5	—	—
Repayment of long-term debt, including debt tender	(988.1)	(961.6)	(269.6)
Proceeds from long-term debt	219.0	234.6	386.6
Proceeds from sale of common shares	1,245.0	654.5	—
Proceeds from exercise of options	307.4	322.9	32.3
Dividends paid	(56.5)	(37.9)	(56.7)
Purchase of treasury shares	(222.6)	—	(9.7)
Other	(30.9)	—	(28.9)
Net cash provided by financing activities	3,420.1	1,131.0	286.6
Net increase (decrease) in cash and cash equivalents	450.3	44.5	(185.1)
Cash and cash equivalents at beginning of year	369.8	324.2	429.8
Adjustments for INBRAND's cash and cash equivalents at January 1, 1997 (as described in Note 1)	—	1.9	—
Effect of the excluded results of ASH and Former Tyco (as described in Notes 1 and 2)	—	(0.8)	79.5
Cash and cash equivalents at end of year	$ 820.1	$ 369.8	$ 324.2
Supplementary cash flow disclosure:			
Interest paid	$ 187.7	$ 161.0	$ 166.0
Income taxes paid (net of refunds)	$ 201.0	$ 139.6	$ 152.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents

All highly liquid investments purchased with a maturity of three months or less are considered to be cash equivalents.

Cumulative Effect of Accounting Change

WALGREEN CO. (AUG)

Consolidated Statements of Cash Flows

(In millions)	1998	1997	1996
Cash flows from operating activities			
Net earnings	$511	$436	$372
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Cumulative effect of accounting change for system development costs	26	—	—
Depreciation and amortization	189	164	147
Gain on sale of long-term care pharmacies	(37)	—	—
Deferred income taxes	(1)	8	3
Other	29	8	5
Changes in operating assets and liabilities:			
Inventories	(299)	(101)	(178)
Accrued expenses and other liabilities	99	73	42
Trade accounts payable	94	121	85
Accounts receivable, net	(20)	(74)	(60)
Income taxes	(17)	12	(9)
Other	(3)	3	4
Net cash provided by operating activities	571	650	411
Cash flows from investing activities			
Additions to property and equipment	(641)	(485)	(364)
Disposition of property and equipment	72	15	18
Proceeds from the surrender of corporate-owned life insurance	58	—	—
Net borrowing from (investment in) corporate-owned life insurance	9	(16)	47
Net cash used for investing activities	(502)	(486)	(299)
Cash flows from financing activities			
Cash dividends paid	(123)	(116)	(105)
Proceeds from (purchases for) employee stock plans	105	17	(20)
Other	20	(1)	—
Net cash provided by (used for) financing activities	2	(100)	(125)
Changes in cash and cash equivalents			
Net increase (decrease) in cash and cash equivalents	71	64	(13)
Cash and cash equivalents at beginning of year	73	9	22
Cash and cash equivalents at end of year	$144	$ 73	$ 9

SUMMARY OF MAJOR ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments with an original maturity of three months or less. The company's cash management policy provides for the bank disbursement accounts to be reimbursed on a daily basis. Checks issued but not presented to the banks for payment of $148 million and $145 million at August 31, 1998 and 1997, respectively, are included in cash and cash equivalents as reductions of other cash balances.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Interest Expense

The company capitalized $2 million of interest expense as part of significant construction projects during fiscal 1998 and less than $1 million during fiscal 1997 and 1996. Interest paid, net of amounts capitalized, was $1 million in 1998, $2 million in 1997 and $3 million in 1996.

Income Taxes (In Part):

Income taxes paid were $333 million, $243 million and $241 million during the fiscal years ended August 31, 1998, 1997 and 1996, respectively. The difference between the statutory income tax rate and the effective tax rate is principally due to state income tax provisions.

Sale of Receivables

MANPOWER INC. (DEC)

Consolidated Statements of Cash Flows

(In thousands)	1998	1997	1996
Cash flows from operating activities:			
Net earnings	$ 75,664	$163,880	$162,298
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Write-down of capitalized software	92,100	—	—
Depreciation and amortization	55,550	41,623	35,618
Deferred income taxes	(37,453)	1,959	(11,405)
Provision for doubtful accounts	11,986	15,884	12,360
Gain on sale of securities	—	—	(15,509)
Change in operating assets and liabilities:			
Sale of accounts receivable	175,000	—	—
Accounts receivable, net of sale	(353,205)	(398,825)	(168,735)
Other assets	20,104	(20,177)	(11,969)
Other liabilities	225,423	220,913	90,087
Cash provided by operating activities	265,169	25,257	92,745
Cash flows from investing activities:			
Capital expenditures	(140,753)	(98,592)	(55,119)
Acquisitions of businesses, net of cash acquired	(31,731)	(16,480)	(32,362)
Proceeds from the sale of property and equipment	992	2,858	1,669
Proceeds from sale of securities	—	—	18,440
Cash used by investing activities	(171,492)	(112,214)	(67,372)
Cash flows from financing activities:			
Net change in payable to banks	23,136	50,079	(11,124)
Proceeds from long-term debt	22,719	90,245	57,681
Repayment of long-term debt	(55,652)	(2,503)	(17,051)
Proceeds from stock option and purchase plans	12,022	10,842	9,871
Repurchase of common stock	(43,936)	(81,856)	(3,230)
Dividends paid	(15,168)	(13,845)	(12,305)
Cash (used) provided by financing activities	(56,879)	52,962	23,842
Effect of exchange rate changes on cash	1,412	(4,312)	(11,435)
Net increase (decrease) in cash and cash equivalents	38,210	(38,307)	37,780
Cash and cash equivalents, beginning of year	142,246	180,553	142,773
Cash and cash equivalents, end of year	$ 180,456	$ 142,246	$ 180,553
Supplemental cash flow information:			
Interest paid	$ 18,941	$ 11,260	$ 7,119
Income taxes paid	$ 68,998	$ 92,784	$ 79,230

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

2 (In Part): Summary of Significant Accounting Policies

Statement of Cash Flows

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

3. Accounts Receivable Securitization

In December 1998, a wholly-owned subsidiary of the Company entered into an agreement to sell, on an ongoing basis, up to $200,000 of an undivided interest in its accounts receivable. The amount of receivables sold under this agreement totaled $175,000 at December 31, 1998. Costs of the program, which primarily consist of the purchasers' financing and administrative costs, were $658 in 1998 and are included in Interest and other expenses in the accompanying Consolidated Statements of Operations.

The Company continues to service the receivables and maintains an allowance for doubtful accounts based upon the expected collectibility of all Company accounts receivable, including the portion of receivables sold. Unless extended by amendment, the agreement expires in December 1999.

Life Insurance Proceeds

REPUBLIC GROUP INCORPORATED (JUN)

Consolidated Statements of Cash Flows

	1998	1997	1996
Cash flows from operating activities:			
Net income	$17,799,000	$19,663,000	$14,912,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Income receivable—life insurance proceeds	(1,000,000)	—	—
Depreciation, amortization and depletion	7,738,000	7,080,000	6,203,000
Non-cash compensation expense	320,000	360,000	—
Deferred income taxes	1,616,000	1,460,000	2,786,000
Loss on sale of assets	52,000	44,000	138,000
Changes in current assets and liabilities:			
Accounts receivable	282,000	(2,166,000)	(504,000)
Income tax refunds receivable	(158,000)	408,000	(725,000)
Inventories	(1,109,000)	(608,000)	1,524,000
Prepaid expenses	(191,000)	(77,000)	(66,000)
Accounts payable and accrued liabilities	3,150,000	2,703,000	(940,000)
Other assets and liabilities	(491,000)	(177,000)	(76,000)
Net cash provided by operating activities	28,008,000	28,690,000	23,252,000
Cash flows from investing activities:			
Additions to property, plant and equipment	(31,191,000)	(11,556,000)	(9,062,000)
Proceeds from sale of property, plant and equipment	56,000	66,000	224,000
Purchases of investments	(11,470,000)	(22,510,000)	(17,750,000)
Proceeds from sale of investments	12,120,000	34,185,000	7,925,000
Net cash provided (used) by investing activities	(30,485,000)	185,000	(18,663,000)
Cash flows from financing activities:			
Dividends paid	(4,215,000)	(4,020,000)	(3,018,000)
Proceeds from issuance of debt	9,200,000	—	—
Payment on long-term debt	(3,250,000)	(24,840,000)	(3,160,000)
Proceeds from stock options exercised including related tax benefits	302,000	247,000	201,000
Purchase of common treasury stock	—	(1,069,000)	—
Issuance of common treasury stock	128,000	—	—
Net cash provided (used) by financing activities	2,165,000	(29,682,000)	(5,977,000)
Net decrease in cash and cash equivalents	(312,000)	(807,000)	(1,388,000)
Cash and cash equivalents at beginning of year	1,436,000	2,243,000	3,631,000
Cash and cash equivalents at end of year	$1,124,000	$1,436,000	$2,243,000
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Income taxes, net of refunds	$9,127,000	$9,407,000	$7,077,000
Interest	$ 5,000	$1,759,000	$1,654,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents

Short-term investments that are highly liquid and have original maturity dates of three months or less are considered cash equivalents for the purpose of the Consolidated Statements of Cash Flows. These investments are carried at market.

Litigation Settlement

SUNOCO, INC. (DEC)

Consolidated Statements of Cash Flows

(Millions of dollars)	1998	1997	1996
Increase (decrease) in cash and cash equivalents			
Cash flows from operating activities:			
Net income (loss)	$280	$263	$(115)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Income from discontinued operations	—	—	(166)
Gain on settlement of insurance litigation	(58)	—	—
Provision for write-down of assets and other matters	58	32	356
Gain on divestments	(14)	(12)	(14)
Depreciation, depletion and amortization	257	259	267
Deferred income tax expense (benefit)	95	131	(129)
Changes in working capital pertaining to operating activities:			
Accounts and notes receivable	190	203	(198)
Inventories	(43)	45	57
Accounts payable and accrued liabilities	(361)	(383)	257
Taxes payable	19	(51)	7
Other	(71)	(35)	(7)
Net cash provided by continuing operating activities	352	452	315
Net cash provided by discontinued operating activities	—	—	17
Net cash provided by operating activities	352	452	332
Cash flows from investing activities:			
Capital expenditures	(457)	(380)	(408)
Acquisition of Philadelphia phenol facility, net of $109 seller financing (Notes 2 and 18)	(48)	—	—
Acquisition of Kendall lubricants business (Notes 2 and 18)	—	—	(74)
Proceeds from divestments:			
International Production operations	—	—	278
Suncor common stock	—	—	135
Other	136	182	32
Investing activities of discontinued operations	—	—	(13)
Other	9	11	—
Net cash used in investing activities	(360)	(187)	(50)
Cash flows from financing activities:			
Net proceeds from (repayments of) short-term borrowings	108	—	(54)
Proceeds from issuance of long-term debt	12	—	—
Repayments of long-term debt	(53)	(53)	(2)
Proceeds from transferred interest in cokemaking operation	200	—	—
Cash dividend payments	(102)	(117)	(119)
Purchases of preference stock for retirement	(1)	(27)	(2)
Purchases of common stock for treasury	(144)	(144)	(31)
Proceeds from issuance of common stock under management incentive and employee option plans	13	48	4
Other	(20)	(6)	(22)
Net cash provided by (used in) financing activities	13	(299)	(226)
Net increase (decrease) in cash and cash equivalents	5	(34)	56
Cash and cash equivalents at beginning of year	33	67	11
Cash and cash equivalents at end of year	$ 38	$ 33	$ 67

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents

Sunoco considers all highly liquid investments with a remaining maturity of three months or less at the time of purchase to be cash equivalents. These cash equivalents consist principally of time deposits and certificates of deposit.

14 (In Part): Commitments and Contingent Liabilities

On October 4, 1996, Sunoco filed a complaint in Los Angeles County Superior Court, *Jalisco Corporation, Inc., et al. v. Argonaut Insurance Company, et al.* (Case No. BC 158441), naming more than 45 insurance companies as defendants and seeking recovery under numerous insurance policies for certain environmental matters of Sunoco, including its predecessor companies and subsidiaries, arising from the ownership and operation of its businesses. In 1998, the Company entered into several settlements which resolved a portion of these claims. As a result, the Company received net cash proceeds totaling $4 million in 1998 and $40 million in early 1999 and will receive an additional $14 million primarily during the remainder of 1999. A $58 million pretax gain ($38 million after tax) was recognized in other income in 1998 in connection with these settlements. While negotiations are currently ongoing with certain of the other insurance companies to resolve the remaining litigation, the Company cannot quantify the ultimate outcome of this matter.

18. Supplemental Cash Flow Information

Sunoco acquired the Philadelphia phenol facility of AlliedSignal Inc. in 1998 and the Kendall lubricants business in 1996 (Note 2). The following is a summary of the effects of these transactions on Sunoco's consolidated financial position as of the acquisition dates:

(Millions of dollars)	Philadelphia Phenol Facility	Kendall Lubricants Business
Allocation of purchase price:		
Accounts and notes receivable	$—	$30
Inventories	20	16
Properties, plants and equipment	155	16
Other assets	4	12
Accounts payable and accrued liabilities	(1)	—
Retirement benefit liabilities	(5)	—
Other liabilities	(16)	—
	157	74
Seller financing:		
Short-term borrowings and current portion of long-term debt	(74)	—
Long-term debt	(35)	—
	(109)	—
Cash paid on acquisition date	$48	$74

Cash payments for (refunds of) income taxes were $(6), $26 and $7 million in 1998, 1997 and 1996, respectively. Cash payments for interest, net of amounts capitalized, were $69, $75 and $74 million in 1998, 1997 and 1996, respectively.

CASH FLOWS FROM INVESTING ACTIVITIES

Paragraphs 15-17 of *SFAS No. 95* define those transactions and events which constitute Investing Activity 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

DELUXE CORPORATION (DEC)

Consolidated Statements of Cash Flows

(Dollars in thousands)	1998	1997	1996
Cash flows from operating activities			
Net income	$145,408	$44,672	$65,463
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	59,451	68,816	66,269
Amortization of intangibles	26,333	28,453	40,367
Goodwill impairment charge		82,893	111,900
Stock purchase discount	5,905	6,654	7,478
Net loss (gain) on sales of businesses	4,850	(866)	(37,007)
Deferred income taxes	13,415	(25,733)	(20,690)
Changes in assets and liabilities, net of effects from acquisitions and sales of businesses:			
Trade accounts receivable	(5,241)	(5,806)	13,082
Inventories	3,568	5,019	13,367
Accounts payable	(6,008)	9,678	(11,456)
Other assets and liabilities	47,127	81,998	41,930
Net cash provided by operating activities	294,808	295,778	290,703
Cash flows from investing activities			
Proceeds from sales of marketable securities with maturities of more than 3 months	19,199		6,250
Purchases of marketable securities with maturities of more than 3 months	(52,411)	(8,000)	
Purchases of capital assets	(121,275)	(109,500)	(92,038)
Payments for acquisitions, net of cash acquired		(10,600)	(15,098)
Net proceeds from sales of businesses, net of cash sold	89,416	21,627	112,913
Proceeds from sales of capital assets	28,518	20,036	5,618
Other	(395)	(2,925)	5,870
Net cash (used in) provided by investing activities	(36,948)	(89,362)	23,515
Cash flows from financing activities			
Net payments on short-term debt		(16,783)	(32,428)
Payments on long-term debt	(6,589)	(6,818)	(10,934)
Payments to retire common stock	(60,323)	(56,281)	(48,065)
Proceeds from issuing stock under employee plans	26,230	23,654	28,088
Cash dividends paid to shareholders	(119,682)	(121,321)	(121,976)
Net cash used in financing activities	(160,364)	(177,549)	(185,315)
Net increase in cash and cash equivalents	97,496	28,867	128,903
Cash and cash equivalents at beginning of year	171,438	142,571	13,668
Cash and cash equivalents at end of year	$268,934	$171,438	$142,571
Supplementary cash flow disclosure:			
Interest paid	$ 8,018	$ 9,620	$ 10,672
Income taxes paid	82,276	63,612	83,600

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all cash on hand, money market funds and other highly liquid investments with original maturities of three months or less to be cash and cash equivalents. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate fair value.

Investments

GIANT FOOD INC. (FEB)

Consolidated Statements of Cash Flows

(Dollar amounts in thousands)	1998	1997	1996
Cash flows from operating activities			
Net income	$71,190	$85,504	$102,153
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	94,040	96,743	93,932
Amortization of property under capital leases	6,578	6,174	5,875
Compensation expense arising from stock awards	610	614	610
Other adjustments, net	2,040	535	1,613
Net increase (decrease) in cash from changes in operating assets and liabilities, detailed below	2,145	(67,835)	(5,528)
Net cash provided by operating activities	176,603	121,735	198,655
Cash flows from investing activities			
Purchase of short-term investments	(153,001)	(172,820)	(73,782)
Proceeds from sales of short-term investments	148,160	138,697	19,826
Proceeds from maturity of short-term investments	21,865	31,141	14,595
Capital expenditures	(136,921)	(145,812)	(128,107)
Proceeds from dispositions of other assets		13,998	
Additions to other assets	(3,173)	(9,518)	(7,598)
Net cash used in investing activities	(123,070)	(144,314)	(175,066)
Cash flows from financing activities			
Principal payments on notes and mortgages	(16,821)	(6,945)	(28,263)
Reduction of obligations under capital leases	(4,854)	(4,281)	(3,858)
Issuance of common stock	8,972	8,713	6,211
Purchases of treasury stock	(6,423)		
Dividends paid	(46,531)	(45,060)	(43,591)
Net cash used in financing activities	(65,657)	(47,573)	(69,501)
Net increase (decrease) in cash and cash equivalents	(12,124)	(70,152)	(45,912)
Cash and cash equivalents at beginning of year	40,981	111,133	157,045
Cash and cash equivalents at end of year	$ 28,857	$ 40,981	$111,133
Cash flows from changes in operating assets and liabilities			
Increase (decrease) in assets			
Receivables	$(10,108)	$ (5,681)	$ (3,904)
Inventories	17,507	(65,843)	12,177
Income taxes receivable	1,031	(8,501)	
Deferred income taxes	(489)	1,645	(2,474)
Other current assets	173	(737)	(742)
Increase (decrease) in liabilities			
Accounts payable	10,652	29,115	(6,576)
Accrued expenses	(17,259)	933	454
Income taxes payable		(7,211)	(7,023)
Deferred income taxes	9,619	132	(9,325)
Accrued insurance claims	(4,148)	(9,482)	12,493
Other liabilities	(4,833)	(2,205)	(608)
Net cash provided by (used in) changes in operating assets and liabilities	$ 2,145	$(67,835)	$ (5,528)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands)

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents

For financial reporting purposes, cash equivalents consist of all highly liquid investments purchased with original maturities of three months or less. At February 28, 1998, such cash equivalents consist principally of corporate commercial paper.

10. Cash Flows

Net cash flows from operating activities include cash payments for interest and income taxes as follows:

	1998	1997	1996
Interest	$20,324	$21,887	$22,758
Income taxes	35,936	72,586	84,495

SEABOARD CORPORATION (DEC)

Consolidated Statements of Cash Flows

(Thousands of dollars)	1998	1997	1996
Cash flows from operating activities:			
Net earnings	$ 52,355	$ 30,574	$ 5,846
Adjustments to reconcile net earnings to cash from operating activities:			
Depreciation and amortization	58,564	56,896	50,914
Loss from foreign affiliates	17,105	8,733	2,966
Deferred income taxes	10,884	2,719	9,301
Gain from sale of fixed assets	(3,278)	(1,334)	(1,977)
Gain from disposition of businesses	(54,544)	—	—
Changes in current assets and liabilities (net of businesses acquired and disposed):			
Receivables, net of allowance	9,982	(19,711)	(66,575)
Inventories	36,164	(25,323)	(72,858)
Prepaid expenses and deposits	(770)	(1,215)	(79)
Current liabilities exclusive of debt	(24,855)	64,529	(1,825)
Other, net	(759)	5,242	1,525
Net cash from operating activities	100,848	121,110	(72,762)
Cash flows from investing activities:			
Purchase of investments	(446,868)	(277,437)	(327,020)
Proceeds from the sale of investments	311,433	193,303	300,265
Proceeds from the maturity of investments	85,053	65,754	71,202
Capital expenditures	(45,543)	(85,482)	(110,491)
Investments in and advances to foreign affiliates	(48,586)	(41,834)	(6,476)
Proceeds from the sale of fixed assets	10,953	7,872	31,831
Notes receivable	496	163	719
Investment in domestic affiliate	(2,500)	—	—
Acquisition of businesses (net of cash acquired)	(1,388)	—	—
Proceeds from disposition of businesses	72,359	—	—
Net cash from investing acitivities	(64,591)	(137,661)	(39,970)
Cash flows from financing activities:			
Notes payable to banks, net	(15,025)	7,288	116,342
Proceeds from issuance of long-term debt	—	10,213	10,000
Principal payments of long-term debt	(7,581)	(1,323)	(12,394)
Deferred grant revenue	—	—	350
Dividends paid	(1,487)	(1,487)	(1,487)
Bond construction fund	—	(1,055)	5,859
Net cash from financing activities	(24,093)	13,636	118,670
Net change in cash and cash equivalents	12,164	(2,915)	5,938
Cash and cash equivalents at beginning of year	8,552	11,467	5,529
Cash and cash equivalents at end of year	$ 20,716	$ 8,552	$ 11,467

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all demand deposits and overnight investments as cash equivalents. Included in accounts payable are outstanding checks in excess of cash balances of $19,997,000 and $22,487,000 at December 31, 1998 and 1997, respectively. The amounts paid (received) for income taxes and interest are as follows:

	Years ended December 31,		
(Thousands of dollars)	1998	1997	1996
Interest (net of amounts capitalized)	$32,135	30,284	27,120
Income taxes	$10,308	(6,817)	(10,362)

Loans Receivable

GANNETT CO., INC. (DEC)

Consolidated Statements of Cash Flows

(In thousands of dollars)	1998	1997	1996
Cash flows from operating activities			
Net income	$999,913	$712,679	$943,087
Adjustments to reconcile net income to operating cash flows			
Discontinued operations			(319,120)
Depreciation	201,683	201,100	193,011
Amortization of intangibles	108,523	99,973	94,359
Deferred income taxes	40,105	(14,244)	68,254
Other, net, including gains on sales	(360,944)	(20,166)	(117,854)
Increase in receivables	(29,732)	(41,684)	(50,046)
Decrease (increase) in inventories	11,054	(6,336)	16,489
Decrease (increase) in film broadcast rights	62	(644)	1,755
Decrease in accounts payable	(14,777)	(40,487)	(25,659)
Increase (decrease) in interest and taxes payable	7,951	(26,336)	20,784
Change in other assets and liabilities, net	6,697	17,202	(218,191)
Net cash flow from operating activities	970,535	881,057	606,869
Cash flows from investing activities			
Purchase of property, plant and equipment	(244,425)	(221,251)	(260,047)
Payments for acquistions, net of cash acquired	(369,804)	(355,343)	
Change in other investments	(16,244)	(8,099)	(17,513)
Proceeds from sale of certain assets	665,001	40,859	778,716
Collection of long-term receivables	2,409	5,388	3,248
Net cash provided by (used for) investing activities	36,937	(538,446)	504,404
Cash flows from financing activities			
Payments of long-term debt	(470,207)	(144,903)	(954,924)
Dividends paid	(218,853)	(206,557)	(197,417)
Cost of common shares repurchased	(328,956)		(1,443)
Proceeds from issuance of common stock	23,953	30,425	26,964
Net cash used for financing activities	(994,063)	(321,035)	(1,126,820)
Effect of currency exchange rate change			(236)
Increase (decrease) in cash and cash equivalents	13,409	21,576	(15,783)
Balance of cash and cash equivalents at beginning of year	52,778	31,202	46,985
Balance of cash and cash equivalents at end of year	$ 66,187	$ 52,778	$ 31,202

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Statement of Cash Flows

For purposes of this statement, the company considers its marketable securities, which are readily convertible into cash (with original maturity dates of less than 90 days) and consist of short-term investments in government securities, commercial paper and money market funds, as cash equivalents.

Cash paid in 1998, 1997 and 1996 for income taxes and for interest (net of amounts capitalized) was as follows:

(In thousands of dollars)	1998	1997	1996
Income taxes	$626,409	$506,209	$555,642
Interest	$ 84,808	$102,228	$142,395

In 1996, the company reported a $93 million after-tax non-cash gain on the exchange of broadcast stations referred to in Note 2.

Liabilities assumed in connection with 1998 and 1997 acquisitions totaled approximately $17 million and $56 million, respectively.

In 1996, the company issued 272,874 shares in settlement of previously granted stock incentive rights and the $9.9 million compensation liability for these rights was transferred to shareholders' equity. In early January 1998, 149,148 shares were issued in settlement of stock incentive rights granted for the four-year period 1994-1997, and the $6 million compensation liability for these rights was transferred to shareholders' equity. In early January 1999, 161,646 shares were issued in settlement of stock incentive rights granted for the four-year period 1995-1998.

SUPERVALU INC. (FEB)

Consolidated Statements of Cash Flows

(In thousands)	1998	1997	1996
Cash flows from operating activities			
Net earnings	$230,757	$175,044	$166,433
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Equity in earnings and gain on sale of ShopKo	(93,364)	(20,675)	(17,618)
Dividends received from ShopKo	—	4,862	6,482
Depreciation and amortization	230,082	232,071	219,084
Provision for losses on receivables	5,791	8,851	2,269
Deferred income taxes	22,680	27,877	64,567
Other adjustments, net	(3,476)	(3,100)	(12,108)
Changes in assets and liabilities, excluding effect from acquisitions:			
Receivables	(29,905)	(30,509)	17,865
Inventories	(23,297)	(58,658)	79,880
Accounts payable	38,453	(53,872)	(59,218)
Other assets and liabilities	15,214	46,898	(45,938)
Net cash provided by operating activities	392,935	328,789	421,698
Cash flows from investing activities			
Proceeds from sale of ShopKo stock	305,153	—	—
Additions to long-term notes receivable	(77,779)	(52,727)	(28,394)
Proceeds received on long-term notes receivable	39,966	43,870	64,757
Proceeds from sale of property, plant and equipment	90,169	78,825	94,733
Purchase of property, plant and equipment	(230,910)	(244,682)	(236,248)
Business acquistions, net of cash acquired	(23,523)	(4,996)	—
Other investing activities	(28,742)	(16,920)	(39,645)
Net cash provided by (used in) investing activities	74,334	(196,630)	(144,797)
Cash flows from financing activities			
Net increase (decrease) in checks outstanding, net of deposits	(23,924)	3,270	3,972
Net issuance (reduction) of short-term notes payable	14,730	(23,755)	(68,141)
Proceeds from issuance of long-term debt	15,592	3,193	257,500
Repayment of long-term debt	(84,595)	(7,612)	(308,406)
Reduction of obligations under capital leases	(24,055)	(21,205)	(17,529)
Proceeds from the sale of common stock under option plans	37,736	3,719	2,291
Dividends paid	(64,855)	(66,884)	(66,122)
Payment for purchase of treasury stock	(338,337)	(21,561)	(80,090)
Net cash used in financing activities	(467,708)	(130,835)	(276,525)
Net increase (decrease) in cash	(439)	1,324	376
Cash at beginning of year	6,539	5,215	4,839
Cash at end of year	$ 6,100	$ 6,539	$ 5,215

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Supplemental Cash Flow Information

The company's non-cash investing and financing activities were as follows:

(in thousands)	1998	1997	1996
Leased asset additions and related obligation	$39,072	$41,257	$37,769
Acquisitions:			
Fair value of assets acquired	28,114	25,169	—
Cash paid	23,570	5,014	—
Liabilities assumed	$ 4,544	$20,155	—

Payments for interest and income taxes were as follows:

(in thousands)	1998	1997	1996
Interest (net of amount capitalized)	$134,645	$136,618	$144,599
Income taxes	142,829	58,551	61,994

Purchase Method Business Combinations

INGRAM MICRO INC. (DEC)

Consolidated Statement of Cash Flows

(Dollars in 000s)	1998	1997	1996
Cash (used) provided by operating activities:			
Net income	$245,175	$193,640	$110,679
Adjustments to reconcile net income to cash (used) provided by operating activities:			
Depreciation and amortization	67,942	47,835	36,170
Deferred income taxes	3,532	8,226	(1,635)
Minority interest	—	1,387	1,189
Noncash compensation charge	4,562	7,152	23,350
Noncash interest expense on debentures	14,248	—	—
Changes in operating assets and liabilities, net of effects of acquisitions:			
Trade accounts receivable	(786,727)	(485,711)	(237,747)
Inventories	(445,324)	(542,886)	(239,054)
Other current assets	(17,473)	(61,642)	(46,291)
Accounts payable	694,880	92,396	399,995
Accrued expenses	(59,348)	91,912	31,372
Cash (used) provided by operating activities	(278,533)	(647,691)	78,028
Cash (used) provided by investing activities:			
Purchase of property and equipment	(143,236)	(101,458)	(105,584)
Proceeds from sale of property and equipment	75,321	12,963	—
Acquisitions, net of cash acquired	(95,550)	(33,960)	—
Equity investment in ERL	—	(71,212)	—
Purchase of available-for-sale securities	(50,262)	—	—
Other	(3,867)	320	(1,596)
Cash (used) by investing activities	(218,594)	(193,347)	(107,180)
Cash provided (used) by financing activities:			
Proceeds from sale of Class A Common Stock	—	—	393,844
Proceeds from (repurchase of) Redeemable Class B Common Stock	(650)	(630)	17,223
Exercise of stock options including tax benefits	93,863	28,410	11,331
(Repayment) of borrowings from Ingram Industries	—	—	(513,792)
(Repayment) of proceeds of debt	(80,689)	90,219	49,717
Proceeds from issuance of convertible debentures, net of issuance costs	449,604	—	—
Net borrowings under revolving credit facilities	34,978	770,367	80,618
Distribution to Ingram Industries	—	—	(20,000)
Minority interest investment	—	—	2,400
Cash provided by financing activities	497,106	888,366	21,341
Effect of exchange rate changes on cash	4,491	(3,395)	(826)
Increase (decrease) in cash	4,470	43,933	(8,637)
Cash, beginning of year	92,212	48,279	56,916
Cash, end of year	$ 96,682	$ 92,212	$ 48,279
Supplemental disclosure of cash flow information:			
Cash payments during the year:			
Interest	$ 61,706	$ 36,185	$ 50,071
Income taxes	109,108	107,129	101,091

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Significant Accounting Policies

Cash

Book overdrafts of $228,556 and $108,399, as of January 2, 1999, and January 3, 1998, respectively, are included in accounts payable. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

4 (In Part): Acquisitions

In July 1998, the Company completed the acquisition of Tech Data Corporation's 99% and 91% interest in the outstanding common and preferred stock, respectively, of Macrotron AG ("Macrotron") for approximately $100,000 in cash. Macrotron is based in Munich, Germany, and operates primarily in Germany, Austria, and Switzerland. The acquisition was accounted for using the purchase method, and the results of Macrotron's operations have been combined with those of the Company since July 1, 1998, the effective date of acquisition. The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price over the net assets acquired is approximately $80,000 and is being amortized on a straight-line basis over 30 years.

In June 1998, the Company completed its acquisition of Tulip Computer N.V.'s assembly facility and related business in 's-Hertogenbosch, The Netherlands. In October 1998, the Company completed its purchase of the remaining 30% minority interest in Ingram Dicom S.A. de C.V. ("Dicom"), a Mexican subsidiary. In December 1998, the Company completed the acquisition of Nordemaq Commercial de Maquinas Nordeste Ltda, a Brazilian computer products distributor. The combined consideration paid was approximately $19,000. The acquisitions were accounted for using the purchase method of accounting and the results of operations have been combined with those of the Company since the respective dates of acquisition. The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price over net assets acquired for these acquisitions totaled approximately $9,000 and is being amortized on a straight-line basis over 20 years.

Pro forma finanical information has not been presented because the effect of the 1998 acquisitions was not significant.

TEKTRONIX, INC. (MAY)

Consolidated Statements of Cash Flows

(In thousands)	1998	1997	1996
Cash flows from operating activities			
Net earnings	$ 82,285	$114,785	$ 99,586
Adjustments to reconcile net earnings to cash provided by operating activities:			
Depreciation expense	65,939	59,591	47,137
Inventory write-down related to restructuring	38,482	—	—
Non-recurring charges	40,478	—	—
Deferred taxes	(5,400)	14,425	26,041
Gain on sale of investments	(28,244)	(27,678)	(20,197)
Changes in operating assets and liabilities:			
Accounts receivable	(35,640)	66,403	(66,647)
Inventories	(4,856)	26,754	(19,681)
Other current needs	(5,119)	22,213	864
Accounts payable	21,027	(179)	1,037
Accrued compensation	4,087	(28,580)	14,026
Other liabilities	3,047	5,672	(33,622)
Other—net	(8,326)	8,923	661
Net cash provided by operating activities	167,760	262,329	49,205
Cash flows from investing activities			
Acquisition of property, plant and equipment	(155,066)	(112,005)	(106,708)
Acquisition of business	(46,600)	—	—
Proceeds from sale of fixed assets	5,819	9,073	19,776
Proceeds from sale of investments	37,003	33,848	23,263
Net cash provided by investing activities	(158,844)	(69,084)	(63,669)
Cash flows from financing activities			
Net change in short-term debt	(517)	(38,451)	7,339
Issuance of long-term debt	172	358	50,000
Repayment of long-term debt	(1,023)	(50,609)	(3,020)
Issuance of common stock	35,358	26,018	18,104
Repurchase of common stock	(38,422)	(3,797)	(29,985)
Dividends	(23,188)	(19,809)	(19,944)
Net cash provided (used) by financing activities	(27,620)	(86,290)	22,494
Effect of exchange rate changes	(3,481)	(873)	(3,147)
Increase (decrease) in cash and cash equivalents	(22,185)	106,082	4,883
Cash and cash equivalents at beginning of year	142,726	36,644	31,761
Cash and cash equivalents at end of year	$120,541	$142,726	$ 36,644
Supplemental disclosures of cash flows			
Income taxes paid	$ 19,981	$ 13,663	$ 18,669
Interest paid	12,571	14,633	16,594

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.

Acquisition

On September 30, 1997, the Company acquired Siemen's Communications Test Equipment GMbH (CTE), a wholly owned subsidiary of Siemens AG based in Berlin, Germany, for $46.6 million in cash, including direct acquisition costs. The transaction was accounted for by the purchase method of accounting, and accordingly, the results of operations of CTE have been included in the Company's financial statements since the date of acquisition. Pro forma comparative results of operations are not presented because they are not materially different from the Company's reported results of operations. The purchase price was allocated as follows:

(In thousands)	1998
Fair value of identified net assets acquired	$ 6,600
Acquired in-process research and development	17,000
Identified intangibles	23,000
Total purchase price	$46,600

Acquired in-process research and development of $17.0 million was expensed in the second quarter of the current year (see Non-recurring Charges below).

The identified intangibles include $18.0 million of completed technology and $5.0 million of workforce-in-place and are being amortized on a straight-line basis over 15 years.

Sale-leaseback of Real Estate

BECKMAN COULTER, INC. (DEC)

Consolidated Statements of Cash Flows

(In millions)	1998	1997	1996
Cash flows from operating activities			
Net earnings (loss)	$33.5	$(264.4)	$74.7
Adjustments to reconcile net earnings (loss) to net cash (used) provided by operating activities			
Depreciation and amortization	152.4	109.1	87.8
Net deferred income taxes	(5.0)	(5.1)	11.3
Write-off of acquired in-process research and development	—	282.0	—
Proceeds from sale of sales-type lease receivables	68.9	35.7	—
Changes in assets and liabilities, net of acquisitions			
Trade and other receivables	(58.3)	(53.1)	(26.1)
Inventories	23.9	18.2	(26.4)
Accounts payable and accrued expenses	(191.0)	(3.4)	30.7
Accrued restructuring costs	(5.4)	44.4	(10.6)
Accrued income taxes	(8.4)	1.0	7.0
Other	(12.4)	(26.6)	(9.3)
Net cash (used) provided by operating activities	(1.8)	137.8	139.1
Cash flows from investing activities			
Additions to property, plant and equipment	(165.2)	(100.9)	(110.5)
Proceeds from sale-leaseback of instruments subject to customer lease	—	39.6	—
Proceeds from sale-leaseback of real estate	242.8	—	—
Net disposals of property, plant and equipment	45.4	18.4	18.7
Sales of short-term investments	0.4	7.7	0.2
Investments and acquisitions	—	(893.9)	(23.0)
Net cash provided (used) by investing activities	123.4	(929.1)	(114.6)
Cash flows from financing activities			
Dividends to stockholders	(17.1)	(16.6)	(14.7)
Proceeds from issuance of stock	28.6	23.1	21.5
Purchases of treasury stock	—	(43.7)	(35.9)
Net notes payable borrowings (reductions)	56.6	11.7	(2.4)
Long-term debt borrowings	411.0	1,164.2	128.3
Long-term debt reductions	(609.1)	(348.1)	(113.0)
Net cash (used) provided by financing activities	(130.0)	790.6	(16.2)
Effect of exchange rates on cash and equivalents	—	(0.8)	0.1
(Decrease) increase in cash and equivalents	(8.4)	(1.5)	8.4
Cash and equivalents—beginning of year	33.1	34.6	26.2
Cash and equivalents—end of year	$24.7	$ 33.1	$34.6
Supplemental disclosures of cash flow information			
Cash payments for interest	$88.4	$ 18.7	$18.3
Cash payments for income taxes	21.5	12.9	19.2
Noncash investing and financing activities			
Conversion of notes receivable	—	—	8.1
Minimum pension liability	—	—	(9.9)
Purchase of equipment under capital lease obligation	9.7	9.8	6.9
Issuance of restricted stock as employee compensation	0.3	2.2	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Nature of Business and Summary of Significant Accounting Policies

Cash and Equivalents

Cash and equivalents include cash in banks, time deposits and investments having maturities of three months or less from the date of acquisition.

Hedging Activities

THE BLACK & DECKER CORPORATION (DEC)

Consolidated Statement of Cash Flows

(Millions of dollars)	1998	1997	1996
Operating activities			
Net earnings (loss)	$(754.8)	$227.2	$229.6
Adjustments to reconcile net earnings (loss) to cash flow from operating activities of continuing operations:			
Gain on sale of businesses	(114.5)	—	—
Non-cash charges and credits:			
Goodwill write-off	900.0	—	—
Restructuring charges and exit costs	164.7	—	91.3
Depreciation and amortization	155.2	214.2	214.6
Deferred income taxes	67.5	71.7	2.9
Other	(1.7)	1.5	1.2
Earnings of discontinued operations	—	—	(70.4)
Changes in selected working capital items (excluding, for 1998, effects of divested businesses):			
Trade receivables	(24.3)	(85.1)	(10.0)
Inventories	26.9	(63.7)	107.5
Trade accounts payable	16.9	2.3	(21.4)
Restructuring spending	(55.6)	(27.4)	(39.2)
Other assets and liabilities	(14.0)	12.5	(42.7)
Net decrease in receivables sold	—	(212.0)	(18.0)
Cash flow from operating activities of continuing operations	366.3	141.2	445.4
Cash flow from operating activities of discontinued operations	—	—	(12.4)
Cash flow from operating activities	366.3	141.2	433.0
Investing activities			
Proceeds from sale of businesses, net of selling expenses	653.6	—	—
Proceeds from sale of discontinued operations	—	—	413.6
Proceeds from disposal of assets	20.4	13.4	31.5
Capital expenditures	(146.0)	(203.1)	(196.3)
Cash inflow from hedging activities	343.5	384.8	392.9
Cash outflow from hedging activities	(340.1)	(357.9)	(398.3)
Cash flow from investing activities	531.4	(162.8)	243.4
Cash flow before financing activities	897.7	(21.6)	676.4
Financing activities			
Net decrease in short-term borrowings	(23.2)	(18.4)	(360.9)
Proceeds from long-term debt (including revolving credit facility)	586.6	667.2	461.1
Payments on long-term debt (including revolving credit facility)	(1,096.3)	(483.9)	(735.2)
Debt issue costs paid	(2.9)	—	—
Redemption of preferred stock of subsidiary	(41.7)	—	—
Purchase of common stock	(464.3)	—	—
Issuance of common stock	31.3	10.1	22.3
Cash dividends	(43.8)	(45.4)	(54.6)
Cash flow from financing activities	(1,054.3)	129.6	(667.3)
Effect of exchange rate changes on cash	(2.3)	(3.0)	1.1
(Decrease) increase in cash and cash equivalents	(158.9)	105.0	10.2
Cash and cash equivalents at beginning of year	246.8	141.8	131.6
Cash and cash equivalents at end of year	$ 87.9	$246.8	$141.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of 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.

Derivative Financial Instruments: Cash effects of the Corporation's derivative financial instruments are included in the Consolidated Statement of Cash Flows in the periods in which they occur. Except as noted below, the cash effects of the Corporation's interest rate swaps and caps, foreign currency transaction hedges, hedges of foreign currency firm commitments, and hedges of forecasted transactions are included in the Consolidated Statement of Cash Flows as cash flow from operating activities. The cash effects of hedges of net investments in subsidiaries located outside of the United States are included in the Consolidated Statement of Cash Flows as cash flow from investing activities. The cash effects of the exchange of notional principal amounts on interest rate swaps that swap from fixed United States dollars to fixed or variable foreign currencies are included in the Consolidated Statement of Cash Flows as cash flow from investing activities because such amounts have been designated as hedges of net investments in subsidiaries located outside of the United States.

9 (In Part): Long-Term Debt

Interest payments on all indebtedness were $160.8 million in 1998, $159.3 million in 1997 and $170.7 million in 1996.

14 (In Part): Income Taxes

Income tax payments were $95.4 million in 1998, $60.2 million in 1997 and $40.8 million in 1996.

Restricted Assets

HOMASOTE COMPANY (DEC)

Consolidated Statements of Cash Flows

	1998	1997	1996
Cash flow from operating activities:			
Net (loss) earnings	$ (698,229)	$(445,778)	$ 708,489
Adjustments to reconcile net (loss) earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,365,692	888,944	606,830
Gain on disposal of fixed assets	(4,065)	(10,942)	(13,219)
Deferred income taxes	21,061	21,903	42,439
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable, net	314,544	(339,108)	(223,983)
(Increase) decrease in inventories	(1,177,828)	434,897	671,546
Decrease in prepaid income taxes	—	—	294,291
Increase in other assets	(280,086)	(341,565)	(223,697)
Decrease (increase) in refundable income taxes	214,327	(432,704)	—
Decrease (increase) in prepaid expenses and other current assets	242,342	(229,834)	54,664
(Decrease) increase in accounts payable	(22,469)	439,528	259,356
Increase (decrease) in accrued expenses	170,617	(335,624)	492,516
Increase in other liabilities	1,378,148	120,610	128,269
Net cash provided by (used in) operating activities	1,524,054	(229,673)	2,797,501
Cash flows from investing activities:			
Proceeds from sale of equipment	6,100	21,803	13,219
Capital expenditures	(1,284,154)	(4,291,324)	(2,444,627)
(Increase) decrease in restricted cash	(626,353)	2,420,125	(2,957,373)
Net cash used in investing activities	(1,904,407)	(1,849,396)	(5,388,781)
Cash flows from financing activities:			
Proceeds from issuance of short-term debt	1,000,000	1,000,000	1,000,000
Repayment of short-term debt	—	—	(1,775,000)
Repayment of long-term debt	(392,500)	(185,000)	—
Cash dividends paid	—	(90,300)	(165,694)
Proceeds from sale of treasury stock	58,650	32,500	—
Purchase of treasury stock	(62,132)	(466,042)	(23,700)
Proceeds from bond issue	—	—	4,140,000
Debt acquisition costs	—	—	(233,292)
Net cash provided by financing activities	604,018	291,158	2,942,314
Net increase (decrease) in cash and cash equivalents	223,665	(1,787,911)	351,034
Cash and cash equivalents at beginning of year	892,150	2,680,061	2,329,027
Cash and cash equivalents at end of year	$1,115,815	$ 892,150	$2,680,061
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 284,277	$ 185,678	$ 90,323
Income taxes	$ —	$ 479,640	$ 53,294

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Capital Gains Tax Recovery

THE QUAKER OATS COMPANY (DEC)

Consolidated Statements of Cash Flows

(Dollars in millions)	1998	1997	1996
Cash flows from operating activities:			
Net income (loss)	$284.5	$(930.9)	$247.9
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	132.5	161.4	200.6
Deferred income taxes	(31.1)	(12.0)	14.3
(Gains) losses on divestitures—net of tax of $(27.4), $(269.0) and $54.6 in 1998, 1997 and 1996, respectively	(26.7)	1,151.4	(81.8)
Restructuring charges	89.7	65.9	23.0
Asset impairment losses	38.1	39.8	—
Loss on disposition of property and equipment	11.9	41.6	29.0
Decrease (increase) in trade accounts receivable	5.6	(61.0)	62.6
(Increase) decrease in inventories	(32.8)	(24.5)	19.6
(Increase) decrease in other current assets	(15.1)	(11.6)	65.1
Decrease in trade accounts payable	(20.0)	(3.2)	(53.7)
Increase (decrease) in other current liabilities	21.3	9.8	(164.2)
Change in deferred compensation	32.2	20.1	21.5
Other items	23.4	43.2	26.5
Net cash provided by operating activities	513.5	490.0	410.4
Cash flows from investing activities:			
Capital gains tax recovery	240.0	—	—
Additions to property, plant and equipment	(204.7)	(215.7)	(242.7)
Business divestitures—net of tax of $54.6 in 1996	265.9	300.0	174.4
Purchase of marketable securities	(165.5)	—	—
Proceeds from sale of marketable securities	143.1	—	—
Proceeds from sale of property, plant and equipment	7.7	—	—
Change in other assets	—	—	0.2
Net cash provided by (used in) investing activities	286.5	84.3	(68.1)
Cash flows from financing activities:			
Cash dividends	(159.7)	(159.4)	(157.0)
Change in short-term debt	(17.2)	(452.9)	(124.5)
Proceeds from long-term debt	1.9	8.3	2.4
Reduction of long-term debt	(108.7)	(54.4)	(77.7)
Issuance of common treasury stock	112.0	121.2	31.0
Repurchases of common stock	(377.3)	(50.0)	—
Repurchases of preferred stock	(7.6)	(6.2)	(5.5)
Net cash used in financing activities	(556.6)	(593.4)	(331.3)
Effect of exchange rate changes on cash and cash equivalents	(1.0)	(7.2)	6.3
Net increase (decrease) in cash and cash equivalents	242.4	(26.3)	17.3
Cash and cash equivalents—beginning of period	84.2	110.5	93.2
Cash and cash equivalents—end of period	$326.6	$ 84.2	$110.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 totaled $40.8 million and $45.1 million as of December 31, 1998 and 1997, respectively.

13 (In Part): Interest Expense

Interest paid in the years ended December 31, 1998, 1997 and 1996, was $68.8 million, $83.2 million and $109.0 million, respectively.

14 (In Part): Income Taxes

As a result of the loss on the divestiture of Snapple in 1997, the Company recovered $240.0 million in Federal taxes paid on previous capital gains from business divestitures and expects to recover an additional $10.0 million in state taxes. Included in other current assets as a tax receivable related to these recoveries is $10.0 million and $250.0 million as of December 31, 1998 and 1997, respectively.

Income taxes (refunded) paid during 1998, 1997 and 1996 were $(110.4) million, $92.9 million and $161.1 million, respectively. The net amount refunded in 1998 includes the $240.0 million recovery of Federal taxes paid on previous capital gains.

Joint Venture Formation Payments

TEXACO INC. (DEC)

Statement of Consolidated Cash Flows

(Millions of dollars)	1998	1997	1996
Operating activities			
Net income	$ 578	$ 2,664	$ 2,018
Reconciliation to net cash provided by (used in) operating activities			
Cumulative effect of accounting change	25	—	—
Depreciation, depletion and amortization	1,675	1,633	1,455
Deferred income taxes	(152)	451	(20)
Exploratory expenses	461	471	379
Minority interest in net income	56	68	72
Dividends from affiliates, greater than (less than) equity in income	224	(370)	167
Gains on asset sales	(109)	(558)	(19)
Changes in operating working capital			
Accounts and notes receivable	125	718	(1,072)
Inventories	(51)	(56)	(104)
Accounts payable and accrued liabilities	16	(856)	716
Other—mainly estimated income and other taxes	(205)	(64)	97
Other—net	(99)	(186)	73
Net cash provided by operating activities	2,544	3,915	3,762
Investing activities			
Capital and exploratory expenditures	(3,101)	(3,628)	(2,897)
Proceeds from asset sales	282	1,036	125
Proceeds from sale of discontinued operations	—	—	344
Sales (purchases) of leasehold interests	25	(503)	261
Purchases of investment instruments	(947)	(1,102)	(1,668)
Sales/maturities of investment instruments	1,118	1,096	1,816
Formation payments from U.S. affiliate	612	—	—
Other—net	—	(57)	70
Net cash used in investing activities	(2,011)	(3,158)	(1,949)
Financing activities			
Borrowings having original terms in excess of three months			
Proceeds	1,300	507	307
Repayments	(741)	(637)	(802)
Net increase (decrease) in other borrowings	493	628	(143)
Purchases of common stock	(579)	(382)	(159)
Dividends paid to the company's stockholders			
Common	(952)	(918)	(859)
Preferred	(53)	(55)	(58)
Dividends paid to minority stockholders	(52)	(81)	(87)
Net cash used in financing activities	(584)	(938)	(1,801)
Cash and cash equivalents			
Effect of exchange rate changes	(11)	(19)	(2)
Increase (decrease) during year	(62)	(200)	10
Beginning of year	311	511	501
End of year	$ 249	$ 311	$ 511

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Investments and Advances

Equilon Enterprises LLC

Effective January 1, 1998, Texaco and Shell Oil Company formed Equilon Enterprises LLC (Equilon), a Delaware limited liability company. Equilon is a joint venture that combined 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 Oil Company owns 56% of Equilon.

The carrying amounts at January 1, 1998, of the principal assets and liabilities of the businesses Texaco contributed to Equilon were $.2 billion of net working capital assets, $2.8 billion of net properties, plant and equipment and $.2 billion of debt. These amounts were reclassified to investment in affiliates accounted for by the equity method.

In April 1998, Texaco received $463 million from Equilon, representing reimbursement of certain capital expenditures incurred prior to the formation of the joint venture. In July 1998, Texaco received $149 million from Equilon for certain specifically identified assets transferred for value to Equilon.

9 (In Part): Taxes

Income taxes paid, net of refunds, amounted to $430 million, $285 million and $917 million in 1998, 1997 and 1996.

10 (In Part): Short-Term Debt, Long-Term Debt, Capital Lease Obligations and Related Derivatives

Interest paid, net of amounts capitalized, amounted to $474 million in 1998, $395 million in 1997 and $433 million in 1996.

Property Insurance Proceeds

WORTHINGTON INDUSTRIES, INC. (MAY)

Consolidated Statements of Cash Flows

(Dollars in thousands)	1998	1997	1996
Operating activities			
Net earnings	$118,412	$93,318	$100,973
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	61,459	51,388	41,458
Provision for deferred income taxes	22,104	3,326	9,884
Equity in undistributed net income of unconsolidated affiliates	(5,729)	(9,625)	(25,153)
Minority interest	(553)	(27)	—
Extraordinary gain	(29,795)	—	—
Changes in assets and liabilities:			
Accounts receivable	(43,319)	(8,005)	8,573
Inventories	7,977	(70,322)	32,713
Prepaid expenses and other current assets	(10,920)	8,331	2,732
Other assets	(1,319)	(2,801)	(2,412)
Accounts payable and accrued expenses	76,637	11,658	(22,118)
Other liabilities	5,949	1,122	(457)
Net cash provided by operating activities	200,903	78,363	146,193
Investing activities:			
Investment in property, plant and equipment, net	(309,412)	(172,905)	(119,286)
Acquisitions, net of cash acquired	—	(69,942)	(169,391)
Investments in unconsolidated affiliates	—	(5,420)	(8,315)
Proceeds from property insurance	38,683	—	—
Net cash used by investing activities	(270,729)	(248,267)	(296,992)
Financing activities:			
Proceeds from (payments on) short-term borrowings	86,600	50,000	(38,200)
Proceeds from long-term debt	152,868	165,715	425,974
Principal payments on long-term debt	(155,401)	(23,589)	(180,473)
Proceeds from issuance of common shares	2,955	4,011	3,370
Proceeds from minority interest	34,081	8,904	—
Repurchase of common shares	(4,390)	(1,211)	(4,222)
Dividends paid	(50,311)	(44,294)	(39,963)
Net cash provided by financing activities	66,402	159,536	166,486
Increase (decrease) in cash and cash equivalents	(3,424)	(10,368)	15,687
Cash and cash equivalents at beginning of year	7,212	17,580	1,893
Cash and cash equivalents at end of year	$ 3,788	$ 7,212	$ 17,580

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Cash and Cash Equivalents: The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Statements of Cash Flows: Supplemental cash flow information for the years ended May 31 is as follows:

(In thousands)	1998	1997	1996
Interest paid	$32,414	$26,587	$11,273
Income taxes paid	$48,470	$58,912	$51,346

M (In Part): Extraordinary Item—Involuntary Conversion of Assets

On August 14, 1997, the Company experienced a fire at its steel processing facility in Monroe, Ohio. The fire significantly damaged the pickling area of the facility and caused less extensive damage to the remainder of the plant. The Company shifted as much business as possible to its other locations, with the remainder being sent to third party processors. Blanking and slitting operations resumed in fiscal 1998 and pickling is expected to resume by the first half of fiscal 1999.

The Company carries both property damage and business interruption insurance and as a result, Management does not expect the fire to have a material adverse impact on the Company's financial results. The total loss from business interruption, extra expenses and property damage is expected to be in excess of $75 million.

The Company settled the property portion of the insurance claim and the business interruption portion through February 28, 1998. The property settlement, $38,683,000, resulted in an extraordinary gain as these proceeds were for "replacement value," which was significantly in excess of the remaining book value. The breakdown of the extraordinary item shown on the consolidated statements of earnings is as follows:

(In thousands)	
Proceeds	$38,683
Less book value	8,888
Gain on involuntary conversion	29,795
Income tax provision	11,024
	$18,771

Insurance proceeds received in the settlement were as follows:

(In thousands)	
Property and equipment	$38,683
Inventory	2,500
Business interruption	12,800
Other expenses	7,917
	$61,900

The proceeds related to damaged inventory approximated cost. The proceeds related to business interruption are $6,060,000 for lost operating income which is included in net sales, and $6,740,000 for costs incurred to mitigate the loss which have been recorded as a reduction of the related expense. The proceeds for other expenses represent reimbursement for non-recurring expenses related to the fire and were recorded as a reduction of manufacturing costs.

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

BECTON, DICKINSON AND COMPANY (SEP)

Consolidated Statements of Cash Flows

(Thousands of dollars)	1998	1997	1996
Operating activities			
Net income	$236,658	$300,074	$283,447
Adjustments to net income to derive net cash provided by operating activities:			
Depreciation and amortization	228,749	209,771	200,482
Non-cash special charges	58,445	—	—
Deferred income taxes	(32,332)	(29,695)	(13,497)
Purchased in-process research and development	30,000	14,750	—
Change in operating assets (excludes impact of acquisitions):			
Trade receivables	(77,649)	(30,014)	(21,589)
Inventories	(54,066)	(24,074)	(10,141)
Prepaid expenses, deferred taxes and other	(42,378)	8,301	(20,581)
Accounts payable, income taxes and other liabilities	133,500	(11,760)	28,596
Other, net	19,925	5,394	13,726
Net cash provided by operating activities	500,762	442,747	460,443
Investing activities			
Capital expenditures	(181,416)	(170,349)	(145,929)
Acquisitions of businesses, net of cash acquired	(536,501)	(200,832)	(16,501)
Proceeds from dispositions of businesses	—	24,343	38,027
(Purchases) proceeds of short-term investments, net	(3,197)	2,544	5,190
Proceeds from sales of long-term investments	26,709	31,307	29,208
Purchases of long-term investments	(18,925)	(6,000)	(3,125)
Other, net	(56,438)	(45,079)	(16,736)
Net cash used for investing activities	(769,768)	(364,066)	(109,866)
Financing activities			
Change in short-term debt	127,802	(77,687)	71,103
Proceeds of long-term debt	190,639	292,168	—
Payment of long-term debt	(2,951)	(118,686)	(130,597)
Issuance of common stock	46,013	29,393	35,366
Repurchase of common stock	(44,476)	(150,003)	(325,874)
Dividends paid	(75,332)	(67,161)	(61,660)
Net cash provided by (used for) financing activities	241,695	(91,976)	(411,662)
Effect if exchange rate changes on cash and equivalents	(2,077)	(9,217)	(2,270)
Net decrease in cash and equivalents	(29,388)	(22,512)	(63,355)
Opening cash and equivalents	112,639	135,151	198,506
Closing cash and equivalents	$ 83,251	$112,639	$135,151

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents

Cash equivalents are stated at cost plus accrued interest, which approximates market. The Company considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents.

7 (In Part): Income Taxes

The Company made income tax payments, net of refunds, of $117,321 in 1998, $151,050 in 1997 and $126,236 in 1996.

9 (In Part): Debt

Interest paid, net of amounts capitalized, was $64,160 in 1998, $48,573 in 1997, and $59,053 in 1996.

BRIGGS & STRATTON CORPORATION (JUN)

Consolidated Statements of Cash Flows

(In thousands)	1998	1997	1996
Cash flows from operating activities:			
Net income	$ 70,645	$ 61,565	$ 92,412
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	47,511	43,345	43,032
Amortization of discount on 7.25% notes due 2007	205	17	—
Loss on disposition of plant and equipment	1,973	1,608	2,692
Provision for deferred income taxes	7,735	(16,105)	770
Change in operating assets and liabilities:			
(Increase) in receivables	(6,752)	(10,531)	(25,230)
Decrease in inventories	18,081	11,446	3,271
(Increase) in other current assets	(3,606)	(2,396)	(2,895)
Increase (decrease) in accounts payable, accrued liabilities and income taxes	8,274	25,378	(15,595)
Other, net	(7,676)	28,590	(3,961)
Net cash provided by operating activities	136,390	142,917	94,496
Cash flows from investing activities:			
Additions to plant and equipment	(45,893)	(71,262)	(77,746)
Proceeds received on sale of plant and equipment	620	4,133	1,069
Proceeds received on sale of Menomonee Falls, Wisconsin facility	—	15,966	—
Net cash used in investing activities	(45,273)	(51,163)	(76,677)
Cash flows from financing activities:			
Net borrowings (repayments) on loans and notes payable	677	(1,563)	(6,481)
Net borrowings on 7.25% notes due 2007	—	97,880	—
Repayment on 9.21% senior notes due 2001	(15,000)	(15,000)	—
Cash dividends paid	(27,522)	(30,549)	(30,373)
Purchase of common stock for treasury	(85,943)	(179,924)	(1,185)
Proceeds from exercise of stock options	9,288	185	385
Net cash used in financing activities	(118,500)	(128,971)	(37,654)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(949)	(563)	(174)
Net increase (decrease) in cash and cash equivalents	(28,332)	(37,780)	(20,009)
Cash and cash equivalents:			
Beginning of year	112,859	150,639	170,648
End of year	$ 84,527	$112,859	$150,639
Supplemental disclosure of cash flow information:			
Interest paid	$ 17,989	$ 9,298	$ 10,137
Income taxes paid	$ 33,352	$ 49,707	$ 48,865

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 (In Part): Summary of Significant Accounting Policies

Cash and Cash Equivalents

This caption includes cash, commercial paper and certificates of deposit. The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Debt Proceeds/Repayments

CUMMINS ENGINE COMPANY, INC. (DEC)

Consolidated Statement of Cash Flows

(Millions)	1998	1997	1996
Cash flows from operating activities:			
Net earnings (loss)	$ (21)	$212	$160
Adjustments to reconcile net earnings (loss) to net cash from operating activities:			
Depreciation and amortization	199	158	149
Restructuring actions	110	(24)	(42)
Equity in (earnings) losses of joint ventures and alliances	38	(1)	11
Receivables	(10)	(80)	(56)
Inventories	(26)	(65)	(62)
Accounts payable and accrued expenses	56	(18)	28
Deferred income taxes	(65)	22	17
Other	(10)	(4)	(12)
Total adjustments	292	(12)	33
	271	200	193
Cash flows from investing activities:			
Property, plant and equipment:			
Additions	(271)	(405)	(304)
Disposals	7	21	26
Investments in joint ventures and alliances	(22)	(47)	(5)
Acquisitions and dispositions of business activities	(468)	76	10
Other	2	1	14
	(752)	(354)	(259)
Net cash used in operating and investing activities	(481)	(154)	(66)
Cash flows from financing activities:			
Proceeds from borrowings	711	281	200
Payments on borrowings	(161)	(50)	(47)
Net (payments) borrowings under credit agreements	(30)	(12)	32
Repurchases of common stock	(14)	(75)	(34)
Dividend payments	(46)	(45)	(40)
Other	11	(3)	(1)
	471	96	110
Effect of exchange rate changes on cash	(1)	(1)	4
Net change in cash and cash equivalents	(11)	(59)	48
Cash and cash equivalents at beginning of year	49	108	60
Cash and cash equivalents at end of year	$ 38	$ 49	$ 108
Cash payments during the year for:			
Interest	$ 56	$ 21	$ 16
Income taxes	73	42	40

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Cash Equivalents

Cash equivalents include all highly liquid investments with an original maturity of three months or less at time of purchase.

GENUINE PARTS COMPANY (DEC)

Consolidated Statements of Cash Flows

(Dollars in thousands)	1998	1997	1996
Operating activities			
Net income	$355,794	$342,397	$330,076
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	69,305	58,867	50,445
Gain on sale of property, plant and equipment	(1,664)	(5,014)	(786)
Provision for deferred taxes	10,379	13,843	13,930
Equity in income of investees	(3,329)	(6,730)	(9,398)
Income applicable to minority interests	2,709	1,546	2,586
Changes in operating assets and liabilities:			
Trade accounts receivable	(74,165)	(63,715)	(57,531)
Merchandise inventories	(107,290)	(87,777)	(106,364)
Other current assets	(3,372)	1,033	13,333
Trade accounts payable	14,158	3,299	70,138
Other current liabilities	21,760	(7,140)	21,586
	(71,509)	(91,788)	(2,061)
Net cash provided by operating activities	284,285	250,609	328,015
Investing activities			
Purchase of property, plant and equipment	(88,261)	(90,425)	(95,158)
Proceeds from sale of property, plant and equipment	67,522	11,580	4,385
Acquisition of businesses, net of cash acquired	(310,911)	(16,045)	(413)
Other investing activities	6,088	(7,870)	(22,893)
Net cash used in investing activities	(325,562)	(102,760)	(114,079)
Financing activities			
Proceeds from lines of credit and other borrowings	841,000	849,000	566,808
Payments on lines of credit and other borrowings	(782,000)	(860,000)	(564,808)
Proceeds from long-term debt	332,359	100,000	50,000
Payments on long-term debt	(92,175)	(712)	(324)
Stock options exercised	5,749	12,927	7,881
Dividends paid	(178,027)	(169,156)	(160,214)
Purchase of stock	(76,335)	(76,761)	(94,715)
Contributions from minority interests	2,905	2,303	4,555
Net cash provided by (used in) financing activities	53,476	(142,399)	(190,817)
Effect of exchange rate changes on cash	(50)	—	—
Net increase in cash and cash equivalents	12,149	5,450	23,119
Cash and cash equivalents at beginning of year	72,823	67,373	44,254
Cash and cash equivalents at end of year	$ 84,972	$ 72,823	$ 67,373
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Income taxes	$200,280	$212,178	$187,809
Interest	$ 18,867	$ 12,871	$ 8,405

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Escrow Deposits

ASARCO INCORPORATED (DEC)

Consolidated Statement of Cash Flows

(Dollars in thousands)	1998	1997	1996
Operating activities			
Net earnings (loss)	$(130,640)	$143,392	$138,336
Adjustments to reconcile net earnings (loss) to net cash provided from (used for) operating activities:			
Depreciation and depletion	144,636	130,802	118,569
Provision (benefit) for deferred income taxes	(73,373)	(12,074)	26,302
Treasury stock used for employee benefits	1,603	3,272	5,707
Undistributed equity (earnings) losses	1,348	(3,934)	(438)
Net (gain) loss on asset dispositions and impairments	30,460	(69,671)	(72,321)
Increase (decrease) in reserves for closed plant and environmental matters	(2,217)	(6,268)	12,807
Minority interests	26,659	90,605	88,331
Cash provided from (used for) operating assets and liabilities:			
Accounts receivable	37,475	88,416	(27,200)
Inventories	9,735	19,376	(23,742)
Accounts payable and accrued liabilities	363	(87,981)	49,193
Other operating assets and liabilities	12,959	27,527	(41,527)
Foreign currency transaction (gains) losses	3,266	(2,196)	(6,739)
Net cash provided from operating activities	62,274	321,266	267,278
Investing activities			
Capital expenditures	(370,782)	(322,436)	(286,474)
Sale of property and businesses	50,638	47,426	20,109
Purchase of cost investments and businesses	(40,195)	(12,650)	(5,800)
Sale of available-for-sale securities	65,462	417,831	371,058
Purchase of available-for-sale securities	(75,865)	(93,945)	(46,513)
Proceeds from held-to-maturity investments	245,246	1,036	42,455
Purchase of held-to-maturity investments	(62,634)	(204,590)	(1,002)
Net cash provided from (used for) investing activities	(188,130)	(167,328)	93,833
Financing activities			
Debt incurred	523,478	283,024	53,303
Debt repaid	(355,371)	(218,184)	(360,847)
Escrow deposits (withdrawals) on long-term loans	2,311	(15,364)	(10,064)
Treasury stock transactions	(2,103)	(99,561)	1,146
Purchase of minority interests	(5,688)	(7,272)	(5,280)
Distributions to minority interests	(21,519)	(49,417)	(58,295)
Contributions from minority interests	—	1,863	4,000
Dividends paid to common stockholders	(27,758)	(33,604)	(34,174)
Net cash provided from (used for) financing activities	113,350	(138,515)	(410,211)
Effect of exchange rate changes on cash	(5,005)	2,728	3,108
Increase (decrease) in cash and cash equivalents	(17,511)	18,151	(45,992)
Cash and cash equivalents at beginning of year	210,559	192,408	238,400
Cash and cash equivalents at end of year	$193,048	$210,559	$192,408

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents

Cash equivalents include all highly liquid investments with a maturity of three months or less, when purchased.

4 (In Part): Taxes on Income

Total taxes paid were: 1998—$19.1 million; 1997—$54.2 million; 1996 —$134.4 million.

9 (In Part): Debt and Available Credit Facilities

Interest paid by the Company (excluding amounts capitalized of $12.5 million in 1998, $5.5 million in 1997 and $2.8 million in 1996) was $70.9 million in 1998, $74.4 million in 1997 and $78.1 million in 1996.

Interest Rate Swap

AMERICAN HOME PRODUCTS CORPORATION (DEC)

Consolidated Statements of Cash Flows

(In thousands)	1998	1997	1996
Operating activities			
Net income	$2,474,338	$2,043,123	$1,883,403
Adjustments to reconcile net income to net cash provided from operating activities:			
Gains on sales of businesses	(592,084)	—	(813,532)
Special and restructuring charges	343,600	180,000	697,854
Gains on sales of other assets	(445,485)	(375,925)	(98,809)
Depreciation	371,057	394,287	367,834
Amortization	293,598	307,738	290,232
Deferred income taxes	74,472	(220,214)	101,592
Changes in working capital, net of businesses acquired or sold:			
Accounts receivable	(601,627)	(329,537)	18,675
Inventories	(121,414)	(50,927)	(213,037)
Other current assets	(198,815)	28,143	65,901
Trade accounts payable and accrued expenses	(164,648)	(171,666)	(354,132)
Accrued federal and foreign taxes	(4,008)	(80,873)	154,271
Other items, net	85,675	(28,695)	298,003
Net cash provided from operating activities	1,514,659	1,695,454	2,398,255
Investing activities			
Purchases of property, plant and equipment	(809,774)	(830,351)	(652,226)
Purchases of businesses, net of cash acquired	(425,041)	(479,694)	—
Purchase of remaining equity interest in Genetics Institute, Inc. and another subsidiary	—	—	(1,326,351)
Proceeds from sales of businesses	1,770,000	380,000	1,361,969
Proceeds from sales of other assets	592,034	494,850	121,740
Proceeds from sales of/(purchases of) marketable securities, net	(72,397)	172,236	(7,924)
Net cash provided from/(used for) investing activities	1,054,822	(262,959)	(502,792)
Financing activities			
Net repayments of debt	(1,179,657)	(976,926)	(1,783,825)
Dividends paid	(1,143,252)	(1,073,200)	(993,552)
Purchases of treasury stock	(414,603)	(11,335)	(11,382)
Exercise of stock options	403,830	369,561	412,197
Termination of interest rate swap agreements	(96,655)	—	—
Net cash used for financing activities	(2,430,337)	(1,691,900)	(2,376,562)
Effects of exchange rates on cash balances	(8,197)	(11,520)	999
Increase/(decrease) in cash and cash equivalents	130,947	(270,925)	(480,100)
Cash and cash equivalents, beginning of year	1,051,372	1,322,297	1,802,397
Cash and cash equivalents, end of year	$1,182,319	$1,051,372	$1,322,297

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents

For purposes of reporting cash flows, consist primarily of certificates of deposit, time deposits and other short-term, highly liquid securities with original maturities of three months or less and are stated at cost, which approximates fair value. The carrying value of cash equivalents approximates fair value due to the short-term, highly liquid nature of the cash equivalents.

4 (In Part): Debt and Financing Arrangements

At December 31, 1997, the Company had interest rate swap agreements outstanding with a notional amount of $2.3 billion under which the Company paid a fixed rate of interest and received a floating rate of interest over the term of the interest rate swap agreements without the exchange of the underlying notional amounts. The interest rate swap agreements converted a portion of the commercial paper from a floating rate obligation to a fixed rate obligation. The fair value of the $2.3 billion of interest rate swap agreements outstanding at December 31, 1997 was $98,463,000. The fair value of the interest rate swap agreements was not recognized in the Consolidated Financial Statements at that time since the agreements were accounted for as hedges. In 1998, proceeds from the sale of the Sherwood-Davis & Geck medical devices business were used primarily to reduce outstanding commercial paper and terminate the $2.3 billion of interest rate swap agreements. The cost to unwind these interest rate swap agreements was charged against the gain on the sale.

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Interest payments in connection with the Company's debt obligations, excluding the termination of interest rate swap agreements, for the years ended December 31, 1998, 1997 and 1996 amounted to $316,018,000, $471,120,000 and $562,733,000, respectively.

9 (In Part): Income Taxes

Total income tax payments, net of tax refunds, for the years ended December 31, 1998, 1997 and 1996 amounted to $897,361,000, $1,021,505,000 and $435,069,000, respectively.

Forward Stock Purchase Amendment

MAYTAG CORPORATION (DEC)

Consolidated Statements of Cash Flows

(In thousands)	1998	1997	1996
Operating activities			
Net income	$280,610	$180,290	$136,429
Adjustments to reconcile net income to net cash provided by operating activities:			
Extraordinary item—loss on early retirement of debt	5,900	3,200	1,548
Minority interest	8,275	7,265	1,260
Depreciation and amortization	148,554	138,163	111,279
Deferred income taxes	3,242	(7,956)	(15,341)
Changes in working capital items exclusive of business acquisitions:			
Accounts receivable	1,502	4,631	(14,234)
Inventories	(28,015)	(5,393)	(41,158)
Other current assets	(13,475)	2,281	15,124
Other current liabilities	93,257	4,047	37,899
Restructuring charge, net of cash expenditures	(2,560)	(4,869)	26,735
Pension assets and liabilities	10,121	18,124	(12,129)
Postretirement benefit liability	6,209	5,952	18,937
Other—net	26,258	11,930	(1,456)
Net cash provided by operating activities	539,878	357,665	264,893
Investing activities			
Capital expenditures	(161,251)	(229,561)	(219,902)
Investment in securities		(10,015)	
Business acquisitions, net of cash acquired		(148,283)	(29,625)
Total investing activities	(161,251)	(387,859)	(249,527)
Financing activities			
Proceeds from issuance of notes payable	14,687	60,493	34,094
Repayment of notes payable	(20,880)	(3,142)	
Proceeds from issuance of long-term debt	102,922	133,015	26,536
Repayment of long-term debt	(75,743)	(124,123)	(20,500)
Debt repurchase premiums	(5,900)	(3,200)	(1,548)
Stock repurchases	(318,139)	(138,051)	(164,439)
Forward stock purchase amendment	(63,782)		
Stock options exercised and other common stock transactions	52,643	52,308	6,795
Dividends	(70,537)	(65,243)	(57,223)
Proceeds from sale of LLC member interest		100,000	
Investment by joint venture partner	6,900	18,975	8,625
Proceeds from interest rate swaps			38,038
Total financing activities	(377,829)	31,032	(129,622)
Effect of exchange rates on cash	(147)	(390)	585
Increase (decrease) in cash and cash equivalents	651	448	(113,671)
Cash and cash equivalents at beginning of year	27,991	27,543	141,214
Cash and cash equivalents at end of year	$ 28,642	$ 27,991	$ 27,543

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (In Part):

Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are considered by the Company to be cash equivalents.

Income Taxes (In Part):

Income taxes paid net of refunds received, during 1998, 1997 and 1996, were $154 million, $107 million and $102 million, respectively.

Long-Term Debt (In Part):

Interest paid during 1998, 1997 and 1996 was $64 million, $65.1 million and $51.1 million, respectively. When applicable, the Company capitalizes interest incurred on funds used to construct property, plant and equipment. Interest capitalized during 1997 and 1996 was $4.2 million and $8.9 million, respectively. Interest capitalized during 1998 was not significant.

Shareowners' Equity (In Part):

During the first quarter of 1998, the Company amended the forward stock purchase agreement associated with the repurchase of 4 million shares by the Company during 1997. The future contingent purchase price adjustment included in the forward stock purchase agreement was amended to provide for settlement 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 March 24, 1998 rather than as of August 20, 1997. The net cost of the amendment was $64 million. During the third quarter of 1998, the Company further amended the forward stock purchase agreement to establish the future settlement price on 1 million of the total 4 million shares. 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.

Loans to ESOP

PPG INDUSTRIES, INC. (DEC)

Statement of Cash Flows

(Millions)	1998	1997	1996
Operating activities			
Net income	$801	$714	$744
Adjustments to reconcile to cash from operations			
Depreciation and amortization	383	373	363
Business divestitures and realignments	31	102	—
Gain on sale of business	(85)	(59)	—
Increase in receivables	(85)	(124)	(2)
Increase in inventories	(73)	(60)	(56)
Increase in accounts payable and accrued liabilities	46	40	3
Increase (decrease) in income taxes payable	9	(3)	(25)
Change in other noncurrent assets and liabilities and other—net	(85)	24	(19)
Cash from operating activities	942	1,007	1,008
Investing activities			
Capital spending			
Additions to property and investments	(487)	(466)	(476)
Business acquisitions, net of cash balances acquired	(390)	(363)	(13)
Proceeds from business divestitures	278	171	—
Reductions of property and investments	18	75	20
Cash used for investing activities	(581)	(583)	(469)
Financing activities			
Net change in borrowings with maturities of three months or less	109	(223)	248
Proceeds from other short-term debt	170	89	59
Repayment of other short-term debt	(154)	(78)	(50)
Proceeds from long-term debt	12	472	158
Repayment of long-term debt	(64)	(63)	(153)
Loans to employee stock ownership plan	(26)	(27)	(26)
Repayment of loans by employee stock ownership plan	39	38	34
Purchase of treasury stock	(217)	(343)	(635)
Issuance of treasury stock	22	14	27
Dividends paid	(252)	(239)	(237)
Cash used for financing activities	(361)	(360)	(575)
Effect of currency exchange rate changes on cash and cash equivalents	(1)	(5)	—
Net (decrease) increase in cash and cash equivalents	(1)	59	(36)
Cash and cash equivalents, beginning of year	129	70	106
Cash and cash equivalents, end of year	$128	$129	$ 70

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents

Cash equivalents are highly liquid investments (valued at cost, which approximates fair value) acquired with an original maturity of three months or less.

5 (In Part): Debt and Bank Credit Agreements and Leases

Interest payments in 1998, 1997 and 1996 totaled $121 million, $106 million and $109 million, respectively.

8 (In Part): Income Taxes

Income tax payments in 1998, 1997 and 1996 totaled $385 million, $452 million and $402 million, respectively.

Nonhomogeneous Operations

HILLENBRAND INDUSTRIES, INC. (NOV)

Statements of Consolidated Cash Flows

(Dollars in millions)	1998	1997	1996
Operating activities			
Net income	$184	$157	$140
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation, amortization and write-down of goodwill	149	102	99
Change in noncurrent deferred income taxes	(3)	(12)	(6)
Gain on sale of business	(75)	—	(3)
Change in working capital excluding cash, current debt, acquisitions and dispositions:			
Trade accounts receivable	(36)	(46)	24
Inventories	(2)	17	15
Other current assets	2	—	(1)
Trade accounts payable	(12)	21	(21)
Accrued expenses and other liabilities	(14)	32	5
Change in insurance deferred policy acquisition costs	(63)	(67)	(67)
Change in other insurance items, net	48	35	40
Other, net	(5)	7	15
Net cash provided by operating activities	173	246	240
Investing activities			
Capital expenditures	(88)	(85)	(92)
Proceeds on disposal of fixed assets and equipment leased to others	10	1	2
Acquisitions of businesses, net of cash acquired	(188)	—	(6)
Other investments	(11)	(4)	(3)
Proceeds on sale of business	64	—	15
Insurance investments:			
Purchases	(746)	(721)	(437)
Proceeds on maturities	168	112	78
Proceeds on sales	345	358	126
Net cash used in investing activities	(446)	(339)	(317)
Financing activities			
Additions to short-term debt	39	10	119
Reductions to short-term debt	(13)	(15)	(81)
Additions to long-term debt	101	—	—
Reductions to long-term debt	(1)	(2)	(3)
Payment of cash dividends	(48)	(45)	(43)
Treasury stock acquired	(85)	(13)	(51)
Insurance premiums received	495	514	459
Insurance benefits paid	(282)	(256)	(227)
Net cash provided by financing activities	206	193	173
Effect of exchange rate changes on cash	—	(2)	(1)
Total cash flows	(67)	98	95
Cash and cash equivalents			
At beginning of year	364	266	171
At end of year	$297	$364	$266

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers investments in marketable securities and other highly liquid instruments with a maturity of three months or less at date of purchase to be cash equivalents.

11 (In Part): Supplementary Information

The table below provides supplemental information to the statements of consolidated cash flows.

	1998	1997	1996
Cash paid for:			
Income taxes	$113	$109	$92
Interest	$ 24	$ 23	$16
Non-cash investing and financing activities:			
Liabilities assumed from/ incurred for the acquisition of businesses	$ 47	$—	$ 1
Treasury stock issued under stock compensation plans	$ —	$—	$ 1
Accrued treasury stock acquisition	$ —	$ 13	$—

12 (In Part): Financial Services

Forethought Financial Services, through its subsidiaries, Forethought Life Insurance Company, Forethought National TrustBank, Forethought Federal Savings Bank, Forethought Life Assurance Company and The Forethought Group, Inc., serves funeral planning professionals with life insurance policies, trust products and marketing support for Forethought® funeral planning. Forethought entered the preneed trust market in 1997. This business did not materially affect the financial results of Forethought or Hillenbrand Industries in 1998. The life insurance policies sold by Forethought Life Insurance Company are limited to long-duration, whole-life policies, and, as such, are accounted for under SFAS No. 97. The benefits under these policies increase based on external inflationary indices and management's discretion. Premiums received are allocated to benefit reserves and unearned revenue. Unearned revenues are recognized over the actuarially determined life of the contract. Policy acquisition costs, consisting of commissions, policy issue expense and premium taxes, are deferred and amortized consistently with unearned revenues. Liabilities equal to policyholder account balances and amounts assessed against these balances for future insurance charges are established on the insurance contracts issued by Forethought Life Insurance Company.

Contribution from Minority Interest

VULCAN MATERIALS COMPANY (DEC)

Consolidated Statements of Cash Flows

(Amounts in thousands)	1998	1997	1996
Operating activities			
Net earnings	$255,908	$209,145	$188,595
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, depletion and amortization	137,792	129,217	121,257
Compensation expense incurred in connection with stock-based incentive plans	6,847	5,451	2,010
(Increase) decrease in assets before effects of business acquisitions:			
Accounts and notes receivable	(20,415)	(14,215)	1,381
Inventories	(8,794)	(3,751)	3,915
Deferred income taxes	(3,538)	2,089	3,081
Prepaid expenses	(877)	570	194
Increase (decrease) in liabilities before effects of business acquisitions:			
Accrued interest and income taxes	(513)	139	(105)
Trade payables, accruals, etc.	(4,362)	(2,070)	14,118
Deferred income taxes	9,753	1,752	1,032
Other noncurrent liabilities	7,127	9,578	4,290
Other, net	(16,332)	7,909	5,764
Net cash provided by operating activities	362,596	345,814	345,532
Investing activities			
Purchases of property, plant and equipment	(203,258)	(161,238)	(151,767)
Payment for business acquisitions, net of cash acquired	(24,874)	(12,086)	(64,765)
Proceeds from sale of property, plant and equipment	27,054	16,446	11,952
Net investment in nonconsolidated companies	307	150	(1,233)
Net cash used for investing activities	(200,771)	(156,728)	(205,813)
Financing activities			
Net borrowings (payments)—commercial paper and bank lines of credit	(1,301)	365	(280)
Payment of short-term debt	(5,193)	(5,000)	(6,849)
Payment of long-term debt	(225)	(19)	(62)
Purchases of common stock (Note 11)	(65,003)	(43,060)	(45,182)
Dividends paid	(70,015)	(63,622)	(58,399)
Contribution from minority interest of consolidated subsidiary	31,914	0	0
Net cash used for financing activities	(109,823)	(111,336)	(110,772)
Net increase in cash and cash equivalents	52,002	77,750	28,947
Cash and cash equivalents at beginning of year	128,566	50,816	21,869
Cash and cash equivalents at end of year	$180,568	$128,566	$ 50,816

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents

The Company classifies as cash equivalents all highly liquid securities with a maturity of three months or less at the time of purchase.

13. Supplemental Cash Flow Information

Supplemental information referable to the Consolidated Statements of Cash Flows is summarized below (in thousands of dollars:)

	1998	1997	1996
Cash payments:			
Interest (exclusive of amount capitalized)	$7,250	$6,774	$8,715
Income taxes	112,995	92,315	85,492
Noncash investing and financing activities:			
Amounts referable to business acquisitions:			
Liabilities assumed	1,497	1,441	5,051
Fair value of stock issued	34,568	—	—

Proceeds from Foreign Exchange Contracts

TRANSTECHNOLOGY CORPORATION (MAR)

Statements of Consolidated Cash Flows

(In thousands)	1998	1997	1996
Cash flows from operating activities:			
Net income	$11,067	$ 8,788	$ 7,374
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss recognized on write-down of marketable securities	—	—	2,613
Depreciation and amortization	9,054	7,406	6,027
Provision for losses on accounts receivable	537	139	468
Loss (gain) on sale or disposal of fixed assets and discontinued businesses	1,087	64	(307)
Changes in assets and liabilities—excluding the effects of acquisitions and dispositions:			
(Increase) decrease in accounts receivable	(2,732)	(620)	4,290
(Increase) decrease in inventories	(2,685)	191	(6,098)
Decrease (increase) in assets held for sale	836	262	(1,915)
(Increase) decrease in other assets	(4,166)	(453)	4,825
Increase (decrease) in accounts payable	1,770	(3,650)	462
Increase in accrued compensation	2,989	553	2,226
(Decrease) increase in income taxes payable	(1,300)	242	(676)
Increase (decrease) in other liabilities	2,751	1,385	(8,577)
Net cash provided by operating activities	19,208	14,307	10,712
Cash flows from investing activities:			
Business acquisitions	(34,774)	(3,602)	(45,594)
Capital expenditures	(8,745)	(5,477)	(6,471)
Proceeds from sale of fixed assets and discontinued businesses	2,144	2,705	8,111
Decrease in notes and other receivables	1,954	1,119	1,055
Net cash used in investing activities	(39,421)	(5,255)	(42,899)
Cash flows from financing activities:			
Proceeds from long-term borrowings	68,400	40,105	107,363
Payments on long-term debt	(78,336)	(45,273)	(73,156)
Proceeds from issuance of stock under stock option plan	2,213	365	188
Stock offering proceeds	26,908	—	—
Proceeds from foreign exchange contracts	2,036	—	—
Treasury stock purchases	—	(1,625)	(65)
Dividends paid	(1,467)	(1,318)	(1,325)
Net cash provided by (used in) financing activities	19,754	(7,746)	33,005
Effect of exchange rate changes on cash	(121)	(128)	—
(Decrease) increase in cash and cash equivalents	(580)	1,178	818
Cash and cash equivalents at beginning of year	3,540	2,362	1,544
Cash and cash equivalents at end of year	$ 2,960	$ 3,540	$ 2,362
Supplemental information:			
Interest payments	$ 7,647	$ 6,708	$ 6,529
Income tax payments	$ 5,988	$ 3,810	$ 2,703

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Accounting Principals

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity at date of acquisition of three months or less to be cash equivalents.

Financial Instruments

The Company does not hold or issue financial instruments for trading purposes. Amounts to be paid or received under interest rate swap agreements are recognized as increases or reductions in interest expense in the periods in which they accrue. The Company enters into off-balance sheet forward foreign exchange instruments in order to hedge certain financing and investment transactions denominated in foreign currencies, purchase commitments and certain foreign currency denominated long-term debt. Gains and losses on the investing and financing transactions are included in other income/expense. Gains and losses on the foreign currency purchase commitment transactions are included in the cost of the underlying purchases.

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.

ULTRAMAR DIAMOND SHAMROCK CORPORATION (DEC)

Consolidated Statements of Cash Flows

(In millions)	1998	1997	1996
Cash flows from operating activities:			
Net income (loss)	$ (78.1)	$154.8	$ (35.9)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	237.4	200.1	179.9
Provision for losses on receivables	12.7	14.9	13.6
Restructuring charges—write-down of property, plant and equipment and goodwill	82.1	—	—
Equity income from Diamond-Koch joint venture	(3.5)	—	—
Loss (gain) on sale of property, plant and equipment	(2.0)	(11.4)	0.2
Deferred income tax provision (benefit)	(9.0)	104.8	(45.7)
Other, net	4.4	3.4	1.0
Changes in operating assets and liabilities, net of acquisition:			
Decrease (increase) in accounts and notes receivable	82.1	25.6	(119.9)
Decrease in inventories	89.1	46.5	31.7
Increase (decrease) in accounts payable and other current liabilities	(81.7)	(221.5)	213.9
Increase (decrease) in other long-term liabilities	(0.4)	(57.0)	20.0
Other, net	13.9	(25.0)	34.8
Net cash provided by operating activities	347.0	235.2	293.6
Cash flows from investing activities:			
Capital expenditures	(171.1)	(247.1)	(315.2)
Acquisition of total, net of cash acquired	—	(402.4)	—
Acquisition of retail operations	—	(20.8)	(27.9)
Deferred refinery maintenance turnaround costs	(37.8)	(25.6)	(11.5)
Expenditures for investments	—	(11.9)	(5.2)
Proceeds from sales of property, plant and equipment	81.8	93.8	51.6
Net cash used in investing activities	(127.1)	(614.0)	(308.2)
Cash flows from financing activities:			
Net change in commercial paper and short-term borrowings	96.6	(189.2)	—
Proceeds from long-term debt borrowings	—	415.9	578.9
Repayment of long-term debt	(37.5)	(68.3)	(490.5)
Proceeds from issuance of common stock	7.3	5.5	14.0
Issuance of company obligated preferred stock of subsidiary	—	200.0	—
Shares purchased under common stock buyback program	(100.0)	—	—
Payment of cash dividends	(98.5)	(89.8)	(69.8)
Other, net	—	(2.2)	5.2
Net cash provided by (used in) financing activities	(132.1)	271.9	37.8
Effect of exchange rate changes on cash	(3.7)	1.0	(0.8)
Net increase (decrease) in cash and cash equivalents	84.1	(105.9)	22.4
Cash and cash equivalents at beginning of year	92.0	197.9	175.5
Cash and cash equivalents at end of year	$176.1	$ 92.0	$197.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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

Interest payments totaled $141.7 million, $125.7 million and $122.8 million for the years ended December 31, 1998, 1997 and 1996, respectively.

14 (In Part): Income Taxes

Income taxes paid net of refunds for the years ended December 31, 1998, 1997 and 1996 amounted to $3.2 million (refund), $16.8 million and $9.6 million, respectively.

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.

ARMCO INC. (DEC)

Consolidated Statements of Cash Flows

(Dollars in millions)	1998	1997	1996
Cash flows from operating activities			
Net income	$347.1	$ 76.8	$ 32.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	63.3	61.3	58.7
Net gain on disposal of investments and facilities	(0.8)	(4.5)	(8.9)
Loss on retirement of debt	—	3.0	—
Special charges	—	—	8.8
Cumulative effect of accounting change	(237.5)	—	—
Other	5.8	6.4	6.3
Change in assets and liabilities:			
Trade accounts receivable	1.3	(9.1)	22.8
Inventories	18.6	(21.4)	(33.3)
Payables and accrued operating expenses	(25.1)	22.1	(13.2)
Employee benefit obligations	(48.8)	(13.5)	(17.4)
Other assets and liabilities—net	(28.7)	(30.3)	(13.7)
Net cash provided by operating activities	95.2	90.8	42.6
Cash flows from investing activities			
Net proceeds from the sale of businesses and assets	1.7	7.7	14.0
Proceeds from the sale and maturity of liquid investments	5.6	0.3	—
Proceeds from the sale of investments	6.0	15.1	78.7
Purchase of liquid investments	(7.6)	(5.0)	(0.3)
Contributions to investees	—	—	(3.0)
Capital expenditures	(32.6)	(41.9)	(59.8)
Other	0.2	(0.2)	(2.7)
Net cash (used in) provided by investing activities	(26.7)	(24.0)	26.9
Cash flows from financing activities			
Proceeds from issuance of debt	74.4	151.1	5.5
Payments on debt	(51.2)	(177.7)	(24.3)
Dividends paid on preferred stock	(17.7)	(17.9)	(17.9)
Other	(0.1)	(1.3)	(0.7)
Net cash provided by (used in) financing activities	5.4	(45.8)	(37.4)
Net increase in cash and cash equivalents	73.9	21.0	32.1
Cash and cash equivalents:			
Beginning of year	189.9	168.9	136.8
End of year	$263.8	$189.9	$168.9
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest (net of capitalized interest)	$ 28.8	$ 34.7	$ 35.1
Income taxes	2.5	2.8	0.1
Supplemental schedule of non-cash investing and financing activities:			
Issuance of restricted stock	4.0	2.7	2.0
Notes receivable in partial payment for asset sales	—	0.3	10.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, corporate notes, time deposits and other money market instruments, including mutual funds.

GATEWAY 2000, INC. (DEC)

Consolidated Statements of Cash Flows

(In thousands)	1996	1997	1998
Cash flows from operating activities:			
Net income	$250,679	$109,797	$346,399
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	61,763	86,774	105,524
Provision for uncollectible accounts receivable	20,832	5,688	3,991
Deferred income taxes	(13,395)	(63,247)	(58,425)
Other, net	1,986	42	770
Nonrecurring expenses	—	113,842	—
Changes in operating assets and liabilities:			
Accounts receivable	(66,052)	(41,950)	(52,164)
Inventory	(54,261)	59,486	81,300
Other assets	(13,311)	(54,513)	451
Accounts payable	176,724	66,253	228,921
Accrued liabilities	51,390	48,405	144,899
Accrued royalties	1,885	34,148	8,455
Other current liabilities	43,057	35,816	76,278
Warranty and other liabilities	22,699	42,256	21,252
Net cash provided by operating activities	483,996	442,797	907,651
Cash flows from investing activities:			
Capital expenditures	(143,746)	(175,656)	(235,377)
Purchases of available-for-sale securities	—	(49,619)	(168,965)
Proceeds from maturities or sales of available-for-sale securities	3,030	10,985	48,924
Acquisitions, net of cash acquired	—	(142,320)	—
Other, net	2,667	(4,055)	(992)
Net cash used in investing activities	(138,049)	(360,665)	(356,410)
Cash flows from financing activities:			
Proceeds from issuances of notes payable	10,000	10,000	—
Principal payments on long-term obligations and notes payable	(14,047)	(15,588)	(13,173)
Stock options exercised	9,520	5,741	36,159
Net cash provided by financing activities	5,473	153	22,986
Foreign exchange effect on cash and cash equivalents	(1,457)	(5,044)	1,982
Net increase in cash and cash equivalents	349,963	77,241	576,209
Cash and cash equivalents, beginning of year	166,397	516,360	593,601
Cash and cash equivalents, end of year	$516,360	$593,601	$1,169,810

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

(c) Cash and Cash Equivalents

The Company considers all highly liquid debt instruments and money market funds with an original maturity of three months or less to be cash equivalents. The carrying amount approximates fair value because of the short maturities of these instruments.

11. Supplemental Statements of Cash Flows Information

	Year ended December 31,		
(In thousands)	1996	1997	1998
Supplemental disclosure of cash flow information:			
Cash paid during year for interest	$ 665	$ 716	$ 930
Cash paid during the year for income taxes	$101,774	$163,710	$200,839
Supplemental schedule of noncash investing and financing activities:			
Capital lease obligations incurred for the purchase of new equipment	$ 3,126	$ 4,593	$ 6,741
Acquisitions			
Fair value of assets acquired	—	$271,189	—
Less: liabilities assumed	—	70,773	—
Cash acquired	—	58,096	—
Acquisitions, net of cash acquired	—	$142,320	—

HALLIBURTON COMPANY (DEC)

Consolidated Statements of Cash Flows

(Millions of dollars)	1998	1997	1996
Cash flows from operating activities:			
Net income (loss)	$ (14.7)	$ 772.4	$ 557.9
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation and amortization	587.0	564.3	497.7
Provision (benefit) for deferred income taxes	(293.4)	2.6	(13.4)
Distributions from (advances to) related companies, net of equity in (earnings) or losses	(22.5)	(84.6)	(57.2)
Accrued special charges	413.3	(44.6)	57.7
Other non-cash items	272.2	59.2	33.1
Other changes, net of non-cash items:			
Receivables	(279.9)	(408.8)	(363.5)
Inventories	(66.3)	(117.1)	(147.5)
Accounts payable	(45.3)	(49.7)	98.8
Other working capital, net	(142.5)	39.9	286.9
Other, net	46.2	99.5	(86.3)
Total cash flows from operating activities	454.1	833.1	864.2
Cash flows from investing activities:			
Capital expenditures	(914.3)	(880.1)	(731.1)
Sales of property, plant and equipment	100.0	180.6	64.4
Acquisitions of businesses, net of cash acquired	(40.4)	(161.5)	(60.5)
Dispositions of businesses, net of cash disposed	7.7	37.6	21.6
Other investing activities	0.9	(49.9)	(53.5)
Total cash flows from investing activities	(846.1)	(873.3)	(759.1)
Cash flows from financing activities:			
Borrowings of long-term debt	150.0	303.2	295.6
Payments on long-term debt	(26.7)	(17.7)	(8.2)
Net borrowings (payments) of short-term debt	369.3	(85.8)	(7.3)
Payments of dividends to shareholders	(254.2)	(250.3)	(239.6)
Proceeds from exercises of stock options	49.1	71.5	42.6
Payments to reacquire common stock	(19.9)	(44.1)	(235.2)
Other financing activities	(13.9)	2.6	3.7
Total cash flows from financing activities	253.7	(20.6)	(148.4)
Effect of exchange rate changes on cash	(5.4)	(1.1)	1.0
Decrease in cash and equivalents	(143.7)	(61.9)	(42.3)
Cash and equivalents at beginning of year*	346.3	446.0	488.3
Cash and equivalents at end of year	$ 202.6	$384.1	$446.0
Supplemental disclosure of cash flow information:			
Cash payments during the period for:			
Interest	$ 137.0	$106.1	$ 76.1
Income taxes	534.8	307.4	191.1
Non-cash investing and financing activities:			
Liabilities assumed in acquisitions of businesses	$ 5.4	$337.1	$ 39.4
Liabilities disposed of in dispositions of businesses	23.6	205.5	9.8

* Cash balance at the beginning of 1998 does not agree to the prior year ending cash balance in order to conform Dresser's fiscal year to Halliburton's calendar year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

SCOPE INDUSTRIES (JUN)

Consolidated Statements of Cash Flows

	1998	1997	1996
Cash flows from operating activities:			
Net income	$16,063,797	$18,992,773	$3,972,548
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	2,024,722	2,112,959	2,117,706
(Gains) losses on investments available for sale	(23,290,926)	(17,313,454)	87,802
Gains on sale of equipment	(9,261)	(8,324)	(45,374)
Deferred income taxes	1,035,000	(2,195,000)	(515,000)
Provision for doubtful accounts receivable	116,298	13,139	16,908
Changes in operating assets and liabilities:			
Accounts and notes receivable	(140,080)	1,945,342	(383,567)
Inventories	(77,998)	(52,764)	(108,460)
Prepaid expenses and other current assets	(79,811)	151,985	577,467
Accounts payable and accrued liabilities	(184,621)	(627,631)	1,417,705
Income taxes payable	(58,725)	66,248	275,147
Other assets	(163,585)	49,924	(17,864)
Net cash flows (used in) from operating activities	(4,765,190)	3,135,197	7,395,018
Cash flows from investing activities:			
Purchase of U.S. Treasury bills	(48,733,701)	(30,602,562)	(9,619,494)
Maturities of U.S. Treasury bills	29,250,000	12,035,000	6,905,000
Purchase of property and equipment	(2,508,358)	(1,298,935)	(2,255,436)
Disposition of property and equipment	137,616	42,646	415,897
Purchase of long-term notes receivable	(763,975)	—	(230,000)
Purchase of investments available for sale	(338,702)	(3,223,689)	(2,168,781)
Purchase of other equity investments	(2,001,002)	—	—
Disposition of investments available for sale	28,475,074	27,497,783	2,556,476
Disposition of investments held to maturity	—	—	290,000
Net cash flows from (used in) investing activities	3,516,952	4,450,243	(4,106,338)
Cash flows from financing activities:			
Dividends to shareowners	(1,414,687)	(1,491,132)	(616,782)
Repurchases of common stock	(2,527,221)	(1,836,686)	(1,381,693)
Change in bank overdraft	—	(250,686)	188,940
Proceeds from stock options exercised	—	217,175	—
Net cash used in financing activities	(3,941,908)	(3,361,329)	(1,809,535)
Net (decrease) increase in cash and cash equivalents	(5,190,146)	4,224,111	1,479,145
Cash and cash equivalents at beginning of year	5,946,050	1,721,939	242,794
Cash and cash equivalents at end of year	$ 755,904	$ 5,946,050	$1,721,939
Supplemental disclosures:			
Cash paid during the year for:			
Interest	$ 4,323	$ 301	$ 4,333
Income taxes	$ 9,203,725	$ 8,928,751	$2,577,438
Non-cash investing transactions:			
Reacquired land and buildings through foreclosure proceedings in exchange for cancellation of a note receivable	$ 141,120	—	—
Acquired stock of OSI Systems, Inc. (formerly Opto Sensors, Inc.) in exchange for cancellation of a loan by the exercise of warrants issued as a condition of the loan	—	$ 2,500,000	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash Equivalents and Short-term Investments

The Company considers all liquid debt instruments to be cash equivalents if the securities mature within 90 days of acquisition. Carrying amounts approximate fair value.

MERRIMAC INDUSTRIES, INC. (DEC)

Consolidated Statements of Cash Flows

	1998	1997	1996
Cash flows from operating activities:			
Net income (loss)	$ 340,300	$1,402,409	$(297,252)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,103,142	953,705	890,859
Loss (gain) on sale of available-for-sale securities	—	(65,006)	17,650
Write-off of intangible assets	—	—	244,500
Deferred compensation	287,622	238,600	279,100
Deferred income taxes	88,000	22,000	(473,000)
Stock-based compensation expense	87,400	20,700	—
Changes in operating assets and liabilities:			
Income tax refund receivable	(413,018)	—	—
Accounts receivable	(663,844)	(1,241,245)	523,139
Inventories	1,407,313	(342,751)	(245,808)
Other current assets	(209,703)	98,607	(145,595)
Deferred tax assets	25,313	(8,700)	—
Other assets	(205,736)	(163,336)	(2,178)
Accounts payable	337,505	391,016	364,460
Accrued liabilities	154,748	158,789	(32,397)
Income taxes payable	(45,825)	186,325	(331,797)
Deferred compensation	(52,500)	(30,000)	—
Net cash provided by operating activities	2,240,717	1,621,113	791,681
Cash flows from investing activities:			
Purchase of capital assets	(3,149,336)	(1,805,294)	(1,012,259)
Proceeds from sales of capital assets	23,645	5,461	9,071
Proceeds from sales and maturities of available-for-sale securities	—	1,340,454	2,272,070
Purchase of available-for-sale securities	—	(146,152)	(1,129,297)
Net cash provided by (used in) investing activities	(3,125,691)	(605,531)	139,585
Cash flows from financing activities:			
Repurchase of common stock	(54,525)	—	(1,630,448)
Proceeds from the issuance of common stock	378,449	592,605	286,355
Payments of dividends	(1,009)	(459,043)	(616,778)
Net cash provided by (used in) financing activities	322,915	133,562	(1,960,871)
Net increase (decrease) in cash and cash equivalents	(562,059)	1,149,144	(1,029,605)
Cash and cash equivalents at beginning of year	2,414,725	1,265,581	2,295,186
Cash and cash equivalents at end of year	$1,852,666	$2,414,725	$1,265,581
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Income taxes	$ 390,000	$ 675,000	$ 712,500
Supplemental disclosure of non-cash investing activity:			
Unrealized holding gain on available-for-sale securities, less deferred tax provision of $4,200 in 1996	—	—	$ 4,262
Loan to officer-shareholder	$ 255,000	$ 105,000	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid securities with an original maturity of less than three months to be cash equivalents. The Company maintains cash deposits with banks that at times exceed applicable insurance limits. The Company reduces its exposure to credit risk by maintaining such deposits with high quality financial institutions. Because of their liquidity and short-term maturities, the carrying value of these financial instruments approximates their fair value.

14. Transactions with Management and Loan to Officer-Shareholder

On May 4, 1998, the Company sold 20,000 (22,000 after giving effect to the Company's 10% stock dividend) shares of Common Stock from its treasury to Mason N. Carter, Chairman, President and Chief Executive Officer of the Company, at a price of $12.75 per share (the approximate average closing price of the Company's Common Stock during the first quarter of 1998). The Company extended Mr. Carter a loan of $255,000 in connection with the purchase of these shares and amended a prior loan to Mr. Carter of $105,000. A new promissory note for a total of $360,000, due May 4, 2003, was executed by Mr. Carter in favor of the Company. Payment of the loan is secured by a pledge of the 33,000 shares of Common Stock purchased by Mr. Carter with the proceeds of the loans. The Company has recorded compensation expense of $52,000 which is being charged to operations over the one-year period commencing on the date of the transaction, as Mr. Carter is expected to perform services throughout this time period. The sale of these shares of Common Stock was exempt from registration under the Securities Act of 1933, as amended, as a transaction not involving a public offering under Section 4 (2) of the Act.

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 6-5 shows the descriptive terms used by the survey companies to describe a change in cash and cash equivalents.

TABLE 6-5: CASH AND CASH EQUIVALENTS

	1998	1997	1996	1995
Cash and cash equivalents	468	465	449	443
Cash and equivalents	43	42	44	43
Cash	53	58	58	62
Cash and short-term investments	14	15	21	27
Cash and short-term cash investments	5	4	3	2
Cash and temporary cash investments	7	4	5	5
Cash and temporary investments	2	3	5	6
Cash and marketable securities	2	3	3	3
Other descriptive captions	6	6	12	9
Total Companies	**600**	**600**	**600**	**600**

Section 7: 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-seven Statements on Auditing Standards have been issued.

PRESENTATION IN ANNUAL REPORT

Table 7-1 shows where, in relation to the financial statements and notes thereto, the Independent Auditors' Reports were presented in the annual reports to stockholders.

TABLE 7-1: PRESENTATION IN ANNUAL REPORT

	1998	1997	1996	1995
Follows financial statements and notes	357	356	367	385
Precedes financial statements and notes	228	222	216	200
Between financial statements and notes	7	9	8	9
Other	8	13	9	6
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 599 survey companies included the words *independent* and *report*. 307 titles identified the auditors as auditors, 158 as accountants, 113 as public accountants, and 21 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 7-2 summarizes the addressee mentioned in the auditors' reports of the survey companies.

TABLE 7-2: ADDRESSEE OF AUDITORS' REPORTS

	1998	1997	1996	1995
Board of Directors and Stockholders	469	489	480	484
Stockholders	49	50	52	56
Board of Directors	45	42	45	41
Company	31	15	14	13
Other or no addressee	6	4	9	6
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.

As permitted by *Statement of Financial Accounting Standards No. 130*, 75 survey companies reported components of comprehensive income in either a separate financial statement or a combined statement of income and comprehensive income. Alternatively, *SFAS No. 130* allows components of comprehensive income to be reported in a statement of stockholders' equity. When presented as either a separate statement or combined with the statement of income, the TITLE OF THE STATEMENT includes the term "comprehensive income." Standard auditors' reports for each situation follow.

Statement of Comprehensive Income

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Detroit Diesel Corporation

We have audited the accompanying consolidated balance sheets of Detroit Diesel Corporation and subsidiaries (the "Company") as of December 31, 1998 and 1997 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1998 and 1997 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Statement of Income and Comprehensive Income

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of NACCO Industries, Inc.:

We have audited the accompanying Consolidated Balance Sheets of NACCO Industries, Inc. and Subsidiaries as of December 31, 1998 and 1997, and the related Consolidated Statements of Income and Comprehensive Income, Stockholders' Equity and Cash Flows for each of the three years in the period ended December 31, 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, the financial statements referred to above present fairly, in all material respects, the financial position of NACCO Industries, Inc. and Subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Statement of Changes in Stockholders' Equity

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Harcourt General, Inc.
Chestnut Hill, Massachusetts

We have audited the consolidated balance sheets of Harcourt General, Inc. and its subsidiaries as of October 31, 1998 and 1997 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended October 31, 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harcourt General, Inc. and its subsidiaries as of October 31, 1998 and 1997 and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1998 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.

Paragraphs 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 27 survey companies made reference to the report of other auditors. Examples of such reports follow.

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Allegheny Teledyne Incorporated

We have audited the accompanying consolidated balance sheets of Allegheny Teledyne Incorporated and subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 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 did not audit the 1997 and 1996 financial statements of Oregon Metallurgical Corporation, a wholly owned subsidiary, which statements reflect total assets constituting 10.1 percent of the consolidated total as of December 31, 1997, and total revenues constituting 7.1 percent and 5.8 percent of the related consolidated totals for the years ended December 31, 1997 and 1996, respectively. Those statements were audited by other auditors whose report dated January 23, 1998 has been furnished to us and our opinion, insofar as it relates to data included for Oregon Metallurgical 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 other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Allegheny Teledyne Incorporated at December

31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors
of The BFGoodrich Company:

We have audited the accompanying Consolidated Balance Sheet of The BFGoodrich Company and subsidiaries as of December 31, 1998 and 1997, and the related Consolidated Statements of Income, Shareholders' Equity and Cash Flows for each of the three years in the period ended December 31, 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 did not audit the financial statements as of and for the year ended July 31, 1996 of Rohr, Inc., which statements reflect total sales constituting 27 percent of total consolidated sales for 1996. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for Rohr, Inc. for 1996, 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 other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and, for 1996, the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The BFGoodrich Company and subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

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, 1998 and 1997, and the related consolidated statements of income, cash flows and shareholders' equity for each of the three years in the period ended December 31, 1998. We did not audit the consolidated balance sheet of Dresser Industries, Inc., a company acquired during 1998 in a transaction accounted for as a pooling of interests, as of December 31, 1997, and the related consolidated statements of income, cash flows and shareholders' equity for each of the two years in the period ended December 31, 1997, as discussed in Note 14. Such statements are included in the consolidated financial statements of Halliburton Company and reflect total assets of 48% for the year ended December 31, 1997, and total revenue of 46% and 47% for the years ended December 31, 1997 and 1996, respectively, of the related consolidated totals. These statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to amounts included for Dresser Industries, Inc. is based solely upon the report of the other auditors. These financial statements are the responsibility of Halliburton 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the report of other auditors, 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, 1998 and 1997, and the results of their operations and their cash flows for each of the three years ended December 31, 1998, in conformity with generally accepted accounting principles.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Mohawk Industries, Inc.:

We have audited the accompanying Consolidated Balance Sheet of Mohawk Industries, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998. 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 consolidated financial statements of World Carpets, Inc. and Subsidiary, a wholly owned subsidiary of Mohawk Industries, Inc., as of June 28, 1998 and for each of the years in the two-year period ended June 28, 1998, which consolidated financial statements have been combined with those of Mohawk Industries, Inc. and subsidiaries as of December 31, 1997 and for each of the years in the two-year period ended December 31, 1997, respectively. The consolidated financial statements of World Carpets, Inc. and Subsidiary reflects total assets constituting 18 percent as of December 31, 1997 and total net sales constituting 19 percent for each of the years in the two-year period ended December 31, 1997, 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 amounts included for

World Carpets, Inc. and Subsidiary, 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 Mohawk Industries, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and
Shareholders of Quantum Corporation

We have audited the accompanying consolidated balance sheets of Quantum Corporation (the "Company") as of March 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 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 did not audit the consolidated financial statements of MKE-Quantum Components LLC ("MKQC"), a forty-nine percent equity investee of the Company, which statements reflect a net loss of $134.8 million for the period from May 16, 1997 (inception) through March 31, 1998. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for MKQC, 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 other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Quantum Corporation at March 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 1998, in conformity with generally accepted accounting principles.

REPORT OF INDEPENDENT AUDITORS

The Stockholders and Board of Directors
Whirlpool Corporation
Benton Harbor, Michigan

We have audited the accompanying consolidated balance sheets of Whirlpool Corporation as of December 31, 1998 and 1997, and the related consolidated statements of earnings, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 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 did not audit the financial statements of Brasmotor, S.A. and its consolidated subsidiaries, whose statements reflect total assets of $2,500 million $2,200 million as of December 31, 1998 and 1997, respectively, and net earnings of $58 million, $41 million and $120 million for the years ended December 31, 1998, 1997 and 1996, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to data included for Brasmotor, S.A. and its consolidated subsidiaries, is based on the reports 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 our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Whirlpool Corporation at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, 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 7-3 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 7-3: UNCERTAINTIES

	1998	1997	1996	1995
Litigation	—	—	1	8
Going concern	5	2	1	7
Other	—	—	—	2
Total Uncertainties	5	2	2	17
Total Companies	5	2	2	15

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Geneva Steel Company:

We have audited the accompanying consolidated balance sheets of Geneva Steel Company and subsidiaries as of September 30, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Geneva Steel Company and subsidiaries as of September 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1998, 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 1 to the consolidated financial statements, the Company has experienced recurring net losses applicable to common shares of $30.7 million, $11.6 million and $16.3 million during the years ended September 30, 1998, 1997 and 1996, respectively. Restricted payment limitations under the Company's Senior Notes preclude payment of preferred stock dividends. Additionally, as a result of lower shipments and declining prices resulting from increases of imports into the Company's markets, the Company may suffer a significant loss applicable to common shares and a negative cash flow from operations for the year ending September 30, 1999. These market conditions and their effect on the Company's liquidity may further restrict the Company's use of cash which may result in the Company not making interest payments related to its Senior Notes. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are partially described in Note 1. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Business Conditions

The Company's steel mill manufactures a wide range of coiled and flat plate, sheet, pipe and slabs for sale to various distributors, steel processors or end-users primarily in the western and central United States.

The Company has experienced recurring net losses applicable to common shares of $30.7 million, $11.6 million and $16.3 million during the years ended September 30, 1998, 1997 and 1996, respectively. Restricted payment limitations under the Company's Senior Notes preclude payment of preferred stock dividends. Additionally, as a result of lower shipments and declining prices resulting from increases of imports into the Company's markets, the Company may suffer a significant net loss applicable to common shares and a negative cash flow from operations for the year ending September 30, 1999. These market conditions and their effect on the Company's liquidity may further restrict the Company's use of cash which may result in the Company not making interest payments related to its Senior Notes. These matters raise substantial doubt about the Company's ability to continue as a going concern. The Company's continued existence is dependent upon several factors including the Company's ability to return to normal production and shipment levels.

The Company's near and long-term operating strategies focus on exploiting existing and potential competitive advantages while eliminating or mitigating competitive disadvantages. In response to current market conditions and as a part of its ongoing corporate strategy, the Company is pursuing several initiatives intended to increase liquidity and better position the Company to compete under current market conditions. Several completed and ongoing initiatives are as follows:

Since September 30, 1997, the Company has reduced administrative staff by approximately 36 percent, operating management by 50 percent, and production employees by 16 percent. These headcount reductions are expected to significantly reduce overall operating expense on an annualized basis. The Company has also placed 460 employees on layoff status. The Company must offer employment to laid off employees when production volume increases. Nevertheless, to the extent these employees do not desire to return, the Company intends to capture the attrition created thereby to the maximum extent possible. The Company is also successfully implementing a union-management partnership designed to reduce costs and increase efficiency.

The Company has and is pursuing aggressive cost cutting programs. As compared to November 1997, the Company's monthly spending for administrative costs (including employment costs) in November 1998 declined by $1.1 million, or 22 percent. Similarly, the Company's monthly spending on products and services for operations has declined significantly. This reduction is, in part, due to lower production levels. Nevertheless, operations spending per ton generally increases as production declines. The Company is currently completing installation of an enterprise-wide business system that it expects will further reduce employment costs and result in other significant cost savings.

On November 2, 1998, the Company signed a new, three-year agreement with Mannesmann Pipe and Steel ("Mannesmann"). Under the agreement, Mannesmann will market the Company's steel products throughout the continental United States. Mannesmann previously marketed the Company's products in multiple midwestern states and to certain customers in the eastern United States. The Company's existing sales force will remain Geneva Steel employees, but will be directed by Mannesmann. The Company has also made several other organizational changes designed to improve product distribution and on-time delivery.

The Mannesmann agreement requires Mannesmann to purchase and pay for the Company's finished inventory as soon as it has been assigned to or otherwise identified with a particular order. Mannesmann then sells the products to end customers at the same sales price Mannesmann paid the Company plus a variable commission. The Company remains responsible for customer credit and product quality problems. The Company estimates that, when fully implemented, the new arrangement will significantly reduce its working capital balances and, as a result, will improve the Company's liquidity by approximately $17 to $25 million.

Current market conditions have forced the Company to operate only one of its three blast furnaces and to similarly reduce production throughout the mill. Reduced production levels adversely affect production efficiencies, significantly increasing product cost per ton. The Company is attempting to optimize production efficiency at these lower volume levels by, among other things, reducing shifts, idling certain facilities and altering production scheduling.

Current market conditions have and are significantly affecting the Company's operating results and liquidity. During the months ahead, the Company will be forced to make difficult decisions regarding, among other things, the future direction and capital structure of the Company. The Company has retained financial and legal advisors who are reviewing the financial alternatives available to the Company, including without limitation a possible debt restructuring.

LACK OF CONSISTENCY

Table 7-4 summarizes the accounting changes for which auditors expressed unqualified opinions but included explanatory language in their reports as required by paragraphs 16-18 of *Statement on Auditing Standards No. 58*, as amended by *SFAS No. 79*. Of the 71 references to lack of consistency, 38 relate to changes made in years prior to 1998. Examples of references to lack of consistency follow.

TABLE 7-4: LACK OF CONSISTENCY

	1998	1997	1996	1995
Business process reengineering costs	18	16	—	—
Start up costs	14	2	—	—
Impairment of long-lived assets	9	43	51	43
Inventories	5	4	8	7
Internal use software costs	5	—	—	—
Postemployment benefits	—	10	39	104
Investments (SFAS No. 115)	—	5	19	31
Postretirement benefits	—	1	19	139
Income taxes	—	—	24	146
Other-described	20	22	29	42
Total References	**71**	**103**	**189**	**512**
Total Companies	**62**	**95**	**139**	**292**

Business Process Reengineering Costs

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Boston Scientific Corporation

We have audited the accompanying consolidated balance sheets of Boston Scientific Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Boston Scientific Corporation and subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

As more fully described in Note A, in 1997, the Company changes its accounting policy to conform to the consensus reached by the FASB Emerging Issues Task Force in its Issue No. 97-13.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Significant Accounting Policies

Accounting Change

In 1997, the Company implemented Emerging Issues Task Force (EITF) 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", the effect of which ($31 million or $21 million, net of tax) is reflected as a cumulative effect of change in accounting in 1997.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
of First Brands Corporation:

We have audited the accompanying consolidated balance sheets of First Brands Corporation and subsidiaries as of June 30, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended June 30, 1998. 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 First Brands Corporation and subsidiaries as of June 30, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 1998, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for business process re-engineering costs effective October 1, 1997.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Accounting Change

During the second quarter of fiscal 1998, the Company changed its accounting policy for costs associated with the business process re-engineering activities which relate to the Company's information system upgrade. In accordance with the Financial Accounting Standards Board ("FASB") Emerging Issues Task Force Issue No. 97-13, the Company is now expensing these process re-engineering costs. Prior to fiscal 1998, the Company capitalized these costs, intending to amortize them over a five to seven year period commencing with the implementation of the new information system. The cumulative effect of the accounting change principle resulted in a charge to earnings of $11,434,000 ($6,922,000 after taxes or $0.17 per diluted share). On a pro forma basis, the Company's reported net income for fiscal 1997 and 1996 would have been reduced by $5,069,000 ($0.12 per diluted share) and $1,022,000 ($0.02 per diluted share), respectively.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors and Shareholders
SYSCO Corporation

We have audited the accompanying statements of consolidated financial position of SYSCO Corporation and subsidiaries as of June 27, 1998 and June 28, 1997, and the related statements of consolidated results of operations, shareholders' equity and cash flows for each of the three years in the period ended June 27, 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SYSCO Corporation and subsidiaries as of June 27, 1998 and June 28, 1997, and the results of their operations and their cash flows for each of the three years in the period ended June 27, 1998 in conformity with generally accepted accounting principles.

As discussed in the summary of accounting policies, effective December 27, 1997, SYSCO Corporation changed its method of accounting for costs of business process reengineering activities associated with systems development projects.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (In Part)

Computer Systems Development Project

In the second quarter of fiscal 1998, SYSCO recorded a one-time, after-tax, non-cash charge of $28,053,000 to comply with a new consensus ruling by the Emerging Issues Task Force of the Financial Accounting Standards Board (EITF Issue No. 97-13), requiring reengineering costs associated with computer systems development to be expensed as they are incurred. Prior to this ruling, SYSCO had capitalized business process reengineering costs incurred in connection with its SYSCO Uniform Systems information systems redevelopment project in accordance with generally accepted accounting principles.

No costs were capitalized in fiscal 1998 and fiscal 1997, while \$2,994,000 was capitalized during fiscal 1996. Amounts that remain capitalized are being amortized as completed portions of the project are put into use. Accumulated amortization, including the one-time charge, at June 27, 1998, June 28, 1997 and June 29, 1996 was \$36,532,000, \$1,624,000 and \$753,000, respectively.

Start-Up Costs

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, 1998 and 1997, 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, 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Reynolds Metals Company at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1998 the Company changed its method of accounting for the costs of start-up activities and, in 1996 changed its method of accounting for the impairment of long-lived assets and long-lived assets to be disposed of.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Cumulative Effects of Accounting Changes

In 1998, the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-Up Activities." The SOP requires costs of start-up activities and organization costs to be expensed as incurred. The Company adopted the SOP in 1998 and recognized a charge for the cumulative effect of accounting change of \$23 million.

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." The cumulative effect of adopting the standard was a 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 AUDITORS

To The Board of Directors
and Shareholders of Temple-Inland, Inc.:

We have audited the accompanying consolidated balance sheets of Temple-Inland, Inc. and subsidiaries as of January 2, 1999, and January 3, 1998, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended January 2, 1999. 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 Temple-Inland, Inc. and subsidiaries at January 2, 1999, and January 3, 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 2, 1999, in conformity with generally accepted accounting principles.

As discussed in Note A to the financial statements, in 1998 the Company changed its method of accounting for start-up costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A (In Part): Summary of Significant Accounting Policies

Start-Up Costs

Effective with the beginning of the year 1998, start-up costs including training activities, are expensed as incurred instead of being deferred and amortized over a five-year period. The cumulative effect of applying this change was \$3.2 million, net of tax benefit of \$2.1 million, and was recognized as of the beginning of the year 1998. Had start-up costs been expensed in prior years, net income would not have been materially different.

Impairment of Long-Lived Assets

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
American Greetings Corporation

We have audited the accompanying consolidated statements of financial position of American Greetings Corporation as of February 28, 1998 and 1997 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended February 28, 1998. 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 American Greetings Corporation at February 28, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 28, 1998, in conformity with generally accepted accounting principles.

As discussed in Note B to the consolidated financial statements, in 1996 the Corporation adopted the provisions of 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
(Thousands of dollars except per share amounts)

B. Non-Recurring Gain and Charge

During 1998, the Corporation divested the net assets of two subsidiaries, Acme Frame Products, Inc., a manufacturer and distributor of picture frames, and Wilhold, Inc., a manufacturer and distributor of hair accessories. As a result of the transaction, the Corporation recorded a one-time pre-tax gain of $22,125 ($13,192 net of tax, or earnings per share of $0.18).

During 1996, 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 Corporation recorded an impairment loss on the long-lived assets of its CreataCard business. The trends in the CreataCard business indicated that the undiscounted future cash flows from this business would be less than the carrying value of the long-lived assets related to that business. Accordingly, on November 1, 1995, the Corporation recognized an asset impairment loss of $52,061 ($35,094 net of tax, or earnings per share of $0.47). This loss is the difference between the carrying value of the CreataCard machines and related goodwill and other intangibles, and the fair value of these assets based on discounted estimated future cash flows.

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors of
General Mills, Inc.:

We have audited the accompanying consolidated balance sheets of General Mills, Inc. and subsidiaries as of May 31, 1998 and May 25, 1997 and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the fiscal years in the three-year period ended May 31, 1998. 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 General Mills, Inc. and subsidiaries as of May 31, 1998 and May 25 1997, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended May 31, 1998, in conformity with generally accepted accounting principles.

As discussed in Note Three to the consolidated financial statements, the Company adopted the provisions of the Financial Accounting Standards Board's Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," in fiscal 1997.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): Unusual Items

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 initial, non-cash charge upon adoption of SFAS 121 was $48.4 million pre-tax, $29.2 million after tax ($.18 per share). The charge represented a reduction in the carrying amounts of certain impaired assets to their estimated fair value, determined on the basis of estimated cash flows or net realizable value. The impairments related to assets not currently in use, assets significantly underutilized, and assets with limited planned future use.

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, 1998 and 1997 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. 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, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 (In Part): One-Time Charges

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 acquisition of 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 risks 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.

Inventories

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Flowserve Corporation

We have audited the accompanying consolidated balance sheets of Flowserve Corporation and subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 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 did not audit the 1996 financial statements of BW/IP, Inc., a wholly owned subsidiary, which statements reflect total revenues constituting 45% of the related totals for the year ended December 31, 1996. Those statements were audited by other auditors whose report thereon dated January 28, 1997, has been furnished to us, and our opinion, insofar as it relates to data included for BW/IP, Inc., 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 provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Flowserve Corporation and subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

In 1998, as discussed in Note 5 to the consolidated financial statements, the Company changed its method of accounting for costing its inventory, and as discussed in Note 7, changed its method of accounting for certain defined compensation arrangements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands)

5 (In Part): Details of Certain Consolidated Balance Sheet Captions

Inventories

Inventories and the method of determining cost were:

December 31,	1998	1997
Raw materials	$ 26,088	$ 18,082
Work in process and finished goods	226,843	216,377
Less: Progress billings	(15,024)	(10,903)
	237,907	223,556
LIFO reserve	(38,621)	(38,612)
Net inventory	$199,286	$184,944
Percent of inventory accounted for by LIFO	61%	43%
Percent of inventory accounted for by FIFO	39%	57%

The percentage of inventory accounted for by the last-in first-out (LIFO) method increased in 1998 as the U.S. operations of the former BW/IP changed its method of accounting for inventories to LIFO during the year. Because the December 31, 1997, BW/IP inventory valued at FIFO is the opening LIFO inventory, there is neither a cumulative effect to January 1, 1998, nor pro forma amounts of retroactively applying the change to LIFO. The effect of the change in 1998 was not significant.

7. Deferred Compensation—Rabbi Trust

In September 1998, the Company adopted the provisions of EITF No. 97-14 "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested." This standard established new guidelines for deferred compensation arrangements where amounts earned by an employee are invested in the employer's stock that is placed in a Rabbi Trust. The EITF requires that the Company's stock held in the trust be recorded at historical cost, the corresponding deferred compensation liability recorded at the current fair value of the Company's stock and the stock held in the Rabbi Trust classified as treasury stock. The difference between the historical cost of the stock and the fair value of the liability at September 30, 1998, has been recorded as a cumulative effect of a change in accounting principle of $1,220, net of tax. Prior-year financial statements have not been restated to reflect the change in accounting principle. The effect of the change on 1997 income before the cumulative effect would have been a reduction of $490. The effect of the change on 1996 income would not have been material.

Software Costs

REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors
Brown Group, Inc.

We have audited the accompanying consolidated balance sheets of Brown Group, Inc. as of January 30, 1999 and January 31, 1998, and the related statements of consolidated earnings, shareholders' equity, and cash flows for each of the three years in the period ended January 30, 1999. 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 Group, Inc. at January 30, 1999 and January 31, 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 30, 1999 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1998 the Company changed its method of accounting for the costs of computer software developed or obtained for internal use.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Summary of Significant Accounting Policies

Computer Software Costs

In fiscal 1998, the Company adopted AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which requires the capitalization of certain costs, including internal payroll costs, incurred in connection with the development or acquisition of software for internal use. The adoption of this standard resulted in an increase in net earnings of approximately $1.3 million of $.07 per diluted share for fiscal 1998. No restatement of prior year results was required.

Amortization of Unrecognized Pension Plan Gains and Losses

INDEPENDENT AUDITORS' REPORT

Armco, Its Shareholders and Directors:

We have audited the accompanying consolidated balance sheets of Armco Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income and comprehensive income and of cash flows for each of the three years in the period ended December 31, 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 Armco Inc. and subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the financial statements, in 1998 Armco Inc. changed its method of amortizing unrecognized net gains and losses related to its obligations for pension and other postretirement benefits.

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

2 (In Part): Pension and Other Postretirement Benefits

Effective January 1, 1998, Armco changed its method of amortizing unrecognized net gains and losses related to its obligations for pensions and other postretirement benefits. In 1998, Armco recognized income of $237.5, or $2.20 per share of common stock ($1.88 per diluted share), for the cumulative effect of this accounting change.

At the time it originally adopted the standards governing accounting for pensions and other postretirement benefits, Armco chose to use a minimum amortization method whereby unrecognized net gains and losses, to the extent they exceeded 10% of the larger of the benefit obligations or plan assets, were amortized over the average remaining service life of active participants. At Armco, the average remaining service life is approximately 15 years. Use of this method, however, resulted in the accumulation of $419.3 of unrecognized net gains for pensions and other postretirement benefits through 1997. Under the new accounting method, Armco recognizes into income, as a fourth quarter adjustment, any unrecognized net gains and losses which exceed the 10% corridor, as described above, and amortizes amounts inside the corridor over the average remaining service life of active participants. Adoption of the new method increased 1998 income from continuing operations by approximately $3.0, or $0.03 per share of common stock.

Depreciation Method

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
Rock-Tenn Company

We have audited the accompanying consolidated balance sheets of Rock-Tenn Company as of September 30, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended September 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rock-Tenn Company at September 30, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 1998, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective October 1, 1996, the Company changed its method of accounting for depreciation of machinery and equipment placed in service subsequent to September 30, 1996.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Description of Business and Summary of Significant Accounting Policies

Property, Plant and Equipment

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 $3,011,000 or $.09 per diluted share.

Government Contract Costs

INDEPENDENT AUDITORS' REPORT

To the Directors and Shareowners of
Rockwell International Corporation:

We have audited the accompanying consolidated balance sheet of Rockwell International Corporation and subsidiaries as of September 30, 1998 and 1997 and the related consolidated statements of operations, shareowners' equity and cash flows for each of the three years in the period ended September 30, 1998. Our audit also included the financial statement schedule listed at Item 14(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the 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 Rockwell International Corporation and subsidiaries at September 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1998, 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.

As discussed in Note 1 to the consolidated financial statements, in 1998 the Company changed its method of accounting for certain inventoriable general and administrative costs related to government contracts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Accounting Policies

Accounting Change

Effective October 1, 1997, Rockwell changed its method of accounting for certain general and administrative costs related to government contracts to expense these costs as incurred. Under the previous accounting method, these costs were included as inventory. The amount of general and administrative costs included in inventory as of October 1, 1997, was $27 million ($17 million after tax, or nine cents per share) and is presented as the cumulative effect of an accounting change in the consolidated statement of operations for the year ended September 30, 1998. The effect of the accounting change on income from continuing operations in 1997 would not have been material.

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 an 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 6 survey companies included explanatory information emphasizing a matter regarding the financial statements. Examples of such explanatory information follow.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Laclede Steel Company and Chapter 11 Trustee of
Laclede Steel Company:

We have audited the accompanying consolidated balance sheets of Laclede Steel Company and Subsidiaries (Debtors-in-Possession) as of September 30, 1998 and December 31, 1997, and the related statements of operations and comprehensive income (loss), stockholders' equity (deficit) and cash flows for the nine months ended September 30, 1998 and for each of the two 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, such consolidated financial statements present fairly, in all material respects, the financial position of Laclede Steel Company and Subsidiaries at September 30, 1998 and December 31, 1997, and the results of their operations and their cash flows for the nine months ended September 30, 1998 and each of the two years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

As discussed in Note 1, on November 30, 1998, the Company filed for reorganization under Chapter 11 of the Federal Bankruptcy Code. The accompanying consolidated financial statements do not purport to reflect or provide for the consequences of the bankruptcy proceedings. In particular, such consolidated financial statements do not purport to show (a) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (b) as to prepetition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof; (c) as to stockholder accounts, the effect of any changes that may be made in the capitalization of the Company; or (d) as to operations, the effect of any changes that may be made in its business.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1, the Company's recurring losses from operations, negative working capital, stockholders' capital deficiency and defaults under the Company's debt agreements raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 1. The consolidated financial statements do not include adjustments that might result from the outcome of this uncertainty.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 (In Part): Bankruptcy Proceedings

On November 30, 1998, as a result of a decline in Laclede Steel Company's and subsidiaries (the "Company") results of operations during the nine months ended September 30, 1998 reflecting, among other factors the deterioration in steel demand and selling prices since the end of last year, the Company and its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code and began operating its businesses as debtors-in-possession under the supervision of the Bankruptcy Court. A statutory creditors committee has been appointed in the Chapter 11 case. As part of the Chapter 11 reorganization process, the Company has attempted to notify all known or potential creditors of the Filing for the purpose of identifying all prepetition claims against the Company.

In the Chapter 11 case, substantially all of the liabilities as of the filing date are subject to settlement under a plan of reorganization. Generally, actions to enforce or otherwise effect repayment of all prepetition liabilities as well as all pending litigation against the Company are stayed while the Company continues its business operations as debtors-in-possession. Schedules will be filed by the Company with the Bankruptcy Court setting forth the assets and liabilities of the debtors as of the filing date as reflected in the Company's accounting records. Differences between amounts reflected in such schedules and claims filed by creditors will be investigated and amicably resolved or adjudicated before the Bankruptcy Court. The ultimate amount and settlement terms for such liabilities are subject to a plan of reorganization, and accordingly, are not presently determinable.

Under the Bankruptcy Code, the Company may elect to assume or reject real estate leases, employment contracts, personal property leases, service contracts and other executory pre-petition contracts, subject to Bankruptcy Court review. The Company cannot presently determine or reasonably estimate the ultimate liability that may result from rejecting leases or from filing of claims for any rejected contracts, and no provisions have been made for these items.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of
Coltec Industries Inc.:

We have audited the accompanying consolidated balance sheets of Coltec Industries Inc. and subsidiaries (the Company) as of December 31, 1998 and 1997, and the related consolidated statements of earnings, shareholders' equity, cash flows and comprehensive income for each of the three years in the period ended December 31, 1998. These consolidated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 Coltec Industries Inc. and subsidiaries as of December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December

31, 1998, 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 the index to consolidated financial statement schedules is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is no part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits 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.

As discussed in Note 20, the Company entered into an Agreement and Plan of Merger with The B.F. Goodrich Company (BFGoodrich). Upon consummation of the merger, the Company's shareholders will receive .56 shares of BFGoodrich common stock for each share of the Company's common stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

20. Pending Merger

On November 22, 1998, the Company and The B.F. Goodrich Company ("BFGoodrich"), entered into an Agreement and Plan of Merger ("Merger Agreement"). Under the terms of the Merger Agreement, upon consummation of the Merger, each share of Coltec common stock issued and outstanding immediately prior to the effective time of the Merger shall be converted into the right to receive 0.56 of a share of BFGoodrich common stock. The Merger will be accounted for as a pooling of interests. A special meeting of the shareholders of the Company has been scheduled for April 9, 1999 at which the Company shareholders will consider and vote upon a proposal to approve and adopt the Merger Agreement.

The unaudited pro forma combined financial data is presented for informational purposes only. They are not necessarily indicative of the results of operations or of the financial position which would have occurred had the Merger been completed during the periods or as of the date for which the pro forma data are presented. They are also not necessarily indicative of the combined Company's future results of operations or financial position. In particular, the combined company expects to realize significant operating cost savings as a result of the Merger. No adjustment has been included in the pro forma combined financial data for these anticipated operating cost savings nor for the one-time merger and consolidation costs expected to be incurred upon consummation of the Merger.

Pro forma per share amounts for the combined company are based on the Exchange Ratio of 0.56 of a share of BFGoodrich common stock for each share of Coltec common stock.

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Bowne & Co., Inc. and subsidiaries as of December 31, 1998 and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended. 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 audit. The accompanying consolidated financial statements of Bowne & Company, Inc. as of December 31, 1997 and for the year ended December 31, 1997, the two months ended December 31, 1996 and the year ended October 31, 1996, were audited by other auditors whose report thereon dated March 4, 1998, 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 1998 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bowne & Co., Inc. and subsidiaries as of December 31, 1998, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1998 the Company changed its method of accounting for certain internal-use software development costs to conform with Statement of Position 98-1.

Predecessor Auditors' Report Reissued

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
Chock Full o'Nuts Corporation

We have audited the accompanying consolidated balance sheet of Chock Full o'Nuts Corporation and subsidiaries as of July 31, 1998, and the related consolidated statements of operations, 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.

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 consolidated financial position of Chock Full o'Nuts Corporation and subsidiaries at July 31, 1998, and the consolidated results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Chock Full o'Nuts Corporation

We have audited the accompanying consolidated balance sheet of Chock Full o'Nuts Corporation and subsidiaries as of July 31, 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended July 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 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 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 Chock Full o'Nuts Corporation and subsidiaries at July 31, 1997, and the consolidated results of their operations and their cash flows for each of the two years in the period ended July 31, 1997 in conformity with generally accepted accounting principles.

OPINION EXPRESSED ON SUPPLEMENTARY FINANCIAL INFORMATION

Table 7-5 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 7-5: OPINION EXPRESSED ON SUPPLEMENTARY FINANCIAL INFORMATION

	Number of Companies			
	1998	1997	1996	1995
Financial statement schedules	27	26	24	29
Other	1	1	1	1

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Arrow Electronics, Inc.

We have audited the accompanying consolidated balance sheet of Arrow Electronics, Inc. as of December 31, 1998 and 1997, and the related consolidated statements of income, cash flows, and shareholders' equity for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and the schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the 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 Arrow Electronics, Inc. at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, 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.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and
Shareholders of Omnicom Group Inc.:

We have audited the accompanying consolidated balance sheets of Omnicom Group Inc. (a New York corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These consoldiated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 financial position of Omnicom Group Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 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 on page S-1 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 audits 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.

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:

1. 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.
5. 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 68 survey companies used dual dating. Examples of dual dating follow.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of Brunswick Corporation:

We have audited the accompanying consolidated balance sheets of Brunswick Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, cash flows and shareholders' equity for each of the three years in the period ended December 31, 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, the financial statements referred to above present fairly, in all material respects, the financial position of Brunswick Corporation and Subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

January 27, 1999 (except with respect to the matters discussed in Note 6, as to which the dates are February 10, 1999 and February 16, 1999)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 (In Part): Commitments and Contingencies

Legal and Environmental

On February 10, 1999, a former dealer of Brunswick boats filed suit in the United States District Court for the District of Minnesota, also seeking to rely on the liability findings of the *Concord* action. This suit, *Amo Marine Products, Inc. v. Brunswick Corporation (Amo)* seeks class status purporting to represent all marine dealers who purchased directly from Brunswick sterndrive or inboard engines or boats equipped with sterndrive or inboard engines during the period January 1, 1986 to June 30, 1998. Sales by Brunswick of boats equipped with sterndrive or inboard engines to dealers accounted for less than half of such engines produced during the time period covered by the complaint; sales of such engines directly to dealers were *de minimis*. The complaint seeks damages in an unspecified amount and requests injunctive relief.

On February 16, 1999, a suit was filed in the Circuit Court of Washington County, Tennessee, by an individual claiming that the same conduct challenged in the *Concord* action violated various antitrust and consumer protection laws of 16 states and the District of Columbia. In that suit, *Couch v. Brunswick (Couch)*, plaintiff seeks to represent all indirect purchasers in those states of boats equipped with Brunswick sterndrive or inboard engines. The plaintiff claims damages in an unspecified amount during the period from 1986 to the filing of the complaint and also requests injunctive relief.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders of CSP Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of CSP Inc. and subsidiaries as of August 28, 1998 and August 29, 1997 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended August 28, 1998. 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CSP Inc. and subsidiaries as of August 28, 1998 and August 29, 1997 and the results of their operations and their cash flows for each of the years in the three year period ended August 28, 1998, in conformity with generally accepted accounting principles.

October 5, 1998, except as to Note 13, which is dated as of October 14, 1998

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Subsequent Events

On October 14, 1998, the Company announced an eleven-for-ten stock split in the form of a Common Stock dividend distribution on November 16, 1998 to stockholders of record on October 26, 1998.

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of Coherent, Inc.:

We have audited the accompanying consolidated balance sheets of Coherent, Inc. and its subsidiaries as of September 26, 1998 and September 27, 1997, and the related statements of income, stockholders' equity and cash flows for each of the three years in the period ended September 26, 1998. 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.

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 Coherent, Inc. and its subsidiaries at September 26, 1998 and September 27, 1997, and the results of their operations and their cash flows for each of the three years in the period ended September 26, 1998 in conformity with generally accepted accounting principles.

October 26, 1998
(December 7, 1998 as to Note 13)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Subsequent Event

On December 7, 1998, the Company signed a definitive agreement with Palomar Medical Technologies, Inc. (Palomar) to acquire Palomar's majority owned subsidiary, Star Medical Technologies, Inc., for $65 million in cash. The consummation of the sale, which is subject to the approval of Palomar's stockholders, other standard closing conditions and certain regulatory approvals, is expected to occur in March 1999. The Company is in the process of securing a private bond placement to finance the acquisition. In the interim, the Company's bank has agreed to provide a bridge loan in the event that other financing is not obtained by the closing of the deal.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of EG&G, Inc.:

We have audited the accompanying consolidated balance sheets of EG&G, Inc. and subsidiaries as of January 3, 1999 and December 28, 1997, and the related consolidated statements of income, stockholders' equity and cash flows for the years ended January 3, 1999, December 28, 1997 and December 29, 1996. 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 EG&G, Inc. and subsidiaries as of January 3, 1999 and December 28, 1997, and the results of their operations and their cash flows for the years ended January 3, 1999, December 28, 1997 and December 29, 1996 in conformity with generally accepted accounting principles.

January 23, 1999 (except with respect to the matters discussed in Note 26, for which the date is March 8, 1999)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26 (In Part): Subsequent Events

Acquisiton

In March 1999, the Company announced that it had entered into an agreement to acquire Perkin-Elmer's Analytical Instruments Division, a leading producer of high-quality analytical testing instruments, for a purchase price of approximately $425 million. The Company plans to finance the transaction with a combination of existing cash and equivalents, borrowings under existing credit facilities and other financing, as required. Under the current terms of the agreement, the Company will also assume a long-term pension liability of approximately $65 million. The closing of the acquisition is subject to certain customary closing conditions, including regulatory approval. The transaction is expected to close during the second quarter of 1999. Perkin-Elmer Analytical Instruments generated 1998 fiscal year sales of $569 million. Its systems are widely used to achieve product uniformity in drugs and medicines, ensure the purity of food and water, protect the environment, measure and test the structural integrity of many different materials and various other applications. The division sells to traditional analytical instruments and life sciences markets. The Company expects to incur a charge for acquired in-process R&D in the quarter the transaction closes. The amount of such charge has not yet been determined. The Company also announced that it will explore strategic alternatives for its Technical Services business unit and has engaged Goldman, Sachs & Co. to conduct the review.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Knape & Vogt Manufacturing Company

We have audited the accompanying consolidated balance sheets of Knape & Vogt Manufacturing Company and subsidiaries as of June 30, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 1998. 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 consolidated 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 Knape & Vogt Manufacturing Company and subsidiaries at June 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1998, in conformity with generally accepted accounting principles.

August 7, 1998 (except for Note 13, as to which the date is August 31, 1998)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Subsequent Events

The Board of Directors gave final approval on August 31, 1998, authorizing the purchase by the Company of up to 1,200,000 shares of the Company's common stock pursuant to a Dutch Auction self-tender offer at a price range to be determined. The self-tender offer will commence in September 1998. The Company plans to use a portion of the proceeds from the sale of Hirsh and its existing credit facility to fund the repurchase of shares of stock.

The Board also approved a purchase in the open market or in privately negotiated transactions, following the completion of the Dutch Auction, of shares of common stock in an amount which when added to the number of shares of common stock purchased in the Dutch Auction would equal 1,350,000.

Also, on August 31, 1998, the Company signed the definitive agreement to sell The Hirsh Co.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
of Meredith Corporation:

We have audited the accompanying consolidated balance sheets of Meredith Corporation and subsidiaries as of June 30, 1998 and 1997, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended June 30, 1998. These consolidated financial statements are the responsibility of company 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 Meredith Corporation and subsidiaries as of June 30, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three year period ended June 30, 1998, in conformity with generally accepted accounting principles.

July 31, 1998, except for note 13, which is as of August 24, 1998

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Subsequent Event

On August 24, 1998, the company announced that it had reached an agreement to acquire the net assets of WGNX-TV, a CBS-affiliated television station serving the Atlanta, Ga., market from Tribune Company. As part of this transaction, Meredith has agreed to purchase Seattle's KCPQ-TV (FOX) from Kelly Television Co. and trade the station to Tribune for WGNX. The net price to the company of this resulting asset purchase is estimated to be $370 million. The company expects this transaction to close in early calendar year 1999, subject to regulatory approvals.

The company intends to borrow the estimated net purchase price of $370 million for WGNX, utilizing a combination of bank debt and private placements. In the future, investments will be required for regulatory requirements and the improvement of station operations; however, the amounts are not yet determinable.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors, Occidental Petroleum Corporation:

We have audited the accompanying consolidated balance sheets of Occidental Petroleum Corporation and consolidated subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 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, the financial statements referred to above present fairly, in all material respects, the financial position of Occidental Petroleum Corporation and consolidated subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index of financial statements 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.

February 19, 1999 (except with respect to the matter discussed in Note 19, as to which the date is March 2, 1999)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. Subsequent Events

In January 1999, Occidental issued $525 million of 8.16 percent Trust Preferred Securities due in 2039, and callable in 2004, for net proceeds of $507 million. The securities will be recorded outside of equity and other liabilities as a separate line on the balance sheet. The proceeds were used to repay commercial paper.

In February 1999, Occidental issued $450 million of 7.65 percent senior notes due 2006 and $350 million of 8.45 percent senior notes due 2029 for net proceeds of approximately $792 million. The net proceeds will be used for general corporate purposes, which may include, but is not limited to, the repayment of maturing commercial paper and the redemption of other debt.

On March 2, 1999, the Oklahoma Supreme Court upheld a $742 million lower-court judgment in favor of Occidental against a unit of Chevron Corporation (Chevron) involving a breach of a 1982 merger agreement between Gulf Oil Corp., which was purchased by Chevron, and Cities Service Co., now OXY USA, which was purchased by Occidental. With interest accrued since the date of the lower-court award, the amount of the judgment is approximately $935 million at March 2, 1999. Chevron stated they would seek further review of the case in the courts.

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of
Primedia Inc.
New York, New York:

We have audited the accompanying consolidated balance sheets of Primedia Inc. and subsidiaries (the "Company") as of December 31, 1998 and 1997, and the related statements of consolidated operations, shareholders' equity (deficiency), and consolidated cash flows for each of the three years in the period ended December 31, 1998. 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 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 the Company at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for internal use computer software costs to conform with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" of the American Institute of Certified Public Accountants in 1998.

January 27, 1999
March 11, 1999 as to Note 23

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23 (In Part): Subsequent Events

On March 11, 1999, the Company completed an amendment and restatement of its Credit Facilities to increase them by $250,000 to $1,650,000. The final maturity date is July 31, 2004. Additionally, the Company entered into a separate $150,000 bank revolving credit facility with a final maturity on December 30, 1999. There are currently no borrowings under the bank revolving credit facility.

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
PepsiCo, Inc.

We have audited the accompanying consolidated balance sheet of PepsiCo, Inc. and Subsidiaries as of December 26, 1998 and December 27, 1997 and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three-year period ended December 26, 1998. These consolidated financial statements are the responsibility of PepsiCo, Inc.'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 PepsiCo, Inc. and Subsidiaries as of December 26, 1998 and December 27, 1997 and the results of their operations and their cash flows for each of the years in the three-year period ended December 26, 1998, in conformity with generally accepted accounting principles.

February 1, 1999, except as to Note 18 which is as of March 8, 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Pending Transactions/Events

In November 1998, our Board of Directors approved a plan for the separation from PepsiCo of certain wholly-owned bottling businesses located in the United States, Canada, Spain, Greece and Russia, referred to as The Pepsi Bottling

Group. Pursuant to this plan, PBG intends to sell shares of its common stock in an initial public offering and PepsiCo intends to retain a noncontrolling ownership interest in PBG. A registration statement relating to the Offering was filed on Form S-1 with the Securities and Exchange Commission. The transaction is subject to market conditions and regulatory approval. If consummated, the transaction is expected to result in a gain to PepsiCo, net of related costs. These related costs will include a charge for the early vesting of PepsiCo stock options held by PBG employees, which will be based on the price of our stock at the date of the Offering. In February and March of 1999, PBG and its principal operating subsidiary, Bottling LLC, incurred $6.55 billion of indebtedness, a large portion of which is intended to be temporary and be repaid with the proceeds of the Offering. It is intended that the remainder will be carried as PBG's long-term indebtedness of which $2.3 billion is unconditionally guaranteed by PepsiCo.

In January 1999, we announced an agreement with the Whitman Corporation to realign bottling territories. Subject to approval by the Whitman shareholders and various regulatory authorities, we plan to combine certain of our bottling operations in the mid-western United States and Central Europe with most of Whitman's existing bottling businesses to create new Whitman. Under the terms of the agreement, our current equity interest of 20% in General Bottlers, the principal operating company of Whitman, will also be transferred to new Whitman. Whitman transferred its existing bottling operations in Marion, Virginia; Princeton, West Virginia; and St. Petersburg, Russia to PBG. It is planned for new Whitman to assume certain indebtedness associated with our transferred U.S. operations with net proceeds to us of $300 million. Upon completion of the transaction, we will receive 54 million shares of new Whitman common stock resulting in a noncontrolling ownership interest. If approved, this transaction is expected to result in a net gain to PepsiCo.

The Frito-Lay program, to improve productivity discussed in Note 3, also includes consolidating U.S. production in our most modern and efficient plants and streamlining logistics and transportation systems. This program is expected to result in additional asset impairment and restructuring charges of approximately $65 million to be recorded in the first quarter of 1999.

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 2, 1999 and January 3, 1998 and the related Consolidated Statements of Income, Shareholders' Equity and Cash Flows for each of the years in the period ended January 2, 1999. 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 2, 1999 and January 3, 1998 and the results of its operations and its cash flows for each of the three years in the period ended January 2, 1999 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."

February 11, 1999, except for paragraphs 1 and 3 of Note 10, as to which the date is March 10, 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 (In Part): Legal Proceedings

The Company has been subject to a federal civil and criminal investigation in connecton with activities relating to certain debt reaffirmation agreements with current and former credit card holders of the Company who had declared personal bankruptcy. Under the reaffirmation provisions of the United States Bankruptcy Code, a debtor seeking Chapter 7 protection may agree to repay his or her debts to creditors. This reaffirmation agreement must be filed with the bankruptcy court to be valid. On February 19, 1999, Sears Bankruptcy Recovery Management Services, Inc., a subsidiary of the Company, pleaded guilty in federal district court to one count of bankruptcy fraud and was fined $60 million. The fine will have no effect on the Company's earnings because the Company recorded a pretax charge of $475 million against earnings for the settlement of lawsuits, fines and related matters stemming from the improper handling of certain debt reaffirmation agreements and other related matters in the second quarter of 1997. The plea agreement does not require any change in the day-to-day operations of Sears or the subsidiary.

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On March 9, 1999, the Company reached an agreement to settle a class action lawsuit stemming from an increase in the annual percentage rate assessed on certain balances of some Sears credit customers. This settlement, which is subject to final approval by the United States District Court, Northern District of Illinois, is also expected to resolve related lawsuits in Illinois and Washington. The lawsuit was brought on behalf of a nationwide class of Sears credit customers who had outstanding balances when their accounts were transferred to Sears National Bank, a wholly-owned subsidiary of Sears, during a period from 1994 through 1996, and who had not fully paid off those balances as of the effective dates of an April 1997 Notice of Change in Credit Terms. Under the terms of the settlement, the Company will provide to the class members cash and coupons with a face value totaling approximately $156 million. The Company previously reserved for the estimated cost of the settlement; therefore, the settlement will not have a material effect on the Company's annual results of operations, financial position, liquidity or capital resources. The settlement does not require any change in the Company's credit practices.

REPORT OF INDEPENDENT AUDITORS

The Shareowners
The Stanley Works

We have audited the accompanying consolidated balance sheets of The Stanley Works and subsidiaries as of January 2, 1999 and January 3, 1998, and the related consolidated statements of operations, changes in shareowners' equity, and cash flows for each of the three fiscal years in the period ended January 2, 1999. 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 The Stanley Works and subsidiaries at January 2, 1999 and January 3, 1998, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 2, 1999, in conformity with generally accepted accounting principles.

January 28, 1999, except for the second paragraph of Note H, as to which the date is February 24, 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

As of January 2, 1999, the Company had on file with the Securities and Exchange Commission a shelf registration statement covering the issuance of up to $200.0 million of debt securities, of which $100.0 million was unused. The remaining debt securities were issued and used to refinance commercial paper on February 24, 1999. The Company has unused short and long-term credit arrangements with several banks to borrow up to $400.0 million at the lower of prime or money market rates. Of this amount, $150.0 million is long-term. Commitment fees range from .06% to .07%. In addition, the Company has short-term lines of credit with numerous foreign banks aggregating $113.4 million, of which $86.0 million was available at January 2, 1999. Short-term arrangements are reviewed annually for renewal. Of the long-term and short-term lines, $400.0 million is available to support the company's commercial paper program. The weighted average interest rates on short-term borrowings at January 2, 1999 and January 3, 1998 were 5.4% and 6.4%, respectively.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Venator Group, Inc.

We have audited the accompanying consolidated balance sheets of Venator Group, Inc. (formerly Woolworth Corporation) and subsidiaries as of January 30, 1999 and January 31, 1998 and the related consolidated statements of operations, comprehensive income (loss), shareholder's equity and cash flows for each of the years in the three-year period ended January 30, 1999. These consolidated financial statements are the responsibility of the Venator Group, Inc. 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 Venator Group, Inc. and subsidiaries as of January 30, 1999 and January 31, 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended January 30, 1999 in conformity with generally accepted accounting principles.

March 10, 1999, except for note 23 which is as of March 19, 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. Subsequent Event

On March 19, 1999, the Company amended its revolving credit agreement. In accordance with the amended agreement, the facility was reduced to $400 million, with a further reduction to $300 million by February 15, 2000. If certain assets are sold or debt or equity is issued, the revolving credit agreement may be reduced earlier than February 2000 to $350 million. Under the terms of the amended agreement, the Company is required to satisfy certain financial and operating covenants, which include: maximum ratio of total debt to earnings before interest, taxes, depreciation and amortization; minimum fixed charge coverage ratio; minimum tangible net worth and limits on capital expenditures. In addition, the Company is required to fund the repayment of the 7.0% debentures, which are redeemable in June 2000, by February 15, 2000. This facility is unsecured relating to the Company's inventory; however, it does include collateralization of certain properties as defined in the agreement. The amended agreement also restricts consolidations or mergers with third parties, investments and acquisitions, payment of dividends on common stock and repurchases of common stock.

REPORTS OF AUDIT COMMITTEE AND MANAGEMENT

Fourteen survey companies presented a Report of An Audit Committee and 347 survey companies presented a Report of Management. Examples of such reports follow.

Reports of Audit Committee

THE MAY DEPARTMENT STORES COMPANY

REPORT OF AUDIT COMMITTEE

The Board of Directors, through the activities of its audit committee, participates in the reporting of financial information by the company. The committee meets regularly with management, the internal auditors, and the independent public accountants. The committee met three times during 1998. It reviewed the scope, timing, and fees for the annual audit and the results of audit examinations completed by the internal auditors and independent public accountants. The audit results included recommendations to improve certain internal controls and the follow-up reports prepared by management. The independent public accountants and internal auditors have free access to the committee and the Board of Directors. They attend each meeting of the committee. The audit committee reports the results of its activities to the Board of Directors.

Members of the audit committee

UST INC.

REPORT OF THE AUDIT COMMITTEE

To the Directors and Stockholders
UST Inc.

The Audit Committee of the Board of Directors is composed of five independent directors and is responsible for overseeing the Company's financial reporting process and monitoring compliance with the Company's Code of Corporate Responsibility.

The Committee held five meetings during the year which were attended by management, the internal auditors and, on several occasions, the independent auditors. Items covered in these meetings included discussions of current accounting and financial reporting matters, results of audit examinations and the Company's system of internal control relating to the quarterly and annual financial reporting process. The Committee discussed and approved the plan of audit coverage presented by the internal auditors and independent auditors. The meetings facilitate communication between these groups and provide the internal auditors and independent auditors an opportunity to meet privately with the Committee.

The Audit Committee assessed the independence of the independent auditors through inquiry and a review of their audit and nonaudit services and related fees. The Committee recommended its selection of the Company's independent auditors for 1998 to the Board of Directors, which was approved by stockholders.

Audit Committee Chairman

Reports of Management

DELUXE CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements and related information are the responsibility of management. They have been prepared in conformity with generally accepted accounting principles and include amounts that are based on our best estimates and judgments under the existing circumstances. The financial information contained elsewhere in this annual report is consistent with that in the consolidated financial statements.

The Company maintains internal accounting control systems that are adequate to provide reasonable assurance that the assets are safeguarded from loss or unauthorized use. These systems produce records adequate for preparation of financial information. We believe the Company's systems are effective, and the costs of the systems do not exceed the benefits obtained.

The audit committee of the board of directors has reviewed all financial data included in this report. The audit committee is composed entirely of outside directors and meets periodically with the internal auditors, management and the independent public accountants on financial reporting matters. The independent public accountants have free access to meet with the audit committee, without the presence of the management, to discuss their audit results and opinions on the quality of financial reporting.

The role of independent public accountants is to render an independent, professional opinion on management's consolidated financial statements to the extent required by generally accepted auditing standards.

Deluxe recognizes its responsibility for conducting its affairs according to the highest standards of personal and corporate conduct. It has distributed to all employees a statement of its commitment to conducting all Company business in accordance with applicable legal requirements and the highest ethical standards.

Chairman, President and
Chief Executive Officer

Senior Vice President and
Chief Financial Officer

GIANT FOOD INC.

REPORT OF MANAGEMENT

Management has prepared the financial statements and other data included in this annual report and has primary responsibility for the integrity and objectivity of the financial information. The financial statements contained herein have been prepared in conformity with generally accepted accounting principles, applying certain estimates and judgments as required.

The Company maintains a control structure to provide reasonable assurance that the books and records reflect the authorized transactions of the Company. Limitations exist in any control structure based on the recognition that the cost of the structure should not exceed the benefits derived. The Company believes its control structure, augmented by its internal auditing function, appropriately balances the cost/benefit relationship.

The independent accountants provide an objective assessment of the degree to which management meets its responsibility for fairness of financial reporting. They regularly evaluate the control structure and perform such tests and other procedures as they deem necessary to reach and express an opinion on the fairness of the financial statements.

The Board of Directors pursues its responsibility for the Company's financial statements through its Audit Committee, which is comprised solely of directors who are not officers or employees of the Company. The Audit Committee meets periodically with the independent accountants, management and the internal auditors. The independent accountants have direct access to the Audit Committee, with or without the presence of management representatives, to discuss the scope and results of their audit work and their comments on the adequacy of the control structure and the quality of financial reporting.

We believe that these policies and procedures provide reasonable assurance that our operations are conducted in conformity with the law and with a high standard of business conduct.

President, Chief Executive Officer
and Chairman of the Board

Senior Vice President
and Chief Financial Officer

GUILFORD MILLS, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management of Guilford Mills, Inc. has the responsibility for the preparation of all information contained in the Annual Report. The financial statements, including footnotes, have been prepared in accordance with generally accepted accounting principles appropriate in the circumstances and include amounts based on the best judgment of management.

In meeting its responsibilities for the accuracy, integrity and objectivity of data in the financial statements, management maintains a system of internal accounting controls designed to provide reasonable assurance of the reliability of financial records and the safeguarding of assets. This system includes an appropriate division of responsibility and is documented by written policies and procedures that are communicated to employees with significant roles in the financial reporting process and updated as necessary. There are limits inherent in all systems of internal control based on the recognition that the cost of such systems should be related to the benefits to be derived. Management believes the Company's systems provide an appropriate balance.

The control environment is complemented by an internal auditing program, comprised of internal and external business advisors who independently assess the effectiveness of the internal controls and report findings to management throughout the year. The group delivers increased value by aligning with the business objectives to reduce risk and create cost efficiencies. The Company's independent public accountants are engaged to express an opinion on the Company's financial statements. They objectively and independently review the performance of management in carrying out its responsibility for reporting operating results and financial condition. Their opinion is based on procedures which they believe to be sufficient to provide reasonable assurances that the financial statements contain no material errors.

The Audit Committee of the Board of Directors, which is comprised solely of directors who are not employees of the Company, is responsible for monitoring the Company's management control and reporting system. The Audit Committee meets with management and the internal auditors periodically to review their activities and responsibilities. The Audit Committee also meets as needed with the independent auditors along with the internal auditors, both of whom have free access to the Audit Committee without management's presence.

Executive Vice President/Chief Financial Officer

J.C. PENNEY COMPANY, INC.

COMPANY STATEMENT ON FINANCIAL INFORMATION

The Company is responsible for the information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and present fairly, in all material respects, the Company's results of operations, financial position, and cash flows. Certain amounts included in the consolidated financial statements are estimated based on currently available information and judgment as to the outcome of future conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company's system of internal controls is supported by written policies and procedures and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable costs, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization, and are recorded and reported properly. The system is continually reviewed, evaluated, and where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established policies and procedures are disseminated and understood throughout the Company.

The consolidated financial statements have been audited by independent auditors whose report appears to the right. Their audit was conducted in accordance with generally accepted auditing standards, which include the consideration of the Company's internal controls to the extent necessary to form an independent opinion on the consolidated financial statements prepared by management.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee's responsibilities include recommending to the Board for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The Committee also reviews the independent auditors' audit strategy and plan, scope, fees, audit results, and non-audit services and related fees; internal audit reports on the adequacy of internal controls; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings. The independent auditors and Company personnel, including internal auditors, meet periodically with the Audit Committee to discuss auditing and financial reporting matters.

Executive Vice President and Chief Financial Officer

OWENS-ILLINOIS, INC.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The consolidated financial statements of Owens-Illinois, Inc. have been prepared by the Company in conformity with generally accepted accounting principles. Management is responsible for all information and representations contained in the financial statements and other sections of the annual report. In preparing the financial statements, management uses its judgment to make necessary estimates.

Management maintains and relies on a system of internal controls in fulfilling its financial reporting responsibilities. The system is designed to provide reasonable assurance at a reasonable cost that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The internal control systems include written policies and procedures, an organizational structure which provides for division of responsibilities, development of qualified managers in all areas, and a program of operational audits. In addition, management continually monitors its internal control systems in response to changes in business conditions and operations.

The Audit Committee of the Board of Directors, composed solely of directors who are not officers or employees of Owens-Illinois, Inc., meets with corporate financial management and the independent auditors to review their activities and to satisfy itself that each is properly discharging its responsibility. The independent auditors have met periodically with the Committee, without the presence of management, to discuss the results of their audit work, the adequacy of internal financial controls, and the quality of financial reporting.

Chairman of the Board
and Chief Executive Officer

Senior Vice President
and Chief Financial Officer

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-second (1998) edition. 34 companies in the 1998 edition have been eliminated and their numbers left unused. These 34 companies were replaced by 4 companies included in a prior edition but not the 1998 edition, and 30 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 in **bold**).

Co. No.		*Month in which fiscal year ends
	ABM Industries Incorporated—*see 30*	
	ADC Telecommunications, Inc.—*see 921*	
	ADVO, Inc.—*see 861*	
	AGCO Corporation—*see 862*	
6	AMETEK, Inc.	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
	Alcoa Inc.—*see 24*	
	Allegheny Teledyne Incorporated—*see 776*	
	Allen Telecom Inc.—*see 602*	
	Allergan, Inc.—*see 796*	
	Alliant Techsystems, Inc.—*see 777*	
	Allied Waste Industries, Inc.—*see 922*	
20	AlliedSignal Inc.	12
23	Alpha Industries, Inc.	3
24	*Alcoa Inc.*	12
25	Amcast Industrial Corporation	8
26	Amerada Hess Corporation	12
	America Online, Inc.—*see 923*	
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
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*	
46	Ampco-Pittsburgh Corporation	12
	Amphenol Corporation—*see 842*	
	Anacomp, Inc.—*see 696*	
	Analog Devices, Inc.—*see 924*	
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	12
	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 Coulter, Inc.—*see 846*	
78	Becton, Dickinson and Company	9
81	Bemis Company, Inc.	12
	Bestfoods—*see 106*	
83	Bethlehem Steel Corporation	12
	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

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
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
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
127	*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*	
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 Associates International, Inc.—*see 925*	
	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
	Crompton & Knowles Corporation—*see 926*	
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*	
	DIMON Incorporated—*see 782*	
161	Dana Corporation	12
	Danaher Corporation—*see 664*	
163	Data General Corporation	9
	Datascope Corp.—*see 927*	
165	Dayton Hudson Corporation	1
166	Dean Foods Company	5
167	Deere & Company	10
168	Deluxe Corporation	12
	Detroit Diesel Corporation—*see 821*	
	Dexter Corporation—*see 798*	
	The Dial Corporation—*see 257*	
	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
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
	EKCO Group, Inc.—*see 115*	
	EMCOR Group, Inc.—*see 901*	
	The Earthgrains Company—*see 928*	
190	The Eastern Company	12
	Eastman Chemical Company—*see 871*	
191	Eastman Kodak Company	12
192	Eaton Corporation	12
	Ecolab Inc.—*see 617*	
194	Elcor Corporation	6
195	Emerson Electric Co.	9
	Enesco Group, Inc.—*see 510*	
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
203	FMC Corporation	12
	The Fairchild Corporation—*see 656*	

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
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*	
	First Brands Corporation—*see 783*	
	First Data Corporation—*see 851*	
212	Fleetwood Enterprises, Inc.	4
213	Fleming Companies, Inc.	12
214	Flowers Industries, Inc.	12
	Flowserve Corporation—*see 903*	
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*	
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
	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
	Global Marine Inc.—*see 929*	
247	Golden Enterprises, Inc.	5
248	The BFGoodrich Company	12
249	The Goodyear Tire & Rubber Company	12
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*	

Co. No.		*Month in which fiscal year ends
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
	Hubbell Incorporated—*see 930*	
283	Hughes Supply, Inc.	1
285	Humana Inc.	12
286	Hunt Corporation	11
287	Hurco Companies, Inc.	10
	IBP, Inc.—*see 751*	
288	*Whitman Corporation*	12
	IKON Office Solutions, Inc.—*see 18*	
	IMC Global, Inc.—*see 752*	
291	ITT Industries, Inc.	12
	Illinois Tool Works Inc.—*see 625*	
292	Ingersoll-Rand Company	12
	Ingram Micro Inc.—*see 906*	
293	*Ryerson Tull, Inc.*	12
295	Intel Corporation	12
296	*Furniture Brands International, Inc.*	12
	Interface, Inc.—*see 753*	
	Intergraph Corporation—*see 801*	
298	International Business Machines Corporation	12
	International Flavors & Fragrances Inc.—*see 627*	
299	*Navistar International Corporation*	10
301	International Multifoods Corporation	2
302	International Paper Company	12
	The Interpublic Group of Companies, Inc.—*see 837*	
303	Interstate Bakeries Corporation	5
	Iomega Corporation—*see 931*	
305	JLG Industries, Inc.	7
	Jacobs Engineering Group Inc.—*see 754*	
307	*Fort James Corporation*	12
	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*	
	KLA-Tencor Corporation—*see 932*	
314	*Kmart Corporation*	1
	Kaman Corporation—*see 629*	
317	Kellogg Company	12
	Kellwood Company—*see 838*	
318	Kelly Services, Inc.	12

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
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
	Kohl's Corporation—*see 933*	
329	The Kroger Co.	12
	K2 Inc.—*see 737*	
	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	9
	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*	
348	Lynch Corporation	12
	Lyondell Chemical 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*	

Co. No.		*Month in which fiscal year ends
375	Met-Pro Corporation	1
	Metro-Goldwyn-Mayer Inc.—*see 934*	
	Michael Foods, Inc.—*see 856*	
	Micron Technology, Inc.—*see 787*	
	Microsoft Corporation—*see 825*	
	Milacron Inc.—*see 127*	
377	Herman Miller, Inc.	5
379	Minnesota Mining and Manufacturing Company	12
	Minntech Corporation—*see 679*	
	Mirage Resorts, Incorporated—*see 935*	
380	Mobil Corporation	12
	Mohawk Industries, Inc.—*see 857*	
	Molex Incorporated—*see 716*	
383	Monsanto Company	12
385	Morton International, Inc.	6
387	Motorola, Inc.	12
389	*PremiumWear, Inc.*	12
390	Murphy Oil Corporation	12
	NACCO Industries, Inc.—*see 403*	
392	NCR Corporation	12
	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*	
	Newmont Mining Corporation—*see 936*	
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*	
413	O'Sullivan Corporation	12
415	Owens Corning	12
416	Owens-Illinois, Inc.	12
417	Oxford Industries, Inc.	5
	PACCAR Inc.—*see 419*	
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*	

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
427	The Penn Traffic Company	1
428	J.C. Penney Company, Inc.	1
	PennzEnergy Company—*see 937*	
430	Pennzoil-Quaker State 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*	
	Pillowtex Corporation—*see 938*	
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
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
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*	
	The Reynolds and Reynolds Company—*see 939*	
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
	Rouge Industries, Inc.—*see 916*	
471	Rowe Furniture Corporation	11
	Ruddick Corporation—*see 811*	
	Russell Corporation—*see 832*	
	Ryerson Tull, Inc.—*see 293*	
	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
	Saucony, Inc.—*see 675*	

Co. No.		*Month in which fiscal year ends
481	Schering-Plough Corporation	12
482	Schlumberger Limited	12
	Scientific Industries, Inc.—*see 765*	
484	Scope Industries	6
	Scott Technologies, Inc.—*see 706*	
	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
	The ServiceMaster Company—*see 940*	
	Shaw Industries, Inc.—*see 643*	
490	The Sherwin-Williams Company	12
	Simpson Industries, Inc.—*see 689*	
494	A.O. Smith Corporation	12
	Smith International, Inc.—*see 941*	
	Smithfield Foods, Inc.—*see 690*	
	The J.M. Smucker Company—*see 917*	
	Smurfit-Stone Container Corporation—*see 628*	
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	*Enesco Group, Inc.*	12
511	The Stanley Works	12
512	The L.S. Starrett Company	6
	Steel Technologies Inc.—*see 723*	
	Steelcase Inc.—*see 942*	
	Stewart & Stevenson Services, Inc.—*see 768*	
	Storage Technology Corporation—*see 804*	
519	*Sequa Corporation*	12
	Suiza Foods Corporation—see 918	
520	*Sunoco, Inc.*	12
	Sun Microsystems, Inc.—*see 769*	
521	Sundstrand Corporation	12
	Sunoco, Inc.—*see 520*	
	Sunrise Medical Inc.—*see 724*	
522	*SUPERVALU INC.*	2
	Sybase, Inc.—*see 889*	
	The TJX Companies, Inc.—*see 770*	
	TRICON Global Restaurants, Inc.—*see 943*	
526	TRW Inc.	12
528	Tandy Corporation	12
529	Tasty Baking Company	12
530	Tecumseh Products Company	12
	Tektronix, Inc.—*see 794*	
	Tellabs, Inc.—*see 944*	
532	Temple-Inland Inc.	12

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
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*	
	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
	Tower Automotive, Inc.—*see 945*	
	Toys "R" Us, Inc.—*see 772*	
	TransTechnology Corporation—*see 727*	
547	Tribune Company	12
	Trinity Industries, Inc.—*see 646*	
	True North Communications Inc.—*see 946*	
548	Tultex Corporation	12
	Tupperware Corporation—*see 891*	
	Twin Disc, Incorporated—*see 728*	
	Tyco International Ltd.—*see 773*	
549	Tyler Corporation	12
550	Tyson Foods, Inc.	9
	UNOVA, Inc.—*see 947*	
552	USG Corporation	12
	U.S. Industries, Inc.—*see 948*	
	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
	Unisys Corporation—*see 102*	
557	*Chiquita Brands International, Inc.*	12
	UnitedHealth Group—*see 859*	
558	United Foods, Inc.	2
561	*USX Corporation*	12
563	*UST Inc.*	12
564	United Technologies Corporation	12
566	Universal Corporation	6
	Universal Foods Corporation—*see 814*	
	Universal Forest Products, Inc.—*see 949*	
568	Unocal Corporation	12
569	*Pharmacia & Upjohn, Inc.*	12
570	VF Corporation	12
	Valero Energy Corporation—*see 647*	
571	Varian Associates, Inc.	9
	Venator Group, Inc.—*see 596*	
	Viacom Inc.—*see 920*	
	Viad Corp.—*see 893*	
	Vishay Intertechnology, Inc.—*see 731*	

Co. No.		*Month in which fiscal year ends
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.	12
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*	
	Weatherford International, Inc.—*see 950*	
	Weirton Steel Corporation—*see 835*	
	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	*Venator Group, Inc.*	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

COMPANIES ADDED FOR 1987 EDITION

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
610	*Carpenter Technology Corporation*	6
611	*Liz Claiborne Inc.*	12
617	*Ecolab Inc.*	12
621	*H.B. Fuller Company*	11
623	*Hasbro, Inc.*	12
624	*Hillenbrand Industries, Inc.*	11
625	*Illinois Tool Works Inc.*	12
627	*International Flavors & Fragrances Inc.*	12
628	*Smurfit-Stone Container Corporation*	12
629	*Kaman Corporation*	12
631	*Media General, Inc.*	12
633	*Nucor Corporation*	12

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
634	*Phillips-Van Heusen Corporation*	1
635	*Premark International, Inc.*	12
638	*Raychem Corporation*	6
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

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	*Saucony, 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

COMPANIES ADDED FOR 1989 EDITION

696	*Anacomp, Inc.*	9
699	*Blount International, Inc.*	12
700	*Burlington Resources Inc.*	12
701	*CTS Corporation*	12
705	*Farr Company*	12
706	*Scott Technologies, Inc.*	12

Co. No.		*Month in which fiscal year ends
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

737	*K2 Inc.*	12
738	*Ault Incorporated*	5
739	*Binks Sames Corporation*	11
740	*Champion Enterprises, Inc.*	12
742	*Coherent, Inc.*	9
744	*Donaldson Company, Inc.*	7
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 Chemical 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
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
773	*Tyco International Ltd.*	9

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends

COMPANIES ADDED FOR 1991 EDITION

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
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

796	*Allergan, Inc.*	12
798	*Dexter Corporation*	12
800	*Ferro Corporation*	12
801	*Intergraph Corporation*	12
803	*Nalco Chemical Company*	12
804	*Storage Technology Corporation*	12

COMPANIES ADDED FOR 1993 EDITION

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

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

Co. No.		*Month in which fiscal year ends

COMPANIES ADDED FOR 1995 EDITION

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

841	*Amgen Inc.*	12
842	*Amphenol Corporation*	12
844	*Arrow Electronics, Inc.*	12
845	*C.R. Bard, Inc.*	12
846	*Beckman Coulter, 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	*UnitedHealth Group*	12

COMPANIES ADDED FOR 1997 EDITION

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
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

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
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
893	*Viad Corp.*	12
894	*WTD Industries, Inc.*	4
895	*World Color Press, Inc.*	12

COMPANIES ADDED FOR 1998 EDITION

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 ADDED FOR 1999 EDITION

Co. No.		*Month in which fiscal year ends
921	*ADC Telecommunications, Inc.*	10
922	*Allied Waste Industries, Inc.*	12
923	*America Online, Inc.*	6
924	*Analog Devices, Inc.*	10
925	*Computer Associates International, Inc.*	3
926	*Crompton & Knowles Corporation*	12
927	*Datascope Corp.*	6
928	*The Earthgrains Company*	3
929	*Global Marine Inc.*	12
930	*Hubbell Incorporated*	12
931	*Iomega Corporation*	12
932	*KLA-Tencor Corporation*	6
933	*Kohl's Corporation*	1
934	*Metro-Goldwyn-Mayer Inc.*	12
935	*Mirage Resorts, Incorporated*	12
936	*Newmont Mining Corporation*	12
937	*PennzEnergy Company*	12
938	*Pillowtex Corporation*	12
939	*The Reynolds and Reynolds Company*	9
940	*The ServiceMaster Company*	12
941	*Smith International, Inc.*	12
942	*Steelcase Inc.*	2
943	*TRICON Global Restaurants, Inc.*	12
944	*Tellabs, Inc.*	12
945	*Tower Automotive, Inc.*	12
946	*True North Communications Inc.*	12
947	*UNOVA, Inc.*	12
948	*U.S. Industries, Inc.*	9
949	*Universal Forest Products, Inc.*	12
950	*Weatherford International, Inc.*	12

Companies Included in Fifty-Second Edition Not Included in this Edition of the Survey

7 AMP Incorporated
39 FINA, Inc.
45 Amoco Corporation
126 Chrysler Corporation
160 DSC Communications Corporation
173 Digital Equipment Corporation
180 Dravo Corporation
181 Dresser Industries, Inc.
193 Echlin Inc.
215 Fluke Corporation
227 GTI Corporation
240 General Signal Corporation
294 Insilco Corporation
297 The Interlake Corporation
330 Kuhlman Corporation
347 Lukens Inc.
444 PORTEC, Inc.
454 Quaker State Corporation
472 Rubbermaid Incorporated
474 Rymer Foods Inc.
517 Stone Container Corporation
562 United States Surgical Corporation
608 CalMat Co.
640 Rohr, Inc.
694 Union Texas Petroleum Holdings, Inc.
698 BetzDearborn Inc.
743 DEP Corporation
746 ERLY Industries Inc.
775 Zurn Industries, Inc.
788 Oryx Energy Company
805 Thiokol Corporation
817 Alumax Inc.
860 Western Atlas Inc.
892 USA Waste Services, Inc.

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Checklists and Illustrative Financial Statements

These industry-specific checklists are invaluable to the preparation of financial statements and reports. All checklists have been updated with the most recent pronouncements and interpretations from the AICPA, FASB, GASB as well as SEC regulations.
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Corporations (January 1999)	No. 008728KI
Defined Benefit Pension Plans (July 1999)	No. 008747KI
Defined Contribution Pension Plans (July 1999)	No. 008745KI
Health Care Organizations (July 1999)	No. 008739KI
Employee Health and Welfare Benefit Plans (July 1999)	No. 008746KI
Not-for-Profit Organizations (July 1999)	No. 008740KI
Property & Liability Insurance Companies (March 1999)	No. 008741KI
State and Local Governmental Units (July 1999)	No. 008742KI
Life Insurance Companies (March 1999)	No. 008744KI

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$14.00 each / Nonmember $17.50 each

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Investment Companies (January 1999)	No. 008729KI
Real Estate Ventures (March 1999)	No. 008733KI

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These industry-specific guides provide essential guidance by summarizing accounting and financial reporting practices. With conforming changes as of May 1, 1999 unless otherwise indicated.
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Airlines	No. 013183KI
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Common Interest Realty Associations	No. 012488KI
Construction Contractors	No. 012096KI
Credit Unions	No. 012060KI
Employee Benefit Plans	No. 012339KI
Entities with Oil and Gas Producing Activities	No. 012106KI
Federal Government Contractors (1998)	No. 012437KI
Finance Companies	No. 012466KI

Health Care Organizations	No. 012440KI
Investment Companies (1998)	No. 012362KI
Not-for-Profit Organizations	No. 013392KI
Property & Liability Insurance Companies	No. 011922KI
State and Local Governmental Units	No. 012059KI
Consideration of Internal Control in a Financial Statement Audit (1996)	No. 012451KI
Personal Financial Statements (1998)	No. 011136KI
Prospective Financial Information (1998)	No. 011179KI
Use of Real Estate Appraisal Information (1997)	No. 013159KI